

Are You An Informed Investor?

Investment Scams in the Metaverse: How to Protect Yourself from Losing Real Money in the Virtual World

For much of human existence, story tellers, science fiction writers, film makers, and technologists have fantasized about what virtual worlds might look like in the future. With advances in technology including more enhanced digital experiences that blur the line between the physical and digital worlds, the future has arrived in the form of the “metaverse.” A series of virtual worlds, the metaverse is the latest technology that for some people offers new ways to interact and collaborate, while others see it as new means to perpetrate financial scams and investment fraud. This alert highlights some current metaverse investment scams and discusses ways that investors can protect themselves.

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What is the Metaverse?

The metaverse is a term that generally refers to online virtual worlds that stand alone or are interconnected. These virtual worlds provide users with an immersive experience by utilizing virtual or augmented reality technologies. In metaverse virtual worlds, users can experience many of the things that people do in the physical world through digital representations of themselves, commonly referred to as avatars. An avatar can take on any appearance or personal attribute their real-world creator might desire (or can purchase). An avatar can even be “non-human” in appearance. The user can then send their avatar into the virtual world to explore, socialize, play, shop, work, and even invest.

The metaverse is increasingly viewed as the future of the internet. Large, well-known technology companies are already committed to developing the metaverse, so it’s likely to be something that people will be hearing about for many years to come. That said, there is no guarantee that the metaverse will evolve to the scale of today’s internet due to current technological limitations and other factors. And, as with every previous advance in technology or innovation, there will always be those who will seek to exploit the hype around the innovation to profit illegally from others. It is, therefore, important to separate fact from fiction when considering a metaverse investment pitch.

Investing and the Metaverse

What is novel about metaverse investing is that it is happening in both the real world and the virtual world. Metaverse-focused companies are raising money from real-world investors, while avatars are making investments inside metaverse virtual worlds. In both situations, however, real assets can be put at risk and transferred.

Companies building software, hardware, virtual networks and products for the metaverse are receiving money from investors in the traditional way – investors buy shares in or lend money to these companies expecting a return on their investment.

Inside the metaverse, there are numerous investment opportunities that are growing by the day. For example, metaverse users are investing in virtual real estate as well as nonfungible tokens (NFTs). There are also opportunities to invest in businesses operating inside of the metaverse.

Metaverse Scams are Here

Wherever there is excitement around a new industry or technology, fraudsters are bound to flock. The metaverse is no different. The lack of regulation in the metaverse and the ability to operate from anywhere in the world make it easy for fraudsters to hide their schemes. In addition, security lapses on developing platforms and the ability to build fake metaverse experiences can lead to hacks, fraud, or the theft of users’ funds.

Real-world metaverse scams are already here and can include illegal stock promotions, pump-and-dump campaigns, or Ponzi schemes with scammers offering investments in metaverse-focused companies or technologies. Scams inside metaverse virtual worlds can be similar to real-world scams, but they are likely to include a virtual component such as crypto assets or virtual real estate.

Regulators are taking notice. In May 2022, five state securities regulators filed enforcement actions against an organization with possible ties to Russia for allegedly promoting fraudulent metaverse investments to U. S. residents. The scheme involved offering NFTs to investors that claimed to convey ownership interest in a metaverse casino and the rights to share profits in the casino. Investors would purportedly profit when patrons, acting as avatars, paid to play virtual craps, blackjack and other games. Regulators further alleged the club lied about having a partnership with the physical Flamingo Casino in Las Vegas and failed to back claims that it was buying digital land from rapper and TV personality, Snoop Dogg.

Protect Yourself Against Metaverse Scams

New metaverse-focused scams and frauds will likely develop, so it is important to stay informed if you are considering investing in this emerging industry. You should also diligently guard your personal information,

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passwords, and financial information in the metaverse. Here are some simple tips on how to protect yourself.

Most investment offerings are regulated. In most instances, any person or entity who offers or promotes some type of venture as an investment opportunity – whether in the real world or a virtual one – must be registered with one or more securities regulators. The same is true for most investments themselves. If the person or the entity is not registered, there is a real risk that the solicitation is fraudulent, and the investment is a scam. The easiest way to protect yourself is to contact the securities regulator in your jurisdiction¹ to verify that the investment and the person/entity offering it are registered. Remember, though, that registration does not necessarily mean the investment is a good one or right for you.

Don't fall for the hype! Look beyond the flashy online marketing. Fraudsters use popular and emerging social networks to push out hundreds, even thousands, of posts to promote illegal investment offers. They may also create videos that will circulate widely on various platforms to explain how and why the investment is the next big thing. Even if a video, post, or article receives a lot of views, likes, or comments, it does not mean the investment offer is real or worth investing in.

Avoid discussing investments with avatars. Fraudsters will chat with you about an investment offer if you let them. In the metaverse, avatars add another layer of complexity, because you may feel some commonality with the way a person has chosen to portray or represent themselves. If someone brings up investing, asks you for money, or discusses finances, it's best to move on to a different topic. If they are persistent, it's probably a good idea to avoid the person, and their avatar, altogether.

Don't share personal or account information. The metaverse is designed to encourage immersive, one-on-one interaction with others through avatars and virtual spaces. Such interactions may build trust and users may divulge their personal financial information or passwords, thinking that the individual they are interacting with is a trustworthy friend. Scammers are good at building trust – both online and in the real world.

Steer clear of metaverse crypto or NFT investment offers. Crypto asset scams have dominated the headlines for the past few years. Fraudsters have stolen billions from investors through various means, including fake NFT and cryptocurrency offers. Rug pulls, also known as pump and dumps, are a common scam. This happens when fraudsters feverishly promote an NFT or crypto project, causing the perceived value of the asset or project to rise, and then abandon it, taking investors' money and leaving them with a now-worthless digital asset.

Be wary of fake news and online celebrity gossip. Scammers write fake online articles and social media posts that create buzz by falsely stating a celebrity or public figure is involved in a technology investment. They are playing on the fact that this individual is known to invest or have an interest in online trends or financial innovations, like NFTs or crypto. These posts and articles are often part of an online misinformation campaign aimed at attracting investors.

Verify information by making direct real-world contact. Fraudsters may use the name of a real-world business to legitimize a fake investment or financial service offered in the metaverse. Many companies are still evaluating whether to operate in the metaverse. It is best, therefore, to verify metaverse investment promotions by making direct contact with a representative of the real-world business or brand outside of the virtual world where you encountered the offer.

Avoiding investment advice in the metaverse. Firms and individuals that provide investment advisory services in the U.S. are typically registered with the Securities and Exchange Commission (SEC) or one or more state securities regulators. In Canada, firms and individuals must be registered with the securities regulators in the provinces and territories where they operate. Check with your state securities regulator, the SEC's [Investment Adviser Public Disclosure](#) database, or FINRA's [BrokerCheck](#) to verify the registration of status of individuals or firms. In Canada, use the CSA's [National Registration Search](#).

Look for investment fraud red flags. Fraudsters may say a metaverse investment has little or no risk, while offering guarantees that your money will be safe because you are part of an online community. Remember: every investment comes with risk, and no investment can be guaranteed. Understand the risks and make sure you are comfortable with them, including the possibility that you might lose your entire investment. Review NASAA's Warning Signs of Fraud (<https://www.nasaa.org/investor-education/warning-signs-of-fraud/>) to understand common tactics fraudsters use to scam people.

The Bottom Line

The metaverse offers the opportunity to experience fully immersive virtual worlds that may seem very much like the physical world we wake up to everyday, as well as fantastical worlds built on alternate realities. Nevertheless, people should know that the rules that apply to investments in the physical world also apply to investments in virtual worlds. When considering any investment, you should watch for signs of fraud, and objectively consider all the information available to you before purchasing it. If you suspect fraud or illegal activity, reach out to your state or provincial securities regulator immediately.

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