

Practice Update

Securities Regulators Warn of Increase in Fraudulent Schemes During COVID-19

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State and federal regulators have issued numerous warnings of increased fraudulent activity in light of the economic dislocations caused by COVID-19. In addition to consumer scams such as fake coronavirus tests or medication and outright price gouging, regulators are warning of investment scams as well. For instance, the Texas State Securities Board (TSSB) warned investors to “Count on a flood of scurrilous investment offerings that claim to offer guaranteed returns to help you reclaim your financial footing. Some may be tied directly to the coronavirus. Most will probably be garden-variety, supposedly risk-free scams.” The TSSB’s action follows earlier alerts by the Securities and Exchange Commission (SEC) and the Commodity Futures Trading Commission warning of coronavirus-related and other investment scams.

Regulators identified several types of fraudulent investment offerings that are currently in the market.

- Investments in companies that purportedly supply products or services that can help stop the virus. These include test kits, medications, medical supplies and devices. Many of these companies are either private companies or very small, thinly capitalized public companies who trade on the OTC markets (i.e., penny stocks).

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Potential scams range from outright fraud to pump-and-dump schemes.

- Investments in alternative assets that are supposedly insulated from stock market and general economic risk. Examples include life settlements, precious metals, gems, coins, collectables and stamps.
- Investments in high-yield trading funds or platforms that promise outsize returns by claiming that take advantage of the current volatility in stocks, bonds, currencies or commodities.
- Investments in distressed debt. Promoters claim to be able to identify and purchase “quality” promissory notes, bonds or other forms of debt at distressed prices; thereby, securing safe and outsized returns to investors.

These are merely examples. Swindles come in all shapes and sizes and are limited only by creativity of the scammers.

Scam artists reach out to targets through a variety of means. Social media, cold calls and radio programs are common methods. Another common method is to offer a gift in exchange for watching a video or attending an online seminar. Prior to the pandemic, free dinners at nice restaurants were a common inducement. Another common inducement is the promise of a certificate of deposit paying a point or more than the bank. While the CD may sound like a good or safe investment, it like the gift or free meal is just a ruse to set up a hard sell for a dodgy investment. In some cases, the swindler will come in the guise of a friend or trusted advisor – an insurance agent, accountant, or church member.

You can protect yourself and your loved ones with a form of social distancing. Hang up on the cold call, ignore the offer of a gift and avoid unsolicited investment advice. There is no such thing as a risk free investment. And, if it sounds too good to be true, it surely is. Bottom line – don’t let anyone sell you an

investment. Investments are to be purchased by you, not sold to you.

If you suspect that you have been the target of a scam, you should contact the SEC, Department of Justice, your state securities regulator or state attorney general. You can contact these agencies through the addresses below:

Securities & Exchange Commission:
<https://www.sec.gov/tcr>.

US Department of Justice: Hotline at 866-720-5721 or via email at disaster@leo.gov

State Securities Regulators:
<https://www.nasaa.org/contact-your-regulator/>

State Attorneys General: <https://www.usa.gov/state-attorney-general>

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