

## ALABAMA SECURITIES COMMISSION

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# TOP INVESTMENT VEHICLES THAT CAN CRASH YOUR FINANCIAL FUTURE

**MONTGOMERY, ALABAMA (January 24, 2020)** The Alabama Securities Commission (ASC) in conjunction with the North American Securities Administration Association (NASAA)\* today released its annual list of top investor threats and reminded investors to use caution when approached with any unsolicited investment opportunities. “Fraudsters are always looking for new and innovative ways to scam potential investors. Most of us are trusting in nature but must do our own due diligence to protect our assets. Before you invest, a good first step is to contact the ASC by calling **1-800-222-1253** to check that both the person making the offer and the product are properly registered, if not, they may be operating illegally. “Since all investments involve a degree of risk, investors can help protect themselves by taking time to research both the investment product and the person selling it. It’s best to learn before you get burned,” Joseph Borg, ASC Director, said.

Based on investor complaints, ongoing investigations, and current enforcement trends, NASAA identified **PROMISSORY NOTES, PONZI SCHEMES, REAL ESTATE INVESTMENTS, CRYPTOCURRENCY RELATED INVESTMENTS** and **SOCIAL MEDIA/INTERNET BASED INVESTMENT SCHEMES** as the top five areas of concern for the coming year. Alabama mirrors the national survey results and adds **PRIME BANK SCHEMES** to the list.

### The six threats are as follows:

**PROMISSORY NOTES:** A promissory note is a written promise to pay (or repay) a specified sum of money at a stated time in the future or upon demand. Companies may sell promissory notes to raise capital, and usually offer them only to sophisticated or institutional investors. But not all promissory notes are sold in this way. Promissory notes from legitimate issuers can provide reasonable investment returns at an acceptable level of risk, although state securities regulators have identified an unfortunately high number of promissory note frauds.

**PONZI/PYRAMID SCHEMES:** A Ponzi scheme (named after 1920’s swindler Charles Ponzi) is a ploy wherein earlier investors are repaid through the funds deposited by subsequent investors. In a Ponzi scheme, the underlying investment claims are usually entirely fictional; very few, if any, actual physical assets or investments generally exist. As the number of investors grow and the supply of potential new investors dwindle, there is not enough money to pay off promised returns and cover investors who try to cash out. Similarly, a pyramid scheme is a fraudulent multi-level marketing strategy whereby investors earn potential returns by recruiting other investors.

**REAL ESTATE INVESTMENTS:** The promise of earning quick money through investments related to real estate continues to lure investors. Investors should be cautious about real estate investment seminars, especially those marketed aggressively as an alternative to more traditional retirement planning strategies involving stocks, bonds and mutual funds. Current investment pitches at these seminars involve so-called “hard-money lending” and “property flipping.” Hard-money lending refers to real estate investments financed through means other than traditional bank borrowing. Property flipping is the practice of purchasing distressed real estate, refurbishing it, and then immediately re-selling it in hopes of earning a profit. A scammer may, for example, defraud potential investors in the flip by misrepresenting the value of the underlying property or its profit potential.

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**CRYPTOCURRENCY-RELATED INVESTMENTS:** Cryptocurrencies burst into the investing mainstream in 2017 as the values of some virtual coins and tokens skyrocketed, led by Bitcoin. Shortly after, the news featured coverage of new cryptocurrencies, coin exchanges, and related investment products. Stories of “crypto millionaires” attracted some investors to try their hand at investing in cryptocurrencies or crypto-related investments. But stories of those who bet big and lost also began appearing and continue to appear. Before you jump into the risky crypto craze, be mindful that cryptocurrencies and related financial products may be nothing more than public facing fronts for Ponzi schemes and other frauds. Because these products do not fall neatly into the existing federal/state regulatory framework, it may be easier for the promoters of these products to cheat you.

**SOCIAL MEDIA/INTERNET INVESTMENT FRAUD:** Social networking through the internet allows people to connect to one another more quickly and easily than ever before. Investment promoters increasingly are logging on to find investors ... and their money. Platforms such as Facebook, Twitter, LinkedIn, eHarmony and other online social networks and communities have made it faster and easier for users to meet, interact and establish connections with other users anywhere in the world.

Using online social networks, a con artist can establish this trust and credibility more quickly. The scammer has immediate access to potential victims through their online profiles, which may contain sensitive personal information such as their dates or places of birth, phone numbers, home addresses, religious and political views, employment histories, and even personal photographs.

The con artist takes advantage of how easily people share background and personal information online and uses the information to make a skillful and highly targeted pitch. The scam can spread rapidly through a social network as the con artist gains access to friends and colleagues of the initial target.

**PRIME BANK SCHEMES:** Often promising high-yield, tax-free returns, promoters of these schemes offer to let the “little guy” in on what they claim are financial instruments from elite overseas banks usually offered only to the world’s wealthiest investors. Prime banks do not exist, and the scam artists have no intention of creating a profit for anyone but themselves. Remember: Often the most sophisticated sounding investments are just false promises in fancy garb.

The ASC regulates the “main street” investing industry in Alabama. ASC is committed to protecting investors against securities fraud and provides aggressive enforcement actions against any firm or individual who has violated the Alabama Securities Act or other state and federal statutes to the detriment of Alabama investors. The Alabama Securities Act provides for the registration and regulation of securities broker-dealers, agents, investment advisers and investment adviser representatives, and financial planners.

*\*ASC is a member of the North American Securities Administrators Association (NASAA). NASAA represents state and provincial securities regulators in the United States, Canada and Mexico. NASAA surveyed its members, the state and provincial securities regulators throughout the United States, Canada and Mexico to determine the top threats.*

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

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