

What Is Crowdfunding and Why Is It Risky for Investors?

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As we mentioned yesterday, the North American Securities Administrators Association (NASAA) recently listed crowdfunding and Internet offers as the top threat to unwary investors. These risks topped the list in response to the Jobs Act, which it makes it easier for start-ups and other businesses to solicit investors.

Crowdfunding refers to an online money-raising strategy involving small investments from a large number of people, i.e. the crowd. Crowdfunding began as a way to support artists, filmmakers, and charities but is now often used to finance business ventures.

Crowdfunding investments are risky because companies are not required to provide the same level of disclosure to investors or regulators as with other securities. In addition, crowdfunding investments are often illiquid, meaning investors could be unable to sell them if needed. The Jobs Act makes crowdfunding available to a wider number of investors with imposing fewer restrictions.

As **NASAA** highlights, states are already seeing an uptick in active investigations or recent enforcement actions involving Internet fraud. The relaxed rules under the JOBS Act will likely bolster this trend.

With this in mind, "Investors must remember that small startups are among the riskiest of investment categories under the best of situations. The crowdfunding and Internet investing marketplaces in North America will develop and undergo major changes in the next year, and investors should monitor this emerging capital formation community with a wary eye," NASAA warns.

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About Debra Speyer

At Wall Street Fraud, we are dedicated to offering assistance to those who have been hurt by improper corporate or investment practices.

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