

ALABAMA SECURITIES COMMISSION

Post Office Box 304700

Montgomery, Alabama 36130-4700

Telephone: (334) 242-2984 or 1-800-222-1253 Fax: (334) 242-0240

Email: asc@asc.alabama.gov Website: www.asc.alabama.gov

Alabama Securities Commission Announces Top Investor Threats for 2015 New Products in Classic Schemes Identified as Top Investor Threats

MONTGOMERY, ALABAMA (November 12, 2014) – The Alabama Securities Commission (ASC) today identified emerging threats facing investors in 2015, including schemes involving binary options, marijuana-related businesses, stream-of-income investments, and digital currency.

“Many of the top threats facing investors involve new products in classic schemes,” said ASC Director, Joseph Borg. “We are seeing past threats to investors morph into new or altered dangers, many fueled by the Internet. Overarching all of these threats are unlicensed agents selling unregistered products to unsuspecting investors.”

The following list of top threats facing unwary investors throughout North America was compiled by the Enforcement Section of the North American Securities Administrators Association (NASAA), of which ASC is a member.

Emerging Threats:

- Digital Currency & Cybersecurity Risks
- Stream-of-Income Investments
- Binary Options
- Marijuana Industry Investments

Persistent Threats:

- Ponzi and Pyramid Schemes
- Affinity Fraud
- Real Estate Schemes, Including Those Using Promissory Notes
- Reg D/Rule 506 Private Offerings
- Oil & Gas Investments in the Fracking Era
- Internet Fraud (including Social Media and Crowdfunding)

Unregistered individuals continue to be the most common subject of enforcement actions by state securities regulators. “It cannot be said enough that investors should independently verify any investment opportunity as well as the background of the person and company offering the investment,” Director Borg said.

The ASC can provide, at no cost, detailed background information about those who are registered to sell securities or provide investment advice in Alabama, and about the products being offered by calling 1-800 222-1253. “It pays to investigate before you invest,” Borg said.

Top Emerging Investor Threats

Digital Currency & Cybersecurity Risks: Digital currencies are emerging as trendy way to pay for goods and services. Bitcoin, perhaps the most popular digital currency, was priced at around \$10 per unit in early 2013 but peaked at around \$1,200 per unit later that year. The rapid price increase sparked considerable public interest and media attention, creating a fresh market for securities offerings tied to digital currencies. Unfortunately, *unscrupulous promoters may be attempting to capitalize on this popularity by illegally offering securities tied to digital currencies.* Even legitimate securities offerings tied to digital currencies may present considerable risks to the investing public, including risks associated with volatility and demand for the units, the anonymity associated with the use of certain digital currencies, and the threats posed by hackers using malicious software to compromise network security systems. These risks were highlighted earlier this year when Mt. Gox, once the world's largest Bitcoin exchange, filed for bankruptcy amid reports that hackers may have stolen around 850,000 Bitcoins worth as much as \$500 million.

Stream-of-Income Investments: Investors looking for monthly returns are being enticed to invest by companies that introduce investors to individuals selling a stream of income, such as pension payments or government disability payments. *These investments can carry significant risks as laws may prohibit the assignment of the stream of income/benefits, the seller typically maintains the legal right to redirect the payment, and if the seller does redirect the payment, the investor may be left with an unenforceable contract right.* In addition, the benefits are contingent on the life of the seller, and even life insurance policies on the seller's life may be cancelled and do not protect an investor if a seller simply redirects the income stream. Sales of these investments are of concern to state regulators because often veterans and disabled persons are preyed upon to assign their benefits when they experience financially stressful times, selling much needed future benefit payments at a significant reduction. Investors should consider obtaining independent legal advice before investing in the purchase of another person's income stream and also check with their local securities regulator to confirm that the investment and those selling it are exempt from registration or are properly registered.

Binary Options: Binary options are securities in the form of options contracts that have a payout that depends on whether the underlying asset – for example, a company's stock or a stock index – increases or decreases in value. In such an all-or nothing payout structure, investors betting on a stock price increase face two possible outcomes when the contract expires: they either receive a pre-determined amount of money if the value of the asset increased over the fixed period, or no money at all if it decreased. Unlike a traditional option, a binary option will pay a fixed sum at expiration regardless of the magnitude of the difference between the settlement value and the option's exercise price. A *call binary index option* would pay out if the settlement value of the underlying index were at or above the option's exercise price at expiration, and a *put binary index option* would pay out if the underlying index were below the option's exercise price at expiration. Binary option risks include: illegal distributions- trading of binary options without complying with applicable registration and distribution requirements; potential for fraud – fraudulent promotion schemes (with misleading average returns on investment); identity theft (collecting customer information such as credit card and driver's license data for unspecified uses); refusals to return, or pay out, investor funds; potential for abusive trading: manipulation of the binary options trading software to generate losing trades. *Particular investor risks are that the option is an all-or-nothing payout structure and investors can easily lose their entire investment.* In addition, much of the binary options market operates through Internet-based trading platforms that are not necessarily complying with applicable local regulatory requirements.

Marijuana Industry Investments: In the United States, medical marijuana is legal in 23 states and the District of Columbia, and recreational use is legal in four states and the District of Columbia. The legalization of this once prohibited substance is generating headlines, which, in turn, has grabbed the attention of investors looking to capitalize on the high potential of this new legal market. Many promoters have seized upon this to market and sell investments in the marijuana industry, including investments in companies that provide products and services to the marijuana industry such as vaporizers, hydroponic supplies, lighting systems, and security systems. But as is the case with any headline-generating topic, scam artists also recognize an opportunity to capitalize. *Many of these companies are micro-cap companies selling low-priced securities which typically are highly speculative and carry a high degree of risk for investors.* Securities regulators are seeing “pump and dump” scams, typical of micro-cap offerings. Fraudsters lure investors with aggressive, optimistic, and potentially false or misleading information designed to create unwarranted demand for shares of a small, thinly traded company with little or no history of financial success (the “pump”). Once share prices and volumes peak, scammers behind the ploy sell their shares at a profit, leaving investors with worthless stock (the “dump”). Investors should think carefully and do their due diligence before jumping into marijuana-related investments.

The ASC cautions potential investors to thoroughly scrutinize and research any investment opportunity or offer. Contact the ASC with inquiries concerning securities broker-dealers, agents, investment advisers, investment adviser representatives, financial planners, registration status of securities or debt management programs, to report suspected fraud 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.

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

###

ALABAMA SECURITIES COMMISSION

Post Office Box 304700

Montgomery, Alabama 36130-4700

Telephone: (334) 242-2984 or 1-800-222-1253 Fax: (334) 242-0240

Email: asc@asc.alabama.gov Website: www.asc.alabama.gov