

FINANCIAL SECURITY

Nothing Micro About Microcap Fraud

(NAPS)—Major events and times of uncertainty are often exploited to perpetrate fraud, with microcap securities remaining a primary tool for such schemes. The COVID-19 pandemic is no exception.

Since news of the virus first broke, the U.S. Securities and Exchange Commission has suspended trading by several dozen issuers for potentially misleading COVID-19-related claims, many involving microcap securities.

Microcaps Explained

Microcap securities are low-priced securities issued by small companies with low market capitalization. While these securities can represent real businesses, bad actors have a history of engaging in price manipulation and other fraud in the microcap sector. However, even in the absence of fraud, microcap securities can present higher risks than larger companies. Microcap companies may not file reports with the SEC, making it difficult for investors to get facts about the company's management, products, services, and finances. Additionally, microcap securities have historically been more volatile and often less liquid than stock of larger companies—all reasons to invest with extreme care and only with money you can afford to lose.

Microcap securities are often the subject of pump-and-dump schemes, which involve touting stocks, products and other investments with the promise of huge gains and returns. However, as the price peaks, scammers sell their shares and pocket profits, resulting in the artificially inflated stock price dropping, leaving remaining investors with losses or worthless stock.

What to Watch For

To help protect your assets, stay alert to warning signs of potential microcap investment scams:

- Unsolicited calls, e-mails or text messages touting investments;
- Increased promotion of a microcap company or its stock, often focusing on a stock's upside, with little to no support or mention of downside risk;
- Unverifiable or questionable claims regarding partnerships, joint ventures or financing agreements;
- Unconfirmable information about a public company, including evidence of its business activities;



Don't despair: With the right precautions, you can protect yourself from microcap fraud.

- Abrupt or frequent changes to business model, issuer name or ticker symbol, giving the appearance of a connection to the latest news; and
- Recent reorganization or recapitalization of the company, such as through a reverse merger or association with companies currently or previously classified as a shell company, with no or limited operations or assets.

While the existence of these warning signs does not automatically mean an investment is a scam, be cautious. Hints or promises of high returns, with little or no risk, are also warning signs of fraud. Every investment carries some degree of risk, and the potential for greater returns almost always comes with greater risk.

Fight Fraud

To avoid fraud, follow these three tips:

1. Never rely solely on unsolicited information promoting a stock. Use Financial Industry Regulatory Authority (FINRA) BrokerCheck® to verify registration status and information on investment professionals and investment firms.

2. Check the SEC's EDGAR database to find out if the company files with the SEC.

3. Be extremely wary of buying investment products or taking investment advice from unlicensed professionals.

If you hear exaggerated or misleading claims, or suspect you or someone you know has been subjected to a scam, report your concerns to FINRA, the SEC and state securities regulator.

Learn More

For further information on protecting your money or to file a tip or complaint, visit www.FINRA.org/LearnMore.