



Customer Advisory: Be on Alert for Frauds Seeking to Profit from Market Volatility Related to COVID-19

The Commodity Futures Trading Commission advises the public to be on alert for frauds seeking to profit from recent market volatility related to COVID-19.

Commodity futures and options do allow traders to hedge against market risk. Historically, gold futures and other precious metals have seen short-term increases in times of economic uncertainty. Over-the-counter digital asset or foreign exchange (forex) traders may be able to identify pairings that go up in value when other markets are in decline. However, there is no such thing as a risk-free strategy, and no person or program can guarantee future results. Similarly, all risks, fees, and expenses should be disclosed upfront. And, if you are going to give money or assets to a person or firm to trade futures, options, forex, or leveraged commodity contracts for you, be sure they are registered with the CFTC.

What to Consider

Fraudsters commonly use major news events, such as the spread of COVID-19, to add credibility to their cons or manipulate emotions. You can better protect yourself by learning to recognize common mental biases that everyone has, as well as common fraud tactics—and by taking a few preventative steps. Reporting frauds you encounter can also help protect others during these challenging times.

See Past the Mental Blind Spots

Trading and investing come with a number of biases and emotions that influence decision making. Recent market losses due to the impact of COVID-19 may motivate some traders to recoup losses, while others may seek safety. Fraudsters know this and design their pitches to appeal to these instincts. Examples include claims of special insider knowledge or insights, promises of unusually large returns, guarantees, surefire trading signals, or low costs to open accounts. And these offers are timed to hit your inbox or social media feed when you are most interested.

The common advice is “if it looks too good to be true, it probably is.” But frauds are often successful because they do look good. The problem, even for experienced traders, is that when biases get in the way, they make it difficult to recognize what’s *too good*. Numerous studies have revealed that those who are more financially literate and experienced are more likely to be victimized by investment fraud. It could be correlation: Those who are more financially literate are more likely to trade and therefore more likely to encounter fraud. Or, as some researchers believe, overconfidence could cause some traders to skip important due diligence.

Do a Check

One of the best ways to protect yourself from fraud is to check to first see if the person or company selling you advice or asking for your money is or has been registered with the CFTC. Registration is no guarantee against fraud, but it does mean that registrants have passed rigorous background checks and proficiency tests, and firms meet certain financial and customer protection requirements.

Visit cftc.gov/check for information on:

- Advisors, brokers, commodity pool operators, retail foreign exchange dealers.
- Information about how to check out virtual currency trading platforms.
- Links to other regulators that offer similar checks.



Other common cognitive biases that could lead traders to fall for fraudulent schemes include:

- **Confirmation bias.** This is the tendency to give more credence to information we agree with and disregard warnings or information that disagree with our view. For example, if you believe a particular product is a safe investment, you are more likely to believe pitches that support that idea, and downplay discussions about the product's risks.
- **Hot hand bias.** This is the belief that recent past success will lead to future successes, such as a gambler who throws a number of winning dice rolls. It leads us to disregard probabilities and randomness in the markets. Bogus foreign-exchange or binary-option signal schemes, or overpriced training programs often play off this bias.
- **Sunk cost bias.** This is the willingness to put in more money, rather than cut losses, because we believe things will turn around or because we've invested much already. Recently, the CFTC has received hundreds fraud complaints involving online digital-asset or forex "brokers" who promise to deliver huge returns in a matter of days. After depositing a few hundred dollars of cryptocurrency, the traders are fed a number of fake statements showing huge returns. When the traders try to cash out, they're told they must first pay a fee to get their earnings. They pay the fee, then are told they need to pay a tax, then more fees, and so forth. Never send more money to get what is yours.

Common Fraud Tactics

While the stories surrounding frauds can change from one event to the next, the tactics used are fairly common. They include:

- **Oversized returns.** This is the "wow factor." The promise of big money is often paired with guarantees or promises of little or no risk.
- **Urgency.** Fraudsters commonly push traders to act now, before market conditions change. Fear of missing out is a strong motivator, which is why this tactic is used so often. Pressure to act quickly should signal you to tap the brakes. Verify what you're told. Get it in writing. And, get opinions from others you trust.
- **Credibility building.** Would you give your money to just anyone? No. That's why fraudsters generally use vague, unverifiable credentials such as "hedge fund genius," "trading legend," or "advisor to the biggest firms on Wall Street." Check to see if the individual is registered with the CFTC or other regulators at cftc.gov/check.
- **Testimonials.** Web platforms prominently display customer reviews. Social media pages show screen shots of happy customer statements showing hefty returns. These are also intended to gain your confidence by confirming other "real" people are doing this and succeeding, so it must be okay.
- **Reciprocity.** Scams commonly offer a free gift in exchange for an email address. It could be a free demo, a free course or book, a few tokens, or other promises. However, once the fraudsters have the email address they go to work. The offers and asks get bigger and more frequent—until victims are bled dry.

If you believe you've been a victim of fraud, submit a tip at cftc.gov/complaint.