Artificial Intelligence (AI) and Investment Fraud: Investor Alert

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The Securities and Exchange Commission (SEC) Office of Investor Education and Advocacy, the North American Securities Administrators Association (NASAA), and the Financial Industry Regulatory Authority (FINRA) are jointly issuing this Investor Alert to make investors aware of the increase of investment frauds involving the purported use of artificial intelligence (AI) and other emerging technologies. ***Individual investors should know that bad actors are using the growing popularity and complexity of AI to lure victims into scams.***

Here are a few things to look out for to help you keep your money safe from these frauds:

Unregistered/Unlicensed Investment Platforms Claiming to Use AI

First and foremost, investors should remember that federal, provincial, and state securities laws generally require securities firms, professionals, exchanges, and other investment platforms to be registered. A promoter's lack of registration status should be taken as a prompt to do additional investigation before you invest any money. Numerous unregistered and unlicensed online investment platforms, as well as unlicensed and unregistered individuals and firms, are promoting AI trading systems that make unrealistic claims like, "*Our proprietary AI trading system can't lose!*" or "*Use AI to Pick Guaranteed Stock Winners!*" In reality, these scammers are running investment schemes that seek to leverage the popularity of AI. Be wary of claims — even from registered firms and professionals — that AI can *guarantee* amazing investment returns.

Investment claims that sound too good to be true usually are. And remember: Fraudsters typically deploy multiple, sophisticated persuasion techniques (https://www.finra.org/investors/protect-your-money/avoid-fraud) to make their pitches seem real. Claims of high guaranteed investment returns with little or no risk are classic warning signs of fraud.

Steps you can take to protect yourself:

- When trading securities or seeking investment advice, make sure you are working with a registered investment professional and on a registered exchange or other

type of registered investment platform. You can use the free Check Out Your Investment Professional (https://www.investor.gov/introduction-investing/getting-started/working-investment-professional/check-out-your-investment) search tool on Investor.gov to: (1) confirm registration status of investment professionals; and (2) check for any disciplinary history. In Canada, you can use the Canadian Securities Administrators' National Registration Search (https://info.securities-administrators.ca/nrsmobile/nrssearch.aspx) . To help research the validity of exchanges and other investment platforms, start by checking to see if they are on the SEC's list of national securities exchanges (https://www.investor.gov/introduction-investing/investing-basics/glossary/national-securities-exchange) or registered alternative trading systems (https://www.investor.gov/introduction-investing/investing-basics/glossary/alternative-trading-systems-atss) .

- You can also contact your state or provincial securities regulator. If you are unsure who that is, please see NASAA's "Contact Your Regulator (https://www.nasaa.org/contact-your-regulator/) " web page.

- Check out the SEC's educational videos, the HoweyTrade Investment Program (https://www.investor.gov/additional-resources/spotlight/howeytrade) , for tips on spotting fake investment platforms and trading programs generally.

Investing in Companies Involved in AI

It might seem exciting to invest in AI-focused companies that claim they are leaders in developing or using this emerging technology. Companies might make claims about how AI will affect their business operations and drive profitability. While rapid technological change can create investment opportunities, bad actors often use the hype around new technological developments, like AI or crypto assets, to lure investors into schemes. These bad actors might use catchy AI-related buzzwords and make claims that their companies or business strategies guarantee huge gains. Red flags of these types of scams include high-pressure sales tactics by unregistered individuals, promises of quick profits, or claims of guaranteed returns with little or no risk.

False claims about a public company's products and services relating to AI also might be part of a pump-and-dump (https://www.finra.org/investors/insights/anatomy-pump-and-dump) scheme where fraudsters profit at the expense of unsuspecting investors. In a pump-and-dump scheme, promoters try to "pump" up, or increase, the stock price of a company by spreading positive, but false, information, usually online through ads, fake news coverage, or social media promotions. These rumors often cause many investors to buy the stock, driving the price of the stock up. Then the promoters or others working with them "dump" their own shares before the hype ends. Typically, after the promoters profit from their sales, the stock price drops, and the remaining investors lose most of their money.

Microcap stocks, some of which are penny stocks or nano cap stocks, may be particularly vulnerable to investment schemes, including scams involving AI-related claims. Microcap stocks are low-priced stocks issued by the smallest of companies. There is often limited publicly available information about microcap companies' management, products, services, and finances. This can make it easier for fraudsters to spread false information about a company and profit at the expense of unsuspecting investors.

> Celebrity Endorsements. It is never a good idea to make an investment decision just because someone famous says a product or service is a good investment. Increasing numbers of investors are using social media to research opportunities and connect with others. *Influencers have taken notice, and social media has become more saturated with financial content than ever before, leading to the rise of the financial influencer or "finfluencer."* While celebrities and other well-known personalities might be very good at what they do in their respective professions, a celebrity endorsement does not mean that an investment is legitimate or that it is appropriate for all investors. Ask yourself: "Why is this person endorsing this investment, and does it fit in my financial plan?"

Steps you can take to protect yourself:

- Investors should carefully review the disclosures that companies are making and assess their promotional campaigns. If the company appears focused more on attracting investors through promotions than on developing its business, you might want to compare it to other companies working on similar AI products or services to assess the risks.

- Use the SEC's EDGAR database (https://www.investor.gov/introduction-investing/getting-started/researching-investments/using-edgar-research-investments) to access disclosures for public companies.

- See NASAA's Investor Alert, "Financial Advice Via Social Media – the Rise of the 'Finfluencer' (https://www.nasaa.org/64940/informed-investor-advisory-finfluencers/?qoid=investor-advisories) ".

AI-Enabled Technology Used to Scam Investors, Including "Deepfake" Video and Audio

Fraudsters can use AI technology to clone voices, alter images, and even create fake videos to spread false or misleading information. AI technology might be used to impersonate a family member or friend, with the intent to convince an investor to transfer money or securities out of an investment account. For example, some scam artists are using AI-generated audio — also known as "deepfake" audio — to try to lure

older investors into thinking a grandchild is in financial distress and need of money. Scammers might use deepfake videos to imitate the CEO of a company announcing false news in an attempt to manipulate the price of a stock, or might use AI technology to produce realistic looking websites or marketing materials to promote fake investments or fraudulent schemes. In addition, we regularly see bad actors impersonating SEC staff and other government officials.

Steps you can take to protect yourself:

- Verify that a communication from a federal, state, or provincial agency or other regulatory body is genuine before responding by contacting their office directly using the contact information on their website. We have links below to the SEC, NASAA members, and FINRA. For other agencies, be sure to independently search for contact information rather than clicking on links or calling numbers in the communication you receive.

- Fraudsters might also impersonate legitimate investment professionals — and many use phony personal websites (https://www.finra.org/investors/insights/broker-imposter-scams) to bolster their credibility. In the United States, verify that you are communicating with the actual investment professional and not an imposter by comparing the phone number or website for the firm as disclosed in the firm's Client Relationship Summary (Form CRS (https://www.investor.gov/CRS)).

- Be on the lookout for scammers using AI technology to impersonate family or friends. AI-generated tools might be able to access personal information about you online or on social media, so be wary of any unsolicited communication asking you to invest your money — even if it sounds like it was written just for you. Fraudsters pretending to be friends or family members in distress seek to stir up your emotions. No matter how urgent the plea — especially when accompanied by directives such as "don't tell my ___ [parents/spouse/roommates]" — take time to independently verify the situation before agreeing to transfer money or securities out of your investment account. Consider creating a password or phrase for family members to verify their identity in case of an emergency.

Do Not Rely Solely on AI-Generated Information in Making Investment Decisions.

Be cautious about using AI-generated information to make investment decisions or to attempt to predict changes in the stock market's direction or in the price of a security. AI-generated information might rely on data that is inaccurate, incomplete, or misleading. For example, it could be based on false or outdated information about financial, political, or other news events. Or it could draw from false or misleading information that was disseminated to try to manipulate a stock's price (either positively

or negatively). Even when based on accurate input, information resulting from AI can be faulty, or even completely made up.

Depending on how it is presented, AI-generated information — particularly conversations with chatbots — could lead you to make misinformed, emotionally-driven or impulsive investment decisions, which can be a risky way to approach investing.

Steps you can take to protect yourself:

- Be aware that AI can generate and spread false or inaccurate information. Confirm the authenticity of underlying sources and review multiple sources of information before making investment decisions.

- Check in with a registered investment professional and ask questions.

- Learn more tips on investing wisely and avoiding fraud at Investor.gov (https://www.investor.gov/) , nasaa.org (https://www.nasaa.org/investor-education/) , or finra.org (https://www.finra.org/investors/) .

- Report possible securities fraud to the SEC online at www.sec.gov/tcr (http://www.sec.gov/tcr) , to FINRA using its File a Complaint form (https://www.finra.org/investors/need-help/file-a-complaint) , or to your local state or provincial regulator (https://www.nasaa.org/contact-your-regulator/) .

Additional Information

Investor Alert: Social Media and Investment Fraud (https://www.investor.gov/introduction-investing/general-resources/news-alerts/alerts-bulletins/investor-alerts/social-media)

Investor Alert: Identity Theft, Data Breaches and Your Investment Accounts (https://www.investor.gov/introduction-investing/general-resources/news-alerts/alerts-bulletins/investor-alerts/investor-64)

Investor Bulletin: Performance Claims (https://www.investor.gov/introduction-investing/general-resources/news-alerts/alerts-bulletins/investor-bulletins-47)

Investor Alert: Exercise Caution with Crypto Asset Securities (https://www.investor.gov/introduction-investing/general-resources/news-alerts/alerts-bulletins/investor-bulletins/crypto-asset-securities)

Call OIEA at 1-800-732-0330, ask a question using this online form (https://www.sec.gov/oiea/QuestionsAndComments.html) , or email us at Help@SEC.gov (mailto:Help@SEC.gov) .

Contact NASAA through its contact form (https://www.nasaa.org/contact-us/contact-form/) , or call 202-737-0900. Visit nasaa.org (https://www.nasaa.org/) for more investor education information and news.

Call FINRA toll-free at 844-57-HELPS (844-574-3577), and visit FINRA.org/investors (http://www.finra.org/investors) to learn more about investing.

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