

Investor Alert: Artificial Intelligence (AI) and Investment Fraud

The growing popularity and complexity of AI is being used to lure investors into scams. Look out for these red flags to help keep your money safe:

Unregistered/Unlicensed Investment Platforms Claiming to Use AI

Investors should remember that federal and state securities laws generally require securities firms, professionals, exchanges, and other investment platforms to be registered. If a promoter lacks registration status, investigate further before investing 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. **Claims of high, guaranteed investment returns with little or no risk are classic warning signs of fraud.**

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](#) scheme where fraudsters manipulate stock prices and 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 small 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. This includes AI related promotions. 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?"

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 scammers 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 in 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. They may even impersonate regulators and other government officials.

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. 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 to misinformed, emotionally-driven or impulsive investment decisions, all risky ways to approach investing.

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](#) search tool on Investor.gov to: (1) confirm registration status of investment professionals; and (2) check for any disciplinary history. 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](#) or registered [alternative trading systems](#).
- 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.
- Verify that a communication from a federal or state agency or other regulatory body is genuine before responding by contacting their office directly using the contact information on their website.

- Fraudsters might also impersonate legitimate investment professionals—and many use [fake personal websites](#) 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](#)).
- Scammers may use 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, 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.
- 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.
- Report possible securities fraud to the SEC online at www.sec.gov/tcr, to FINRA using its [File a Complaint form](#), or to your [local state securities regulator](#).
- Use the SEC’s [EDGAR database](#) to access disclosures for public companies.

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