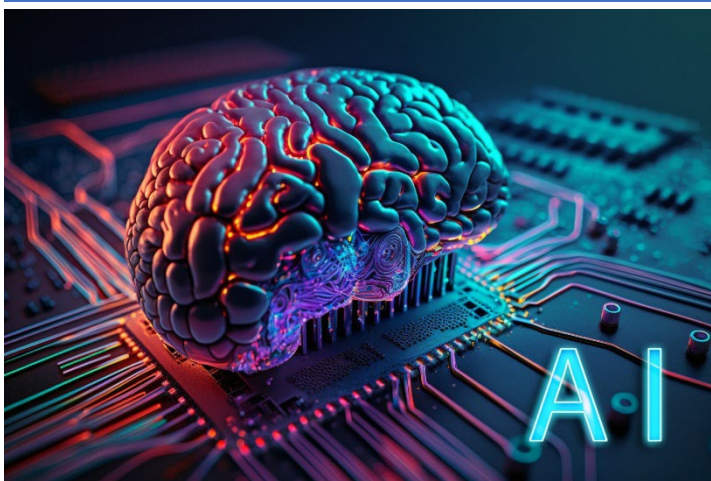


ARE YOU AN INFORMED INVESTOR?

Artificial Intelligence (AI) and Investment Fraud



Bad actors are using the growing popularity and complexity of AI to lure victims into scams. Here are a few things to look out for to help you keep your money safe from these frauds:

Unregistered/Unlicensed Investment Platforms

Claiming to Use AI

Federal, provincial, and state securities laws generally require securities firms, professionals, exchanges, and other investment platforms to be registered. Numerous unregistered and unlicensed Online investment platforms, as well as unlicensed and

unregistered individuals and firms, are promoting AI trading systems that make unrealistic claims like, “Our proprietary AI trading system can’t lose!” or “Use AI to Pick Guaranteed Stock Winners!”. In reality, these scammers are running investment schemes that seek to leverage the popularity of AI. Be wary of claims even from registered firms and professionals – that AI can **guarantee** amazing investment returns.

Steps you can take to protect yourself:

- Work with a registered investment professional and on a registered exchange or other type of registered investment platform.
- Use the free *Broker Check* search tool on asc.alabama.gov to confirm registration status of investment professionals and check for any disciplinary history.
- Contact the Alabama Securities Commission to inquire about the registration status of investment opportunities and financial professionals.

Investment claims that sound too good to be true usually are. And remember: Fraudsters typically deploy multiple, sophisticated persuasion techniques to make their pitches seem real. Claims of high guaranteed investment returns with little or no risk are classic warning signs of fraud.

Investing in Companies Involved in AI

While rapid technological change can create investment opportunities, bad actors often use the hype around new technological developments, like AI or crypto assets, to lure investors into schemes. These bad actors might use catchy AI-related buzzwords and make claims that their companies or business strategies guarantee huge gains. Red flags of these types of scams include **high-pressure sales tactics by unregistered individuals, promises of quick profits, or claims of guaranteed returns with little or no risk**. False claims about a public company’s products and services relating to AI also might be part of a **pump-and-dump scheme**. In this scheme, promoters try to “pump” up, or increase, the stock price of a company by spreading positive - but false – information online. These claims often cause investors to buy the stock, driving the price of the stock up. Then the promoters “dump” their own shares before the hype ends. Typically, after the promoters profit from their sales, the stock price drops, and the remaining investors lose most of their money.

Microcap stocks, or low-priced stocks issued by small companies, may be particularly vulnerable to investment schemes, including scams involving AI-related claims. There is often limited publicly available information about microcap companies' management, products, services, and finances. This can make it easier for fraudsters to spread false information about a company and profit at the expense of unsuspecting investors.

Steps you can take to protect yourself:

- Use the Security and Exchange Commission's EDGAR database to access disclosures for public companies.
- Carefully review the disclosures that companies are making and assess their promotional campaigns. If the company appears focused more on attracting investors through promotions than on developing its business, you might want to compare it to other companies working on similar AI products or services to assess the risks.

AI-Enabled Technology Used to Scam Investors, Including "Deepfake" Video and Audio

Fraudsters can use AI technology to clone voices, alter images, and even create fake videos to spread false or misleading information. AI technology might be used to impersonate a family member or friend, with the intent to convince an investor to transfer money or securities out of an investment account. For example, some scam artists are using AI-generated audio to try to lure older investors into thinking a grandchild is in financial distress and in need of money. Scammers might use deepfake videos to imitate the CEO of a company announcing false news to manipulate the price of a stock or might use AI technology to produce realistic looking websites or marketing materials to promote fake investments or fraudulent schemes. Bad actors also impersonate SEC staff and other government officials.

Steps you can take to protect yourself:

- Verify that a communication from a federal, state, or provincial agency or other regulatory body is genuine before responding by contacting their office directly.
- Verify that you are communicating with the actual investment professional and not an imposter by comparing the phone number or website for the firm as disclosed in the firm's Client Relationship Summary.
- Be on the lookout for scammers using AI technology to impersonate family or friends. AI-generated tools can access personal information about you online, so be wary of any unsolicited communication asking you to invest your money—even if it sounds like it was written just for you.
- No matter how urgent the plea—especially when accompanied by directives such as “don't tell my ____ [parents/spouse/roommates]”—take time to independently verify the situation before agreeing to transfer money or securities out of your investment account. Consider creating a password or phrase for family members to verify their identity in case of an emergency.

Do Not Rely Solely on AI-Generated Information to Make Investment Decisions

AI-generated information might rely on data that is inaccurate, incomplete, or misleading. For example, it could be based on false or outdated information about financial, political, or other news events. Or it could draw from false or misleading information that was disseminated to try to manipulate a stock's price (either positively or negatively). Even when based on accurate input, information resulting from AI can be faulty, or even completely made up.

THE BOTTOM LINE:
Before making any decisions with your money, ask questions, do your research, and contact Alabama Securities Commission.

This **Informed Investor Advisory** is brought to you by the Alabama Securities Commission, a member of the North American Securities Administrators Association. For more investor alerts and advisories, visit the NASAA website at nasaa.org.

