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The Sagifutures Scheme:
Chronicles of Cyber Investing

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A Case Study on Sagifutures Scheme

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Introduction

Husband and wife, Naemah and Shahnor invested RM50,000 in the Sagifutures scheme after recommendation by their friend of over 30 years, Syukor. Both were primary school teachers close to retirement and had never invested in shares or the capital market before.

Syukor told them that a minimum investment of USD25 (RM86.25[1]) for a period of 100 days would result in a return of USD55 (Refer to Exhibit 1 for the extract of Sagifutures' Profit Sharing Schedule). All returns would automatically be banked into their investment account on a daily basis so they would just need to sit back and watch their money grow. Syukor even helped make arrangements with a local bank for Naemah and Shahnor to top up their savings of RM30,000 with a RM20,000 loan to invest in the Sagifutures scheme.

Exhibit 1 Sagifutures Profit Sharing System

Unit Type	Unit Value (USD)	Daily Payout (%)	Investment Period (Days)	Return (USD)
Basic	25	2.20	100	55
Personal	100	2.65	100	265
Executive	500	2.85	100	1,425
Business	1,000	2.95	100	2,950
Corporate	2,000	3.15	100	6,300

Within several hours of depositing the RM50,000, both Naemah and Shahnor received a username and password from Syukor for them to access their investment account through the www.sagifutures.com website. At the end of 100 days, Shahnor, eager to know how much money they had gained from the investment, had logged on to the Sagifutures website and was happy to see that he had earned RM156,371[2] from the investment. Several months later, Shahnor, who wanted to use some of the money gained from the investment to pay off part of

[1] Based on an average exchange rate of RM3.45 in 2007

[2] The RM50,000 investment entitled Naemah and Shahnor to 7 corporate units, 4 personal units and 3 basic units based on an exchange rate of RM3.45

the RM20,000 loan he had taken, tried to withdraw money from his investment account. To his surprise, no such investment account existed.

Unfortunately for Naemah and Shahnor, Sagifutures turned out to be a "Skim Cepat Kaya".

What is a "Skim Cepat Kaya"?

"Skim Cepat Kaya" or get-rich-quick schemes are investment schemes promising high and unrealistic returns from small investment amounts. These schemes generate returns for older investors from the investments of newer investors. If the company fails to get new investors, these schemes will usually collapse on themselves.

These schemes generally have the following characteristics:

- Imply that anyone signing up will become rich within several months to a year;
- Promise high returns without risk;
- Inform potential investors that exponential rates of returns are obtained via investments into a wide range of products and services, which usually include international investments;
- Use pressuring tactics to get the victim to sign up quickly, e.g. offer special discount fees/prices that are only available for a short period of time;
- Promote success stories and testimonials from "successful investors" to entice potential investors;
- Make use of existing investors to recruit new investors via referral incentives; and
- Assert that passive income can be continuously generated to entice potential investors to invest large amounts.

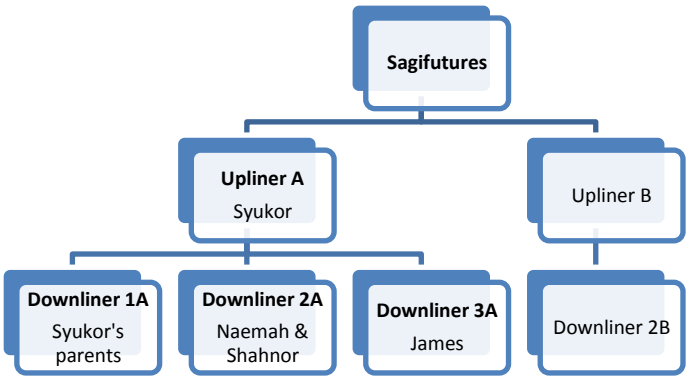
One of the more infamous schemes is Swisscash, an internet-based investment scam which claimed to have invested in a range of investments such as equities, commodities and foreign exchange. Swisscash and Swiss Mutual Fund had been soliciting investments from investors around the world, including the Malaysian public through the internet, offering returns of up to 300% within 15 months of investment. However, the scheme was an illegal operation which was unable to provide these returns to investors, and the operators of the scheme had conducted fund management and investment advice activities without any licence from the SC.

Fortunately for some investors, a restitution process resulted in payouts totalling RM31 million to 19,625 eligible investors from claim amounts of RM188 million by 29,885 investors[3].

Syukor – An Upliner of Sagifutures

Syukor's family owned a bicycle repair shop in the same town Naemah and Shahnor were teaching when he joined Sagifutures. After investing half his savings into the Sagifutures scheme, he managed to convince most of his family members to invest in the scheme. Thus began his new calling as an "upliner" in the Sagifutures scheme. An upliner is similar to a sales agent who gets an incentive when they are able to convince someone else to invest in the scheme (Refer to Exhibit 2 for an illustration of the "upliner" and "downliner" in the Sagifutures scheme). In this case, the referral incentive was 6.5% upon registration of a downliner, which meant Syukor got RM3,250 when Naemah and Shahnor invested their RM50,000.

Exhibit 2 Illustration of Upliner and Downliner



Syukor came to know about Sagifutures through his relative working in Kuala Lumpur. Keen to expand his business to include selling bicycles given the demand in his town and convinced of the high returns promised, he invested close to RM60,000 in the scheme. After his wife warned him to stop further investments into the scheme, he began recruiting family and friends to benefit from the referral incentive given by Sagifutures.

[3] Internet Scams Updates and Related Press Releases. (n.d.). Retrieved June 07, 2016, from http://www.sc.com.my/post_archive/swisscash-investor-restitution-update/

The Establishment of Sagifutures

The website www.sagifutures.com first appeared in January 2007 with a domain address registered in the United States of America. The domain name "www.sagifutures.com" was registered to Estafa Network Sdn. Bhd. ("Estafa"), a local web hosting company. It was an add-on domain to ghotala.com ("Ghotala"), a domain name registered by Mukhriz Idrus ("Mukhriz").

Mukhriz at the time was running Galactic Truffa Network Sdn. Bhd. ("GTN") through a nominee director. GTN was incorporated in 2006 with the purpose of carrying out business in relation to information technology, multimedia and e-trading. It was based in Shah Alam, Selangor and its premises also housed Aldaw Wired Services Sdn Bhd ("Aldaw"), a webpage construction company.

Ghotala was a domain name created for and owned by Mukhriz's former client, Unhen Ghotala Business Sdn Bhd ("UGB") for the purpose of selling herbal products. However, the domain was no longer in use by UGB and had been at Mukhriz's disposal since December 2006.

For the purpose of setting up the website Sagifutures.com, Mukhriz had requested Estafa to transfer both Ghotala.com and Sagifutures.com to a server originating from the United States of America. This was done as a façade to hide the fact that the website originated from Malaysia. Payment for an upgrade of Estafa's webhosting services was made by Mukhriz via cash deposit at a Public Bank branch in Shah Alam, Selangor.

Behind the Scenes - About the Sagifutures scheme

Mukhriz had marketed www.sagifutures.com to his friends who were already involved in multi-level marketing (MLM) with large networks under them. Part of his marketing strategy was to inform potential clients that the scheme originated from Indonesia and that the scheme's investment portfolio included investments in the following:

- Wholesale and retail outlets
- Foreign exchange
- Shares in reputable listed and 'private' or 'private listed' companies
- Fixed term deposits
- Commodities in gold and silver
- Trading
- Properties unit trust

The features of the scheme are as follows:

- The investment plan is for 100 days
- Investors can only be members upon registration with an upliner
- Investors put in monies to purchase "e-points" from their upliner. Initial investment could range from USD25 for a basic unit to USD2,000 for a corporate unit, with returns ranging from 2.20% to 3.15%
- The monies purportedly deposited by investors will be invested in the 7 investment portfolios in order to make profit
- Every upliner registering/having downliners gets a further referral incentive return of 6.5%

The modus operandi of the scheme was akin to a classic MLM scheme whereby those who are interested to become "members of the scheme" would have to liaise and register with an upliner. The interested parties would be asked to deposit money directly to the upliner in exchange for "e-points" (Refer to Exhibit 3 for sample of advertisement of the Sagifutures scheme from upliner blog). The upliner would then deposit the money collected from investors into Mukhriz's personal bank account or GTN's bank account. Upon registration, the upliner would then be issued a username and password to be given to the downliners by Mukhriz. The scheme was appealing as every upliner acquiring more downliners would receive a further referral incentive.

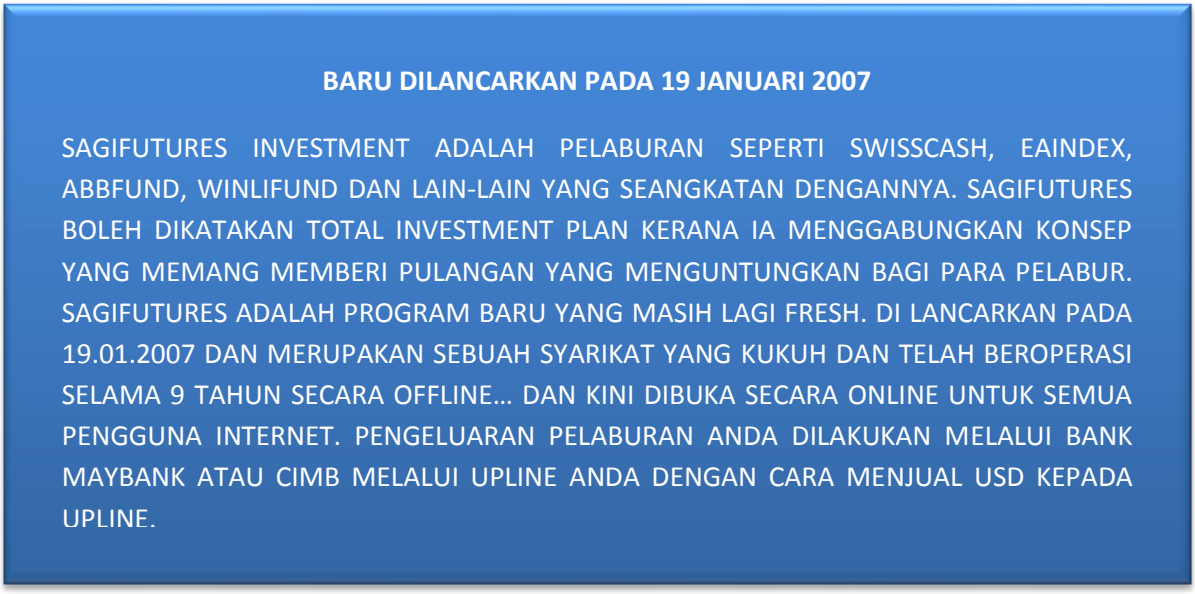


Exhibit 3 Sagifutures Advertisement from Upliner Blog

The corresponding English Translation:

LAUNCHED ON 19 JANUARY 2007

SAGIFUTURES INVESTMENTS IS AN INVESTMENT SIMILAR TO SWISSCASH, EAINDEX, ABBFUND, WINLIFUND ETC. SAGIFUTURES CAN BE CONSIDERED AS A WHOLESOME INVESTMENT PLAN AS IT COMBINES VARIOUS CONCEPTS WHICH REAPS A PROFITABLE GAIN FOR THE INVESTORS. SAGIFUTURES IS A NEW AND UNIQUE PROGRAMME WHICH WAS LAUNCHED ON 19TH JANUARY 2007. IT IS A FINANCIALLY SECURE COMPANY WHICH HAS BEEN OPERATING OFFLINE FOR 9 YEARS. IT IS NOW OPERATING ONLINE FOR ALL INTERNET USERS. WITHDRAWALS FROM YOUR INVESTMENT CAN BE DONE VIA MAYBANK OR CIMB THROUGH YOUR UPLINER BY SELLING USD TO THE UPLINERS.

Becoming a Fund Manager

Mukhriz, 48, from Johor, was a businessman well-versed in the workings of MLM schemes. Apart from having his own business which ranges from selling herbal products to website page construction, he had also been involved in several major MLMs before setting up Sagifutures in January 2007. Married with a wife in India, he also had a wife and family in Johor.

A graduate of information technology from a local university in Malaysia, Mukhriz started his career in sales before deciding to start his own business via GTN. Thus began his introduction to the world of MLM, as he became a service provider for a few MLM companies. MLM companies utilise web-based technologies to promote their businesses and worked with service providers to develop their marketing and e-trading platform. This led to his active involvement in several MLM businesses as he realised he had a talent for convincing people to join as his downliners.

Described as affable by his close acquaintances, Mukhriz was known to strike up conversations with strangers easily. 'He has the ability to talk to anyone in the room within a few minutes', said one of his MLM downliners. His ability led him to the top ranks of most MLMs he joined; therefore, the "success" of the Sagifutures scheme seemed inevitable.

Within a span of 4 months from 3 January 2007 to 23 April 2007, he successfully managed to rope in over 52,000 investors under the scheme, which resulted in a collection of funds of over USD17.5 million (RM60.38 million). A Sagifutures account never existed and all monies either went to Mukhriz's or GTN's accounts. The money collected was never invested in any of the investment portfolios mentioned in the Sagifutures website.

All requests for new PIN numbers for the supply of e-points to investors were handled by staff appointed by Mukhriz. His staff also dealt with investor problems relating to access to the website or technical issues such as lost passwords.

Neither Sagifutures nor Mukhriz had ever applied for a fund manager's licence, according to the records held by the SC's Authorisation and Licensing department. Section 58(1) of the Capital Markets & Services Act 2007 (CMSA) stipulates:

"No person shall whether as a principal or agent, carry on a business in any regulated activity or hold himself out as carrying on such business unless he is the holder of a Capital Markets Services Licence or is a registered person."

Downfall of the Sagifutures scheme

The Sagifutures scheme began to unravel when the Investor Affairs & Complaints Department of the SC received an inquiry on the legitimacy of Sagifutures and its investment fund. Stemming from this, the SC, together with the Malaysian Communication and Multimedia Commission and Cyber Security Malaysia, had blocked access to the www.sagifutures.com website and had issued a reminder to investors to withdraw their investments as they would be unable to access the website once blocked.

On 29 February 2008, Mukhriz was charged under section 15A(1) of the Securities Industry Act 1983 ("SIA") (currently Section 58 of the CMSA), for holding himself out to be a fund manager without a licence. He also faced 3 charges under section 4(1) of the Anti-Money Laundering and Anti-Terrorism Financing Act 2001 (AMLATFA). He was alleged to have committed the offence through the www.sagifutures.com website. The website, among others, purported that investments from the general public would be invested in securities.

After a full trial, he was sentenced to 4 years' imprisonment for charges under the SIA, and 2 years imprisonment for charges under the AMLATFA for dealing in monies collected via the unlicensed scheme.

Epilogue

Naemah and Shahnor lost their RM50,000 investment and ended up having to pay off their RM20,000 loan. As their monthly salary was inadequate to cover their expenses and loan instalments, they had to sell one of their cars to settle the loan. They were planning to use their RM30,000 savings to perform the haj upon retirement. Now they had to start all over again.

Syukor also lost his investment of RM60,000. Feeling responsible for the losses of his family, he decided to sell off his business to cover some of their losses. Syukor eventually separated from his wife of 25 years.

Others who had invested in the Sagifutures scheme also received the same fate as Naemah, Shahnor and Syukor. One of the investors had written to the SC informing that he, together with his family and friends, had invested USD42,000 in the Sagifutures scheme. He even had to borrow cash from his grandfather to make the investment. There is little or no recourse for investors who make deposits with unlicensed firms or unapproved investment schemes. Approval for such companies or schemes can only be given by the SC, Bank Negara Malaysia or other government agencies such as the Companies Commission of Malaysia and the Ministry of Domestic Trade, Co-operatives and Consumerism.

Questions

1. What are the warning signs of a "Skim Cepat Kaya"?

2. Who do these schemes target?

3. How do these schemes work?

4. How would you know if the company is licensed to conduct investment activities?

5. What steps can be taken to avoid these schemes or other investment scams?