

ALABAMA SECURITIES COMMISSION

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COVID-19 Related Investment Schemes Anticipated

Alabama Securities Commission Outlines What to Expect and Offer Guidance on How to Protect Yourself

MONTGOMERY, ALABAMA (March 28, 2020) — Amid the ongoing COVID-19 pandemic, the Alabama Securities Commission (ASC) is alerting investors to be on guard against an anticipated surge of fraudulent investment schemes.

“In these extraordinary times the health and welfare of all must be our foremost concern, and that includes our financial health. Our primary focus remains on the protection of retail investors,” said Director Joseph P. Borg.

The ASC warns investors that the fraudulent schemes launched amid COVID-19 outbreak will not be elegant. “Scammers will begin perpetrating schemes that require little or no advance planning and minimal sophistication,” Director Borg said. “Most will simply be old scams dressed in contemporary clothing.”

The North American Securities Administrators Association (NASAA), of which the ASC is a member, anticipates fraudulent investment schemes will rise as a result of the ongoing pandemic. “Scammers will be targeting investors, capitalizing on recent developments in the economy and preying on concerns about the regulated securities market,” said Director Borg. “Investors must remain vigilant to protect themselves.”

In particular, the ASC warned investors to be on the lookout for investments specifically tied to the threat of COVID-19. Bad actors can be expected to develop schemes that falsely purport to raise capital for companies manufacturing surgical masks and gowns, producing ventilators and other medical equipment, distributing small-molecule drugs and other preventative pharmaceuticals, or manufacturing vaccines and miracle cures. The schemes often appear legitimate because they draw upon current news, medical reports and social and political developments.

Scammers also will seek to take advantage of concerns with the volatility in the securities markets to promote “safe” investments with “guaranteed returns” including investments tied to gold, silver and other commodities; oil and gas; and real estate. Investors also can expect to see “get rich quick” schemes that tout quickly earned guaranteed returns that can be used to pay for rent, utilities or other expenses. These schemes also target retirees and senior citizens, falsely claiming they can quickly and safely recoup any losses to their retirement portfolios.

Retail investors must remain vigilant and protect themselves from new schemes tied to COVID-19 and recent economic developments. The ASC suggests investors stay clear of anything sounding too good to be true, such as guarantees of high returns with no risk, and vet their investment professional about their licenses and registrations.

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Investors should also contact the ASC with questions about any investment opportunity or the person offering it for sale **before** investing in the product. Afterwards may be too late. For more information, visit the ASC website at: www.asc.alabama.gov.

INVESTOR BEWARE: Schemes to Watch for and How to Protect Yourself

- **Private placements and off-market securities.** Scammers will take advantage of concerns with the regulated securities market to promote off-market private deals. These schemes will continue to pose a threat to retail investors because private securities transactions are not subject to review by federal or state regulators. Retail investors must continue to investigate before they invest in private offerings and independently verify the facts for themselves.
- **Gold, silver and other commodities.** Scammers may also take advantage of the decline in the public securities markets by selling fraudulent investments in gold, silver and other commodities that are not tied to the stock market. These assets may also be attractive because they are often promoted as “safe” or “guaranteed” as hedging against inflation and mitigating systematic risks. However, scammers may conceal hidden fees and mark-ups, and the illiquidity of the assets may prevent retail investors from selling the assets for fair market value. The bottom line is there really are no “can’t miss” opportunities.
- **Recovery schemes.** Retail investors should be wary of buy-low sell-high recovery schemes. For example, scammers will begin promoting investments tied to oil and gas, encouraging investors to purchase working or direct interests now so they can recognize significant gains after the price of oil recovers. Scammers will also begin selling equity at a discount, promising the value of the investments will significantly increase when the markets strengthen. Investors need to appreciate the risks associated with any prediction of future performance and recognize that gains in the markets may not correlate with the profitability of their investments.
- **Get-rich-quick schemes.** Scammers will capitalize on the increased unemployment rate. They falsely tout their ability to quickly earn guaranteed returns that can be used to pay for rent, utilities or other expenses. They also target retirees and senior citizens, falsely claiming they can quickly and safely recoup any losses to their retirement portfolios. Remember: if it sounds too good to be true, it probably is.
- **Replacement and swap schemes.** Investors should be wary of any unlicensed person encouraging them to liquidate their investments and use the proceeds to invest in more stable, more profitable products. Investors may pay considerable fees when liquidating the investments, and the new products often fail to provide the promised stability or profitability. Advisors may need to be registered before promoting these transactions and legally required to disclose hidden fees, mark-ups and other costs.
- **Real estate schemes.** Real estate investments may prove appealing because the real estate market has been strong and low interest rates have been increasing the demand for housing. Scammers often promote these schemes as safe and secure, claiming real estate can be sold and the proceeds can be used to cover any losses. However, real estate investments present significant risks, and changes to the economy and the real estate market may negatively impact the performance of the products.

How to Protect Yourself

The ASC and NASAA provides the following guidance and tips to help investors avoid anticipated schemes seeking to take advantage of unsuspecting consumers and investors.

- **Ask questions and research the investment and person offering it.** Investors should always ask if the

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salesperson and the investment itself are properly licensed or registered. This information can be confirmed by calling the ASC at (800) 222-1253. Investors also can check the [SEC's Investment Adviser Public Disclosure](#) database or [FINRA's BrokerCheck](#). Avoid doing business with anyone who is not properly licensed.

- **Don't fall for phishing scams.** Phishing scams may be perpetrated by foreign or domestic parties claiming an association with the Centers for Disease Control and Prevention or the World Health Organization, or by individuals claiming to offer novel or expert medical advice or services. Con artists offering "opportunities" in research and development are scamming you. They may even be perpetrated by persons impersonating government personnel, spoofing their email addresses and encouraging their audience to click links or access malicious attachments. These emails may look real and sound good, but any unsolicited emails that have attachments and web links can point to dangerous websites and malicious attachments that can steal information from your computer, lock it up for ransom, or steal your identity. Don't do it.
- **There are no miracle cures.** Scientists and medical professionals have yet to discover a medical breakthrough or have developed a vaccine or means to cure COVID-19. Not surprisingly, the vaccines being sold by online pharmacies are not real. You should not send money or make payments over the phone to anyone claiming they can prevent COVID-19, have a vaccine or other preventive medicine.
- **Avoid fraudulent charity schemes.** White-collar criminals may pose as charities soliciting money for those affected by COVID-19. Before donating, you should independently verify any charity that is raising money for the sick or secure donations to help uninsured persons pay for medical treatment. You should also avoid online solicitations for cash and gift cards, as these schemes have become a popular way for scammers to steal money. Think with your head and not with your heart. If you want to donate to a cause, you should work with a legitimate, established organization.
- **Be wary of schemes tied to government assistance or economic relief.** The federal government may send checks to the public as part of an economic stimulus effort. It will not, however, require the prepayment of fees, taxes on the income, the advance payment of a processing fee or any other type of charge. Anyone who demands prepayment will almost certainly steal your money. And don't give out or verify any personal information either. Government officials already have your information. No federal or state government agency will call you and ask for personal information.

The ASC cautions citizens who are new or experienced investors to thoroughly scrutinize and research any investment opportunity or offer. Contact the ASC at 1-800-222-1253 to check out any person or financial professional offering an investment opportunity or investment advice for a fee, and the products they offer for proper registration. Contact the ASC to report suspected fraud, inappropriate securities business practices or to obtain consumer information. The ASC provides free investor education and fraud prevention materials in print, on our website and through educational presentations upon request.

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For further information contact Dan Lord, Education and Public Affairs Manager, 334-353-4858.

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