

## **COMMISSION ADVISORY**

### ***Beware of Commodity Investment Opportunities Promising Large Profits and Little Risk, Even When Offered By Persons You Know***

*Always Act with Caution Whether You Know the Trader or Not*

The Commodity Futures Trading Commission (“CFTC”) is warning the public about fraudulent schemes often involving unregistered commodity pool operators – persons or entities who raise funds and “pool” them together to trade commodity futures and options. These pool operators often solicit investments from friends, neighbors, co-workers and fellow religious or social group members by using their reputations in the community or their personal relationships. In many cases, however, the investment schemes turn out to be fraudulent, and investors lose their entire investment, in many cases as a result of outright theft.

The CFTC is the federal agency that regulates the trading of commodity futures and options contracts in the United States. In recent years, the CFTC has brought numerous enforcement actions against individuals and firms, often unregistered, that offered investments in so-called commodity pools where the funds invested were misappropriated or misused – and often spent on improper business or personal expenses – and where the operators advertised and solicited investors based on false claims of high profit and minimal risk.

The CFTC urges you to be skeptical when you are told that someone’s services can earn you large profits with minimal risk – even when a friend or relative recommends the trading services. Investors lose millions of dollars every year in phony commodity pools, including fictitious “hedge funds” that trade commodity futures and options. Before investing, you should research the registration status, business background and disciplinary history of the pool operator, and request copies of the account statements that registered trading firms provide to the pool operator. Act quickly to report any suspicions you have about pool operators to the CFTC.

#### **Fraudulent Sales Pitches**

Pool operators often use word of mouth or e-mail among friends and relatives, religious or ethnic affiliations, community or social organizations, as well as other networks of acquaintances, to convince members of the public that they can make money quickly by investing in commodity pools. The CFTC even found one instance when a person who was operating a commodity pool fraudulently solicited investments from members of his cancer support group. In the CFTC’s

experience, the promotional activities of these pool operators often promise quick riches – such as the ability to double or triple the investor’s initial investment in months – with low risk.

Be skeptical even when you know the person soliciting your investment. Treat any information you are given in the same fashion that you would handle information provided by a stranger – ask questions and investigate what you are being told. If you cannot get satisfactory answers or are uncertain about any assurances you receive, play it safe: don't invest, or invest only an amount that you can well afford to lose, especially where the pool operator claims to have special trading expertise, a unique understanding of relevant market trends, or a record of profitable trading. Such claims by unregistered pool operators often turn out to be false.

### **Fraudulent Activities – “Ponzi” schemes**

Individuals and firms that fraudulently solicit funds from investors for commodity futures and options trading are usually not registered with the CFTC. They may operate “Ponzi” schemes in which little or none of the money sent in by investors is ever invested as promised – in the commodity markets. Instead, the operator of the scam steals the funds, and creates the illusion of a successful business by using some of the money put in by later investors to pay phony “profits” to earlier investors. This tactic makes it appear to investors that the investment is actually making money, which in turn attracts additional investors. Be wary of such payouts if you do not fully understand the source of any purported profits.

The people who operate these scams often fail to send their investors account statements. Sometimes, though, the pool operator sends phony account statements indicating that trading is taking place and that the investor has made “profits” in the account, even when it is not true.

These schemes are usually discovered when insufficient funds remain to pay investors who wish to withdraw their investments. Often, investors who come late to the scheme or who have left their funds “invested” for significant periods wind up with nothing when the scam is uncovered. It is often difficult, impossible or expensive for investors to recover funds they have lost in these schemes.

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### **Futures Contracts Are Volatile And Risky**

Even when traded legitimately, futures and options contracts are volatile and risky. Persons who are considering committing their funds to trading commodity futures or options should educate themselves about futures and options and realize that they may lose large sums of money. The following checklist should help consumers in deciding whether to invest with a CPO:

- **Can you lose your entire investment without a change in your lifestyle?** If not, then don't invest.
- **Do the promised trading results *sound too good to be true*?** If so, think carefully and do more research before investing, or don't invest at all.

### **Warning Signs**

If you are solicited to purchase commodity futures or options – by a friend or anyone else – watch for the warning signs listed below:

- **Avoid** trading through any person, **even someone known to you or recommended by friends**, based upon the prediction or guarantee of large profits with little or no financial risk.
- **Be cautious** about investment opportunities, even when offered by persons you know. **Always take the same precautions, whether you know the trader or not.**

### **Before You Invest**

- **Find out if the person or company is registered as a commodity pool operator or has any commodity industry disciplinary history** by contacting the National Futures Association ("NFA") ([www.nfa.futures.org/basic](http://www.nfa.futures.org/basic)). You may also contact NFA by calling the following telephone numbers: 800-621-3570 or 800-676-4NFA. Please note that certain pool operators are not required to register, including operators of small pools with 15 or fewer investors whose total trading capital equals \$200,000 or less, or pool operators who receive no compensation. These small pool operators are required to notify investors, the CFTC and NFA that they are operating without registration.
- **Find out if the individual or company has any disciplinary history with other authorities**, including:
  - your state securities commissioner ([www.nasaa.org](http://www.nasaa.org)),
  - your state Attorney General's consumer protection bureau ([www.naaq.org/aq/full\\_ag\\_table.cfm](http://www.naaq.org/aq/full_ag_table.cfm)),
  - and
  - the Better Business Bureau ([www.bbb.com](http://www.bbb.com)).

**Insist on seeing the pool's disclosure documents and performance history. If you do decide to invest, ask the pool operator to provide you with account statements reflecting the pool's trading that are provided to the pool operator by the registered firms through which the actual trading is being done.**

- **Learn all possible information about fees and commissions charged**, and the basis for each of these charges. Compare the commissions and fees to those offered by registered pool operators.
- **If in doubt, don't invest.** If you can't get solid information about the pool operator's trading practices, you may not want to risk your money.

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### **For More Information and Contacts**

- For other consumer advisories concerning possible fraudulent activity in the commodity futures and options industry, click on the following Consumer Alerts ([www.cftc.gov/cftc/cftccustomer.htm#advisory](http://www.cftc.gov/cftc/cftccustomer.htm#advisory)).
- The CFTC's website also offers general information about trading in the commodity futures and options markets. For example, the CFTC offers brochures on-line, such as
  - "Futures and Options What You Should Know Before You Trade" ([www.cftc.gov/opa/brochures/opafutures.htm](http://www.cftc.gov/opa/brochures/opafutures.htm)), and
  - "Glossary: The Language of the Futures Industry" ([www.cftc.gov/opa/brochures/opaglossary.htm](http://www.cftc.gov/opa/brochures/opaglossary.htm)).

To obtain this and other information, go to the CFTC site map at ([www.cftc.gov/cftc/cftcmap.htm](http://www.cftc.gov/cftc/cftcmap.htm)).

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Questions concerning this Advisory may be addressed to the CFTC's Office of Public Affairs at (202) 418-5080, or write to:

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