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Holiday Investor Alert: Securities Scams on the Rise in Kentucky

Frankfort, Ky. (Dec. 18, 2023) – Christmas is coming, but so are fraudsters. As Kentuckians prepare for the holiday season, the Department of Financial Institutions (DFI) wants to alert citizens about an increase in securities-related scams. Consumers are advised to be vigilant when thinking about investing or moving investments around, especially around the holidays and into the new year when bad actors take advantage of generous, holly spirits.

“We have seen an increase in reports from Kentucky consumers of both advance payment scams and high-yield investment program scams,” said Chad Harlan, assistant director of DFI’s securities division. “The best way to protect yourself and your money is to do your homework before investing. In many cases, your money cannot be returned after the fact. This is why it’s important to thoroughly understand the investment opportunity before signing the dotted line.”

Advance Payment Scams

According to the U.S. Securities and Exchange Commission (SEC), advance payment scams occur when an investor is asked to pay an upfront fee in exchange for an offer promising more in return. Once the victim pays the fee, the scammer takes the money and does not provide the promised service or investment return.

Scammers use different terms to disguise that they’re asking for an upfront fee or to give the scheme faux legitimacy. For example, victims may be asked to pay a membership, participation, or administrative fee. Victims are even told the fee is refundable. While the terms and conditions vary for each scam, the one thing in common is the victims never see their money or scammers again.

Content source and more information about advance payment scams can be found at the SEC by visiting <https://www.sec.gov/resources-investors/investor-alerts-bulletins/ia-lookout-advanced-fee-fraud>.

High-Yield Investment Programs (HYIP)

According to the North American Securities Administrators Association (NASAA), HYIPs are, simply put, investment opportunities that promote unbelievably high return rates for short periods of time with little to no risk. They have even been described as a blend of Ponzi and pyramid schemes promoted by an unlicensed individual.

It is common for investors to see returns very early on. This is a method used by bad actors to recruit people into their schemes and give the illusion of security. Once investors put in larger sums of money, the bad actors will take the money and run, never to be heard from again.

Red flags to look for:

- A promise of high daily, weekly, or monthly returns.
- Monetary incentives for bringing in additional investors.
- The use of social media to advertise and promote the program.
- The promoter provides very few details about the structure of the company and investment.

Content source and more information about HYIPs can be found at NASAA by visiting <https://www.nasaa.org/wp-content/uploads/2014/11/HYIP.pdf>.

Consumer Protections

It is important to do your homework *before* investing or joining an offer that sounds too good to be true. Utilize the below tools to make sure the investment offer, company, and/or individual are properly registered and to check for previous disciplinary actions.

- SEC's EDGAR Database (securities offerings)– <https://www.sec.gov/edgar>
- SEC's Public Disclosure Database (investment advisers and representatives) – <https://adviserinfo.sec.gov/>
- FINRA Broker Check (broker-dealers and agents) – <https://brokercheck.finra.org/>
- DFI's Securities Enforcement Actions - https://kfi.ky.gov/new_bulletin.aspx?bullid=3

Another good rule of thumb is to never invest money that you cannot afford to lose - it's often impossible to get your money back. Always ask questions, including how the returns will be made and who the company officers are. Make sure all your questions are answered in full. If a promoter has a difficult time answering any of your questions, do not invest.

How to Report

If you have any questions about the legitimacy of an investment opportunity or have fallen victim to a scam, contact DFI for assistance. DFI can be reached at (800) 223-2579 or KFI@ky.gov. Remember, it is important to do your research *before* investing to help protect your hard-earned dollars.

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DFI is an agency in the Public Protection Cabinet, and supervises the financial services industry by examining, chartering, licensing, and registering various financial institutions, securities firms and professionals operating in Kentucky. DFI's mission is to serve Kentucky residents and protect their financial interests by maintaining a stable financial industry, continuing effective and efficient regulatory oversight, promoting consumer confidence, and encouraging economic opportunities.