GET-RICH-QUICK SCHEMES' IMPACT ON PUBLIC PERCEPTION OF STOCK MARKET INVESTMENT IN KAZAKHSTAN

Authenticity Declaration
I declare that the work in this research project is my own and is authentic. All resources and sources are acknowledged and cited, where sources and resources of other people have been used.

Abstract. At this moment, only 1% of people in Kazakhstan invest in the stock market. Apart from the lack of financial education, the increasing number of seemingly legitimate fraudulent financial schemes influence the public’s perception of the stock market. This research investigates the public perceptions of investment fraud, the difference between stock market investment and financial schemes, and the consequences of confusing the two concepts. Through a survey and an interview, the research yields qualitative and quantitative data. Although the majority of the people (75%) are aware that the stock market is not a scam, a higher majority (89%) believe it is risky. Fraudsters often capitalize on the victims’ ignorance. Often get-rich-schemes are unlicensed, unregulated, and lacks transparency while offering a high amount of returns for a small investment. Therefore, raising the public’s awareness will encourage them to engage in stock market investing and avoid being scammed.

Statement of the problem
When talking about stock market investment, many people confuse it with fraudulent investment schemes. While it is easy to understand their definitions and possible drawbacks, people with no background in investing often miss the difference in how they operate and generate returns.

The root of confusion stems from the lure of get-rich-quick schemes like the Ponzi scheme. Regrettably, the notoriety of these financial schemes makes the majority of people hesitate in investing in the stock market. Some believe that the stock market is another derivative of a Ponzi scheme. In Kazakhstan, the youth are unaware of the opportunities and benefits of the stock market. Personally, when I informed my cousins that my mother started trading on the US Stock Market, they immediately warned me that we will lose everything we have invested because it could be an investment fraud. Currently, there are no studies in Kazakhstan that investigate the difference between get-rich-quick schemes and the stock market. Thus, I am doing this research.

It is natural for people to feel scared about losing money and living without it. However, people should not throw away the opportunity to invest just because of the fear of poverty. Without a doubt, all types of investment carry some risk, but with proper education and experience, the risk can be minimized. This research intends to assess the confusion between investment frauds and a stock market investment, which discourages the Kazakhstan public from investing.

Analysis of recent research and publications
People around the world are exposed to financial fraud every day. Some are losing a huge amount of money because of the desire to earn quickly. In the US, the direct, measurable costs of consumer financial fraud are estimated to be about $45 million annually (Deevy et al., 2012). Whereas, there were 180 cases filed under article 217 of the Criminal Code of the Republic of Kazakhstan "Creation and management of a financial (investment) pyramid", in 2020. Most of the cases involved unlicensed companies.

The root of the problem lies in the similarity between financial schemes and stock market investment – you invest money and gain profit from the investments of other people. Fraudsters take advantage of people’s ignorance and desire to get rich in short periods to confuse the two. As a result, people in emerging markets are discouraged to even try. Unfortunately, most of the citizens in Kazakhstan missed the chance to open a brokerage account and earn money without leaving home. In 2020, Mitova reported that “52% of US adults have money in the stock market” while only 1% of the population in Kazakhstan invest in the stock market.

Basically, an investment fraud utilizes a referral strategy that promises massive income that almost never materializes. Most financial schemes will only continue to work as long as new investors are coming in. They are shady and involve an inefficient business model without actual assets. Unfortunately, only the originators or those at the top of the chain receive the promised returns from the investments of new members.

In contrast, a stock market is a place where companies sell shares to the public to generate the cash needed for them to grow, expand, and accumulate more assets. A company with traded stocks has assets like brands, products, and profit. Moreover, the public stock market is closely regulated by a government agency. Confusing the stock market for a financial scheme muddles society and discourages people from investing.

While consumer financial fraud requires a large amount of money, time, and effort to be eradicated; authorities are doing whatever is necessary to deal with the aforementioned issue. For example, financial pyramids are prohibited by law in most countries. The United Arab Emirates has introduced the death penalty for creation of investment frauds, and in China, capital punishment is also possible for such activities. It is important to understand that most fraudulent
companies do not have licenses or any rights to open an account or conduct various financial transactions.

**Investment Frauds**

Osipova (2021) notes that according to the Ministry of Internal Affairs data, over 25,000 Kazakhstani lost $80 Million to Fraudsters in 2020 alone. In the first three months of 2021, there were already more than 6,000 reported facts of Internet fraud (Osipova, 2021). Among these, money pyramids and Ponzi schemes have often been confused with stock market investment.

Unfortunately, because of the promises in investment frauds, many people have taken loans to invest, without considering the legality of the transaction or the organization. As a matter of fact, “investors acquired 39% more loans compared to similar individuals who did not invest” (Hofstetter, Mejia, Nicolas Rosas & Urrutia, 2018).

**Money Pyramid**

According to Bloomenthal (2020), the pyramid scheme is a shady and inefficient economic model with only a few leaders — those who enrolled earlier - profiteering from the recruitment of new members, who pay upfront costs to the chain. As a result, it creates a system of receiving money in a short time. Their claim is “the more people you encourage, the more money you get.” The essence of the offer, which comes to everyone, is very simple — bring your money today, and tomorrow you take it with a profit. Moreover, the profit that the organizers promise is much higher than the offers that can be found in banks.

There are other obvious features of money pyramids: a guarantee of high return in a short period, a lack of any information about the financial position and definition of the organization’s activities, as well as massive advertising in the media and the Internet with the promise of high profitability. Moreover, money pyramids’ main source of income or highest source of earnings comes from recruitment. Thus, most money pyramid conspirators often make it look like a Multi-Level Marketing or Direct Sales — both also provide commissions to downlines or recruits. However, MLMs and Direct Sales sell actual products or services and recruitment is only optional. Unlike a Pyramid Scheme, there is no promise to ‘get-rich-quick’ and members do not need to buy certain products to gain or retain membership and receive commissions.

**Ponzi Schemes**

While money pyramids are easy to spot because of the focus on recruitment, Ponzi schemes are more difficult to detect. Nolen (2020) states, “Historians believe variations of the Ponzi scheme existed as early as the 17th century. The scheme was named after Carlo Ponzi, an Italian immigrant to the United States who scammed thousands of New England residents in 1919–20 with his plan to sell European postage stamps.” Finally, Ponzi raked $15 million, before going to jail. While legal pyramid schemes sell actual products, Ponzi schemes do not have any tangible asset or investment at all. Instead, the schemer takes all the initial investment and pays the investors by scheming others. It has been a century since Ponzi’s arrest, yet people still succumb to similar frauds.

Other Types of Financial Schemes

According to Kazakhstan’s e.gov website, most investment frauds position themselves as legal investment companies aimed at relieving their victims’ economic difficulties. Such as the case with Lombard, which promised to resell properties at higher than market prices. Another example is QI Trade Kazakhstan, which invited victims on a “trade project” to sell Chinese products on the Amazon website. A similar ‘crowdsourcing’ style of investment fraud was the consumer cooperative “Common Home”. The fraudster promised investors to receive an apartment in exchange for their contributions but received none.

These companies even had credible-looking offices, licensed, and provided dividends at first.

Most recently, a new type of Investment Fraud has emerged through social media networks and messengers. Using aggressive advertisements and influencers, each victim only has to make a small investment (only $5) to be added to a group, where they need to add 2 or more ‘investors’ to receive their prepayment or commission. Oftentimes, there is no need for any legal documents at all. A more complicated online investment fraud is the use of gaming platforms that even establish their own “cryptocurrency” as a means to purchase investment products (real estate, cars, etc.) from their website. Ultimately, the purchases were made but no actual products were delivered.

**Stock Market Investment**

The stock market is an association of buyers and sellers of shares that reflect company ownership claims; these can include stocks listed on the public stock exchange as well as private-traded shares, such as private company shares sold to investors through equity crowdfunding platforms. It is legal because the investor receives ownership of the company’s equity. Earnings are gained when the stock’s price appreciates and through dividends. It is not a ‘get-rich-quick scheme because stock prices rise and fall every day due to market forces – demand and supply. The money invested will allow companies to raise capital through an initial public offering (IPO) after meeting the requirements of the SEC. Through an IPO, a private company is made public. However, only companies with proven profitability and strong fundamentals may qualify.

Many people think the stock market is too complex and confusing, but in reality, it is not. Investing is a profession that can be learned. People need not be afraid to start from scratch. After all, people are not born as professionals, they become one through consistent training, self-development, and patience. Many are afraid of investing because of the fear of losing money. When money leaves your hand, there is a risk of losing it.

Buffett has long-held that IQ is not the single deciding factor for success. Rationality and emotional well-being are more important than IQ, he says (Mejia, 2017). Therefore, even ordinary people can develop
skills in investing in the stock market by learning its fundamental principle. All they need is a sufficient reserve of patience and the ability to control their emotions.

No matter what kind of investment—real estate, metals, stocks—there is always a risk. The degree of risk can be assessed by special knowledge about a particular market niche. Undoubtedly, before trading or investing in the stock market, non-professional investors should understand the intricacies of developing and implementing investment policies. Self-study and taking different courses can help reduce the level of fear through information. Most of a trader/investor’s mistakes resulted from having the wrong trading psychology. Daily trading can lead to emotional burnout and losses. It is crucial to realize that there is no place for emotions on the market, everything should be logically analyzed and evaluated. Otherwise, if investors/traders act out of emotions, they will lose a huge amount of money. This is one of the drawbacks of investing without knowledge and experience.

Selection of the unsolved aspects of the problem

This research aims to assess the current public perception of the differences between investment fraud and stock market investment in Kazakhstan. Additionally, the benefits and drawbacks of stock market investment will be analyzed.

Thus, the following research questions will be answered:

1. What are the perceptions of investment fraud and stock market investment of the Kazakhstan public?
2. How stock market investment differs from financial schemes according to Kazakhstan experts?
3. What are the consequences of confusing the aforementioned concepts?

Through the result of this research, the confusion between these investments can be diminished.

Formulation of the purposes of article

The primary goal of the research is to narrow down the source of confusion between stock market investment and investment fraud in Kazakhstan by analyzing public perception. Therefore, the mixed method has been used. “Mixed method is a class of research where the researcher mixes or combines quantitative and qualitative research techniques, methods, approaches, theories and or language into a single study” (Johnson, Onwuegbuzie & Turner, 2007, para.2). Qualitative and quantitative research methods have different goals and use. A survey (quantitative method) was used to process and analyze numerical data, whereas an interview (qualitative method) was conducted to gather insights into a problem, generate new ideas for research and collect narrative data. Both methods have their benefits and drawbacks. Quantitative data collection methods are much more structured than qualitative; however, the qualitative methodology helps to develop ideas or hypotheses for potential research (DeFranzo, 2020). Even though the mixed method is suitable for the collection of relevant and comprehensive information, it is time consuming and complicated method to conduct.

Survey

According to Cambridge Dictionary, “a survey is an examination of opinions, made by asking people questions”. Without a doubt, it is one of the most popular types of the quantitative method, however, only a certain number of people should take a survey, and sometimes it could be difficult to receive answers from a lot of respondents. Moreover, a survey has an inflexible design. In other words, questions cannot be changed throughout the process of information gathering, whereas interview questions can be altered freely. However, the survey is convenient for collecting data fast and suitable for finding statistical results. Especially, the online survey method illustrates the answers through graphs for each question. Thus, this research will use a survey as a research method. Overall, the survey consisted of 11 questions including multiple-choice, rating scales, and open-ended questions. It was planned to take a survey from approximately 100 people to get data of better quality, so it was sent by different types of social media platforms such as Instagram, WhatsApp, and Outlook. Thus, there were 84 respondents of different ages. Including the fact that the survey was taken not only from teenagers but also from senior people, the answers are not biased.

Interview

An interview is one of the frequently used qualitative methods. It is a kind of system in which practices and standards are not only registered but also accomplished, challenged, and strengthened (Oakley, 1970). In other words, the interview is useful for gathering detailed information and understanding social processes. In addition, if interview questions are structured well, data related to the topic can be successfully assessed and analyzed. However, sometimes there can be some limitations or obstacles which can be difficult to overcome. For instance, taking the interview is time-consuming, and if an interviewer has a certain point of view, answers can be biased. These problems can be tackled by constructing proper questions and considering the issue from different perspectives. Thus, it has been decided to take interviews with 5 people who are good at investing money in the stock market. It consisted of 8 questions including the ones about age and occupation. For respondents that are from another city, the interview was done online. Unfortunately, only four of them were able to answer interview questions, also one of the interviewees did not answer some of the questions about the money pyramid because she had a hectic schedule. Despite that, there was enough information from other interviewers that is relevant and comprehensive.

Presentation of the main research material

To understand the differences in the perception and definition between financial schemes and stock market investment, surveys and interviews were conducted.

Surveys

As shown in Figure 1, approximately half of the surveyed people do not know that there is open access to the American stock market in Kazakhstan. It reveals
that 47.6% of people know that Kazakh people have the opportunity to invest money.

The next question is about the risk of investment in the stock market. It is significant to note that 89.3% of respondents assume that it is risky to invest money in the stock market. Only 10.7% of the respondents believe that it is not very risky (Figure 2). Most people are right about the risks of investing, but they are oblivious to the fact that investors can control the risks and minimize them.

The survey questions specifically asked about the money pyramid because it is the most common and familiar investment fraud in Kazakhstan. Data revealed that Kazakhstan citizens of different ages and genders have invested their money in a money pyramid. Out of 84 respondents, 35% or 29 people have invested in a money pyramid. (Figure 3). Despite the diversity, they are united by their common desire to earn money as quickly as possible. The youngest investor was a 16-year-old man, while the oldest is a 53-year-old woman.
Another question asked about what people think about the validity of stock market investing. About 75% of the people surveyed assume that investing in the stock market is not a scam, 14.3% do not know, 6% believe that it is a scam, and others were able to answer this question with their own words (Figure 4). In fact, many believe that if the investment is processed through a legal way (via a qualified broker), investment is not a scam.

The next rating scale question was about people’s interest in learning more about investing in the stock market. It is common knowledge that only 1% of Kazakhstan’s population invest money in the stock market, and it is great to know that this number can change soon. Nearly 2/3 of people surveyed are interested in learning more about the stock market. However, 20.3% of respondents are not interested in this topic (Figure 5).
The questions in the survey were aimed to get statistical data about respondents. For instance, Appendix-1 and Appendix-2 show the gender and the age of the people surveyed. Meanwhile, Appendix-3 asks whether the respondents have relatives or friends who invested money in financial pyramids. Appendix-4 shows what do people think about the possibility of investment in the stock market, and Appendix-5 provides information about other ways of investment.

**Interviews**

The interview was chosen as a qualitative research method for the project work. The interviews were conducted with four people who have knowledge and experience in stock market investing. The first four questions

The first interviewee was Sarina Lyazzat, an accountant for 25 years and currently a novice investor. She explained that stock market investment is granted only to brokerage companies with a license from the national bank. These companies are legal entities that report to fiscal authorities, whereas money pyramids do not.

The second interviewee was Gulnar Amirgaly, a professional investor on the US stock market since 2015. Her successful career in investing started after meeting Jim Rogers in 2014. Rogers told her that the key to investing is developing her “Investor Thinking” intuition. Also, that it is important to be able to gauge the mood of 90% of the investors and predict what the 1% of those who form trends are doing. She stressed how knowledge of the stock market is important during the process of investment.

The third interviewee was Svetlana Kim, Gulnar Amirgaly’s business partner, and a professional investor for about two years. She outlined the basic steps to become an investor: training, opening a brokerage account, choosing a strategy, selecting the company to invest in, and profit-taking.

The last interview was with Aziza Makhash, a former financier and currently a trainer in stock market investment. She discussed how scammers are taking advantage of the ignorance of people who wants to earn high returns without doing anything. Compared to other investments, Makhash finds stock market investing attractive because stocks are liquid or easy to sell and not fixed in one location.

The results of the survey and interviews gave an overview of the perceptions and experiences of different classes of the population of Kazakhstan on the differences between money pyramid and stock market investment.

**Conclusion**

An analysis of the data gathered from the primary and secondary sources revealed that most of the confusion between investment fraud and stock market investing stems from the lack of information or knowledge about the stock market.

What are the perceptions of investment fraud and stock market investment of the Kazakhstan public?

The majority of the Kazakhstan public (75%) are aware that the stock market is not a scam. However, a larger majority (89.3%) believe that stock market investing is risky. While many (47.6%) are already informed that they can invest in the US stock market, the high interest in learning about investing in the US stock market (about 80%) shows that people do not have enough information or understanding of its process. In fact, some people who are eager to invest are lured by get-rich-quick schemes (35%). This is supported by one of the interviewees who claimed that scammers are taking advantage of ignorant investors.

How stock market investment differs from the get-rich-quick schemes or investment frauds according to Kazakhstan stock market experts?

Most get-rich-quick scams are unlicensed and unregulated by the national bank. They entice victims with high earnings without doing anything. In contrast,
stock market investment is backed by legal documents (license from the national bank), formal contracts, government audits, and compliance with the law. There is transparency in retrieving information from licensed brokers, unlike in an investment fraud where information is often withheld and transactions are mostly based on trust.

Stock market investment requires knowledge prior to investment. Unlike in investment frauds where the schemer will capitalize on ignorance and benefit from the victim's trust, an investor must at least know the basics of technical and fundamental analysis, have a stock trading strategy, and developed an investor thinking/mindset.

Finally, stock market investment does not promise any fixed rate or consistent amount of income or returns with little or no risk. Whereas, many investment frauds entice their victims with high earnings, consistent returns, and by making it sound like easy money.

What are the consequences of confusing the aforementioned concepts?

While stock market investing a great opportunity to invest because it has good liquidity, easy to manage, and does not have a fixed location, secondary sources affirmed that only 1% of people of Kazakhstan invest money in the stock market. This research showed that as a result of confusing investment frauds with the stock market, people hesitated to invest their hard-earned money in something unknown. Unfortunately, schemers took advantage of people’s vulnerabilities and greed by tempting them and gaining their trust through exaggerated promises. They present themselves as investment experts and convinced victims that the company analysts and brokers will invest money for them. Such misinformation does not only obscure what is legal from illegal, but also heightens people’s fear to invest in the stock market. By enlightening and educating the Kazakhstan public about the difference between investment fraud and stock market investment, they will understand that making money through the stock market is not imaginary and can profitable with proper training, strategy, psychology, and a legitimate brokerage company.

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Appendices

Appendix-1: Personal Information

Age/ Жас/ Возраст
84 ответа

Appendix-2: Personal Information

Gender/ Жыныс/ Пол
84 ответа

Appendix-3: Information about investment in financial pyramid

Have someone you know invested money in financial pyramids?/ Сіздің таныстырынбызға бірі көркем пирамидаларына акша салған ба?/ Кто-нибудь из ваших знакомых вкладывал деньги в финансовые пирамиды?
84 ответа