



State of Wisconsin
Department of Financial Institutions

Scott Walker, **Governor**

Peter Bildsten, **Secretary**

November 12, 2014

FOR IMMEDIATE RELEASE

Contact: George Althoff, Communications Director, 608-261-4504

New products in classic schemes identified as top investor threats

MADISON – The Wisconsin Department of Financial Institutions (DFI) today identified emerging threats facing investors in 2015, including schemes involving marijuana-related businesses, digital currencies, stream-of-income investments, and binary options.

“Many of the top threats facing investors involve new products in classic schemes,” said Patricia Struck, Administrator of DFI’s Division of Securities. “We are seeing threats to investors morph into new risks, many fueled by the Internet. Overarching all of these threats are unlicensed agents selling unregistered products to unsuspecting investors.”

The following list of top emerging threats facing unwary investors was compiled by the Enforcement Section of the North American Securities Administrators Association (NASAA), of which DFI is a member:

- **Marijuana industry investments.** Medical marijuana is now legal in 23 states and the District of Columbia, and recreational use is legal in four states and the District of Columbia. Many promoters have seized upon this to market and sell investments in the marijuana industry, including investments in companies that provide products and services to the marijuana industry such as vaporizers, hydroponic supplies, lighting systems, and security systems. Many of these companies are micro-cap companies selling low-priced securities which typically are highly speculative and carry a high degree of risk for investors.
- **Digital currency and cyber security risks.** Digital currencies are emerging as a trendy way to pay for goods and services. Bitcoin, perhaps the most popular digital currency, was priced at around \$10 per unit in early 2013 but peaked at around \$1,200 per unit later that year. The rapid price increase sparked considerable public interest and media attention, creating a fresh market for securities offerings tied to digital currencies. Unfortunately, unscrupulous promoters may be attempting to capitalize on this popularity by illegally offering securities tied to digital currencies.
- **Stream-of-income investments.** Investors looking for monthly returns are being enticed to invest by companies that introduce investors to individuals selling a stream of income, such as pension payments or government disability payments. These investments can carry significant risks as laws may prohibit the assignment of the stream of income/benefits, the seller typically maintains the legal right to redirect the payment, and

if the seller does redirect the payment, the investor may be left with an unenforceable contract right.

- **Binary options**, which are securities in the form of options contracts that have a payout that depends on whether the underlying asset increases or decreases in value. Of particular risk is that an option is an all-or-nothing payout structure and investors can easily lose their entire investment.

Struck and NASAA encouraged investors also to be wary of a number of persistent threats that pose risks:

- Pyramid and other Ponzi schemes.
- Real estate schemes, including those using promissory notes.
- Affinity fraud.
- Internet fraud, including social media.
- Oil and gas investments, especially those related to fracking.
- Reg D/Rule 506 private offerings.

Unregistered individuals continue to be the most common subject of enforcement actions by state securities regulators. “Investors should independently verify any investment opportunity as well as the background of the person and company offering the investment,” Struck said.

Consumers who have questions about potential investor threats may contact DFI by calling 608-266-1603.

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