



## ARKANSAS SECURITIES DEPARTMENT

### Investor Alert: Protecting Your Financial Health in the Pandemic Era

The COVID-19 pandemic has roiled securities markets in ways we have never experienced and is making financial decisions vastly more difficult than usual. We want to assure Arkansans that our primary focus remains on the protection of retail investors, and we are actively taking steps to protect the public from white-collar criminals and scammers capitalizing on the threat of COVID-19.

Investors should be prepared for the following:

#### Investment Schemes Will Proliferate

Scammers will be targeting retail investors, capitalizing on recent developments in the economy preying on concerns about the regulated securities market. Their products and tactics will track recent economic and social trends, promising lucrative returns to retail investors concerned about their portfolios and retirement plans. Retail investors must remain vigilant to protect themselves from these schemes.

**COVID-19 schemes.** Retail investors should be wary of investment schemes tied to the threat of COVID-19. Bad actors are developing 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.

In Austin, TX, the U.S. Department of Justice recently took its first enforcement action against COVID-19 fraud, winning an injunction against the operators of a website offering non-existent "vaccine kits" from the World Health Organization.

**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 off-market transactions, and independently verify the facts for themselves.

**Gold, silver and other commodities.** Scammers may also take advantage of the devaluation of 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 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.

**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 from historic lows.

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 changes in the 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. Advisers 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 severely damage the performance of these investments.

## **Old Schemes Manipulated for a New Age**

Although scammers will be perpetrating complex investment schemes, many initial schemes will simply be old scams dressed in contemporary clothing. The financial, cultural, and societal changes are fresh, and as such scammers will begin perpetrating schemes that require little or no advance planning and minimal sophistication.

Among the ones we expect to see:

**Phishing Scams.** Phishing Scams may be perpetrated by foreign or domestic parties claiming an association with the Centers for Disease Control and Prevention (CDC) or the World Health Organization (WHO), or by individuals claiming to offer novel or expert medical advice or services.

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. **Don't do it!**

**No miracle cures.** Scientists and medical professionals have not yet discovered a medical breakthrough or developed a means to cure COVID-19. Not surprisingly, a vaccine being sold by some online pharmacy isn't real. You should not send money to anyone claiming they can prevent COVID-19. This kind of snake oil has a real bite to it.

**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 is authorized to raise 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, not your heart. If you want to donate to a cause, you should work with a legitimate, established organization.

**Schemes tied to economic relief.** The federal government may send checks to the public to stimulate the economy. It will not, however, require the prepayment of taxes on the income and or the advance payment of a processing fee. **Anyone who demands prepayment will almost certainly steal your money.**

## **Resources and Guidance**

Retail investors must remain vigilant and protect themselves from new schemes tied to COVID-19 and recent economic developments. We urge 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.

Please contact Lindy Streit, Chief Financial Examiner for the Arkansas Securities Department at [Lindy.Streit@arkansas.gov](mailto:Lindy.Streit@arkansas.gov), or David M. George, Investor Education Coordinator for the Arkansas Securities Department at [David.George@arkansas.gov](mailto:David.George@arkansas.gov), if you have questions or concerns about investment opportunities offered to you. **Investigating Before You Invest** is the best approach in turbulent economic times, or calm ones.