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Marijuana Investments and Fraud Featured in SEC Investor Alert

September 13, 2018 – Governance & Compliance Insider
by David Marx

The marijuana industry is attracting considerable interest from investors, and unfortunately, scam artists trying to take advantage of those investors. In response to these concerns, on September 5, 2018, the Securities and Exchange Commission's Office of Investor Education and Advocacy (OIEA) and Retail Strategy Task Force issued an alert to investors warning them about investment schemes involving marijuana-related companies.

According to the release, the OIEA has received multiple complaints about marijuana-related businesses and the SEC is pursuing enforcement actions against some of these businesses. The release includes warnings to investors regarding investment fraud and market manipulation.

The release warns investors to be wary of (1) unlicensed and unregistered sellers, (2) offers guarantying returns with little to no risk, and (3) unsolicited offers. The release also warns investors that fraud may occur through scam artists manipulating stock prices, particularly for microcap stocks. The release recommends reviewing the registration or license status of any one recommending or selling securities. Investors can utilize the free search tool on investor.gov (https://www.investor.gov/) to verify the registration status of such person.

Warning signs relating to microcap marijuana-related companies include whether the SEC has recently suspended trading of the company's stock; whether the company has changed its name, industry, or business plan multiple times; and press releases reporting information that is difficult to believe.

The release also reminded investors that in January 2018, the U.S. Department of Justice issued a marijuana enforcement memorandum, and that if an investor is considering investing in a marijuana-related company, they need to understand that such company may be criminally prosecuted under federal law, and that the prosecution may impact the value of such investment.

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In conclusion, the SEC is advising investors to take extra precautions in performing due diligence and understanding risks before investing in marijuana-related businesses.