

INVESTOR ADVISORY: The Coronavirus is Novel but Crisis-related Scams are Nothing New



The Kentucky Department of Financial Institutions (DFI), along with the North American Securities Administrators Association (NASAA) and FINRA have joined to encourage investors to proceed cautiously with new investment opportunities considering the potential for fraudsters to take advantage of the buzz surrounding companies promoting products and services related to the coronavirus pandemic.

With the world focused on the COVID-19 pandemic, fraudsters continue to peddle supposed miracle cures or purportedly innovative technologies are preying upon unsuspecting investors. Investors should be wary of schemes they see on the internet and social media that claim to be raising money for companies promising new health care products that can detect, treat or cure the coronavirus. While some of these claims could be legitimate, many will ring hollow, leaving investors with nothing but broken promises and empty pockets.

These pitches may include offers to invest in medical technology or healthcare companies by purchasing membership units in general or limited partnerships, stock or “penny stock,” or through other investment vehicles, including private placement offerings, initial coin offerings or other cryptocurrency-related investments, or crowdfunding. To learn more about these products, see “Additional Resources” at the end of this advisory.

State and provincial securities regulators recently launched an enforcement initiative to disrupt investment schemes related to the pandemic. Many of the schemes shared common characteristics.

- They focus on fear and anxiety by promoting safe returns independent of the stock market and the economy.
- They exploit trendy assets such as cryptocurrencies or complex investment programs involving foreign currencies. While they may sound new or exciting, these types of products also are very unfamiliar to most inexperienced retail investors.

- They refer to returns as “passive income” or “cash flow” and promise to pay it on a monthly basis, which may appeal to unemployed retail investors or others negatively impacted by changes in the economy.
- They often misrepresent the risks associated with the investments or use professional-looking webpages to attempt to add legitimacy to the fraudulent offerings.

Even when investment offerings are made in accordance with the law, many are highly speculative and subject to the forces of market demand and competition. Be wary of optimistic offers, especially when made during a crisis.

How to Protect Yourself from COVID-19 Scams

- Do not invest money you cannot afford to lose.
- Do your research. Check out the individuals or companies behind the investment. Searching the web can reveal civil, criminal, or regulatory actions taken against companies or individuals. Search for [securities enforcement actions](#) taken by the Kentucky Department of Financial Institutions.
- Ask key questions about the business and its promoters before you hand over any money in a private placement offering.
- Contact the [Kentucky Department of Financial Institutions](#) to learn more about the investment opportunity, the salesperson and the promoter.
- Before putting your money into a healthcare investment or any investment, ask questions about the risks and fees involved. Conduct your own independent research or seek the opinion of a financial professional who is [registered with the Kentucky Department of Financial Institutions](#). Never invest in something you do not fully understand.
- Be wary of participating in a general partnership or joint venture if you have no specific experience, knowledge or education in the industry sector – which is often the healthcare industry for coronavirus-related frauds – and would have to rely on others’ expertise.
- Resist sales techniques that include repeated phone calls, cold calls, e-mails, or high-pressure sales pitches hyping the profitability of the deal.

or promising a sure thing.

- Remember that fraudsters can be quite good at producing professional-looking websites boasting current productivity levels and profits and which photos of vaccine or medical equipment production sites. These easily can be faked.
- Read the fine print. Every investment is unique. Do not assume that what you have been presented with is the same or has similar terms as other offerings you may have seen.

Check the [SEC's](#) website to find out whether the company files any reports or other disclosures with the SEC. Read the reports and disclosures and verify any information you have heard about the company.

What You Can Do

Before making any investment decision, make sure you understand what you are investing in and who you are doing business with. You can verify the status of investment professionals and find out whether they have a history of customer harm by contacting the Kentucky Department of Financial Institutions' Securities Division at 502-573-3390 or kfi@ky.gov or use the tools available from the [SEC](#) and [FINRA](#).

Additional Resources

General

[NASAA: COVID-19 Update Center](#)

[CSA COVID Information Hub](#)

[FINRA: COVID-19](#)

Private Offerings

[NASAA Informed Investor Advisory: Private Placement Offerings](#)

[FINRA Private Placements, Explained](#)

Crowdfunding

[NASAA Informed Investor Advisory: Crowdfunding](#)

[FINRA's Crowdfunding and the JOBS Act: What Investors Should Know](#)

Initial Coin Offerings & Cryptocurrencies

[NASAA informed Investor Advisory: Initial Coin Offerings](#)

[FINRA: Initial Coin Offerings and Cryptocurrencies.](#)