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Japanese Housewives Desperate After Currency Scheme Collapses

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By Masatsugu Horie



Jan. 22 (Bloomberg) -- Allied LLC, an Osaka-based asset manager, is under investigation on suspicion it bilked Japanese investors, mostly housewives, using a currency trading fund, a police official said.

Investigators said a woman they declined to name who ran Allied seminars has disappeared after getting 300 people to invest 2.4 billion yen (\$26.57 million) in the fund. The company stopped paying dividends in November last year.

"Allied was raided on Jan. 15 on suspicion of running a business without a license in violation of the Financial

Products Trading Law," said Kiyotaka Kawamura, a police investigator in **Kochi** prefecture, on the western island of Shikoku. The police confiscated computers and documents. No arrests have been made, he said. Allied's phone number was disconnected when called by Bloomberg News.

Officials handling complaints from investors say Allied, which promised risk-free returns of as much as 5 percent a month, may have operated as a Ponzi scheme, in which early investors are paid with money received from new ones. While the scale of the suspected fraud is small compared with the \$50 billion scam New York-based **Bernard Madoff** has allegedly admitted to running, it taints a market that was growing as low interest rates limit fixed income returns.

"We've had 37 victims come in seeking help," said Yuriko Asai, deputy head of the Kochi Prefecture Consumer Center, adding that more than half of them were women.

"There are people who lost 20 million yen and some who lost all their financial assets," Asai said. She said investors were told they would receive a finder's fee for introducing new clients.

"Those who got in early probably weren't hit that badly, but those who got in late were hurt," she said.

Mrs. Watanabe

Currency trading emerged in recent years as an outlet for thrifty housewives in Japan, whom traders came to refer to as "Mrs. Watanabes," looking to make extra money.

They specialized in carry trades, where investors get funds in countries with **low** borrowing costs and buy assets in countries with higher rates, earning the spread between the two. The risk is that currency moves erase those profits.

So-called margin trading of currencies in Japan using borrowed funds rose 141 percent in the July-September quarter to a record 446 trillion yen, figures from the Financial Futures Association of Japan showed in November.

The Osaka incident highlights a gap in Japan between demand for new financial instruments and knowledge of how they work.

"There's a limit to what the police can do, so people need to be aware of risks when they invest," said Yoshiki Aragaki, an official at the Financial Services Agency's Securities Business Division.

"There's no investment that can only earn money, and yet we see so many victims."

Victims

Allied's head office, overlooking the Kyocera **Dome** baseball stadium from the 31st floor of the **Kokusai** Building, is now empty, save for a desk and a calendar on the wall showing January 2008.

"We haven't been able to make contact, so it's a problem," said Tatsuhiro Matsumoto, an official in the Tokyo branch of Regus Plc, which manages the office space used by Allied.

Allied operated between June 2007 and November 2008, with an office in Kochi Prefecture, on the western island of Shikoku, in addition to the one in Osaka, and a third of the victims were in Shikoku, said Kawamura of the Kochi police.

Meantime, Asai at the Kochi Prefecture Consumer Center continues to deal with the damage.

"Some of them were in tears as they worried about how they would make ends meet," she said.

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