



Investor Alert:

Virtual Currency Risks

“Virtual” or “crypto” currencies are subject to speculative bubbles that produce wild price swings, making them among the most high-risk investments in the market. That is true even for “legitimate” virtual assets purchased from more established financial institutions.

In addition, heavy media attention, driven by a recent spike in virtual currency prices, has increased the number of bad actors using virtual currencies to facilitate fraudulent activity, including investment scams designed to steal your money.

The Office of the Attorney General recommends extreme caution when investing in virtual currencies.

Virtual Currencies are Risky Investments Subject to Wild Price Swings

Virtual currency is a high-risk and unstable investment. Even if you purchase a well-established virtual currency from a more reputable trading platform, the price could crash in an instant.

To understand why virtual currencies are subject to wild price swings and extreme risk, investors should understand some of the ways in which **trading in virtual currencies is NOT like trading in traditional stocks, bonds, and other assets:**

- **Highly Unpredictable Value:** Virtual currencies are easy to create and spread in the market quickly. Their underlying value is highly subjective and unpredictable. As a result, prices can swing wildly upward and crash without warning or any change in the real economy.
- **Difficult to Cash Out Investments:** Virtual currencies are not traded on traditional exchanges by established financial institutions. If you purchase one of these virtual currencies, you might not be able to find a buyer for it when you want to sell.
- **Conflicts of Interest:** Many operators of virtual currency trading platforms are themselves heavily invested in virtual currencies, and trade on their own platforms without oversight. The financial interests of these operators may conflict with your interests.
- **Increased Risk of Market Manipulation:** Many virtual currency trading platforms have few, if any, rules about insider trading or other protections available to traders on traditional stock exchanges. In addition, many trading platform operators are not appropriately monitoring for market manipulation or other harmful trading activity.
- **Limited Protection from Fraud:** There are no central or comprehensively-regulated exchanges, like the New York Stock Exchange or Nasdaq, for virtual currencies. Virtual currency trading platforms operate from various places around the world, many of which are inaccessible to American law enforcement. Most platforms are subject to little or no oversight. If you are the victim of fraud, you may have no recourse in the United States.

Further, given the ability to hide your true identity when trading virtual currency, criminals use them in their schemes, including for money laundering, human trafficking, blackmail, illicit financing, and tax evasion. Trading in virtual currencies means that you could be trading with those types of people. For more information on these risks, investors should consult the [United States Department of Justice Cryptocurrency Enforcement Framework](#).

Investors Beware: Criminals Target People Trying to Invest in Virtual Currency

In addition to the risks that are present even with “legitimate” virtual currencies, law enforcement agencies are seeing more and more abusive and unsafe activity in connection with investments in virtual assets.

Whenever prices of an asset spike, which has been the case over the last several months for some virtual currencies, there is an increased risk that criminals will take advantage of speculative mania to commit fraud.

The recent dramatic run-up in price of virtual currencies (especially bitcoin) promises the lure of unrealistic returns and has opened the door for con artists and cheats. These scammers prey on your lack of experience with or uncertainty about this complex market. They use deceptive tactics to gain your confidence with false promises of high or even guaranteed returns.

History also shows that unscrupulous players use hard times to trick ordinary investors. The ongoing tragedy of the COVID-19 public health crisis coupled with high rates of unemployment and individuals’ long-term economic anxiety, raises the risk and prevalence of fraud.

You must be vigilant. Look out not just for yourself, but also for your family members and those in your community — especially the elderly, whose retirement savings are often targeted by cheats.

To help you perform a reality check before you invest, here are the **FIVE WARNING SIGNS** of investment frauds, all of which apply equally to frauds involving virtual currencies:

1. It sounds too good to be true.

When something seems just too good to be true, it usually is. Watch out for “guaranteed” or unrealistically high returns, or for investments where you are told there is little or no risk. That goes double for virtual currencies — they are HIGHLY volatile, and you could lose your entire investment, even when using a legitimate trading platform. Remember, future returns are not guaranteed, or even likely, based on past performance.

2. Aggressive sales pitches.

Scammers and even “legitimate” but unscrupulous brokers use time pressure and secrecy. Beware if you are told that an offer is about to “expire” or that it is “limited,” or that you should not tell anyone else because it is “exclusive.” If someone asks for a check “today” or you will “lose out” then something is probably very wrong.

For seniors, if someone tells you not to inform your spouse or your children about your investment, report them immediately to our office.

3. The Person Cannot (or will not) explain the investment in terms you can understand.

It is a warning sign if the person selling the investment uses confusing terminology that is hard to follow. Watch out especially for stories about “unique” or “complex” or “unusual” investments. And even when an investment is legitimate, investments can be “illiquid,” meaning that once you buy, it is hard or impossible to resell (and therefore get any money back).

Ask yourself: if you need to get your money out quickly, how likely is it that there will genuinely be a real-life buyer? This goes double for seniors or those who are retired, who may need to sell assets at a regular and predictable pace (and price) in order to pay for expenses.

4. “Send the money directly to me.”

If you are asked to send money directly to the person you are dealing with — rather than a firm with a verifiable business address — it is a warning sign. If you are asked to send physical cash, use a debit card, or use an ATM, it is an even bigger warning sign. Being asked to send money via one of these three methods for virtual currency investments is one of the easiest ways to get your money stolen and should serve as a warning sign for customers.

5. It’s hard to verify who, exactly, you are dealing with.

You should **ALWAYS** check on a broker or advisor before trusting them with your money. We have also seen problems with investors trusting their money to so-called brokers or advisors who don’t have a verifiable physical address, or who correspond only via email or a website. Make sure you can identify who you are dealing with.

Additional Resources

In 2018, the Office of the Attorney General released its “[Virtual Markets Integrity Initiative](#)” report, a more detailed overview of the virtual currency markets in New York and around the world. The report gives basic, but important information about how virtual currencies trade, and the risks investors face when they buy and sell, even on “legitimate” trading platforms.

Report It

We are also on the lookout and here to protect you. If you are worried that you or someone you love has been a victim of investment fraud, [contact the Office of the Attorney General's Investor Protection Bureau immediately.](#)