# Regions Wealth Podcast

**Episode 44:** Understanding Cryptocurrency: How to Protect Yourself from Crypto Scams

According to Pew Research, one in six Americans say they've invested in, traded, or used cryptocurrency as of 2021. But as interest in cryptocurrency and NFTs has risen, so too have scams targeting investors. In part two of our series on cryptocurrency, Portfolio Manager Ryan Owen joins us to discuss common scams targeting the crypto space. We'll learn how these scams work and what steps investors can take to protect themselves.

***Episode Transcript***

Sarah Fister-Gale, Host:

Welcome to Regions Wealth Podcast, the podcast that tackles life challenges with financial experience. I'm your host, Sarah Fister-Gale.

Mainstream interest in Bitcoin and other types of cryptocurrency has been on the rise in recent years. According to Pew Research, one in six Americans say they've invested in, traded, or used cryptocurrency as of 2021. But as the rate of adoption has increased, so too have scams targeting investors.

Joining me remotely is Ryan Owen. He's a Portfolio Manager for Regions Bank. Ryan, thanks for joining us today.

Ryan Owen, Portfolio Manager:

Thank you.

Sarah Fister-Gale:

So, Ryan, in part one of this two part series, we chatted with your colleague Michael Moorefield, who gave us a great primer on cryptocurrencies. During that episode, we heard from Josh, who had a lot of questions about cryptocurrency as an investment. At the end of that episode, he asked us the following question:

Josh:

"I've been hearing a lot about cryptocurrency scams. How common are they? And what precautionary measures I should take before investing in cryptocurrency?"

Sarah Fister-Gale:

There's a lot of ground to cover on that topic, which is why we're devoting an entire episode to that portion of Josh's question. But before we get into that, let's start with some background. For those who might have missed the last episode, can you give us a quick primer on cryptocurrency?

Ryan Owen:

So, cryptocurrencies were created in 2009 with the launch of Bitcoin. Since then, there's been an explosion in the number and types of cryptocurrencies and there's more than 15,000 today. What they are is they're digitally native assets, usually decentralized so that there's no one in charge of the ledger. They differ from traditional assets in a lot of ways. Traditional assets like investments in a brokerage account or money in a bank account have the guarding rails of that institution to help protect you, whereas in cryptocurrency, you are required to use those precautions yourself. And so certainly while the space is evolving, there's a lot of precautions that people need to take in order to make sure that they're not falling into major problems or issues or scams. And I hope that we cover a lot of those today.

Sarah Fister-Gale:

Before we get into those topics, I'd love to know: what excites you about cryptocurrency?

Ryan Owen:

Well, one, I've always been excited about new technology, so that kind of first got me interested in it. But the main thing about cryptocurrency, specifically Bitcoin, is that Bitcoin offers an alternative to traditional investments or even traditional currencies like the dollar. Bitcoin has gotten a lot of attention in its ability to protect people from currencies worldwide, not the dollar specifically, but in a lot of third world countries, it allows people to get into something like Bitcoin that is borderless and, and stateless and not controlled by anybody.

One of the big reasons why I like Bitcoin is the community is so focused on solutions for their community. Bitcoin represents an opportunity for a lot of people. I need about 20 minutes to talk about everything I'm excited about, and it is a little bit juxtaposed against some of the risks and things like that.

Sarah Fister-Gale:

What role can cryptocurrency play in an investment strategy or an investor's portfolio?

Ryan Owen:

Having Bitcoin in a traditional portfolio might make sense for some very risky investors. So there have been analysis run on including Bitcoin in a traditional financial portfolio and how it interacts. Because Bitcoin is somewhat correlated to some of the high growth assets. Think the NASDAQ stocks or the really growth stocks. And so adding Bitcoin to a portfolio, which obviously has had a very strong return over the last decade, has improved returns in a portfolio and added a little bit of diversification. Some analysis has been done where if you added 2% of your portfolio to a traditional 60-40 investment, that improved returns by about 3% annualized, which is a big jump.

Sarah Fister-Gale:

For investors trying to decide if cryptocurrency is right for them, should they look to their own risk tolerance to decide whether this is a good move?

Ryan Owen:

Absolutely. And discussing with your financial advisor or your banker is a good option to fully understand the risk there, but obviously Bitcoin and other cryptocurrencies are very speculative. They represent a risk, so we would never encourage anyone to put more money into the cryptocurrency space than they can afford to lose. For someone who has a good risk tolerance, it can make a lot of sense to make a small investment into Bitcoin.

Sarah Fister-Gale:

So Ryan, I noticed that as we're talking about cryptocurrency, you mention Bitcoin a lot. Why is that?

Ryan Owen:

So Bitcoin is the original cryptocurrency, and it's certainly been the one that has dominated the market. Today it makes up 41% of the overall crypto market. And it still is kind of the standard bearer for cryptocurrency assets. It has the most established history and just from my perspective, it's the only one that I'm comfortable kind of saying, oh, you know, these are the positives with Bitcoin. When we talk about cryptocurrencies, we're kind of obfuscating it a layer and kind of avoiding the fact that we're rolling a bunch of disparate things into cryptocurrency.

Sarah Fister-Gale:

And there's another thing that I've been hearing a lot about: NFTs. What are they, and how does that play into the cryptocurrency discussion?

Ryan Owen:

So NFTs, it stands for non-fungible token. They are unique identifiers that are traded on NFT marketplaces, and they grant the holder a unique, specific access. It's sort of also an evolving space that has undergone some changes over the last several months. So, I'm excited to see where that goes as well.

Sarah Fister-Gale:

So, it's sort of like a digital collectible.

Ryan Owen:

Yes. That's a great way of phrasing it and like any collectible, it's hard to know if that collectible gain value over time, or if it will stagnate and lose interest of the public.

Sarah Fister-Gale:

Okay. We've briefly talked about it already, but as an investment vehicle, how do cryptocurrencies and NFTs differ from traditional investments, like stocks?

Ryan Owen:

That's a great question. And the main thing is probably that the stock market has been around for a lot longer, and it also has the backing of the legal structure in the countries. So, when you invest in a stock, you are legally the owner of a fraction of the company. So, with the history of the stock market and specifically histories of individual companies, you can be a lot more confident on how that space is going to evolve. And that probably is a big reason why cryptocurrencies are a lot smaller in market cap than traditional markets. The cryptocurrency market hovers around $2 trillion, whereas the traditional stock market is over $20 trillion just in the United States. And so that history, that background definitely can give investors a lot more confidence that they're gonna persist and continue the growth like they have in the past.

Sarah Fister-Gale:

So it's the — maybe the lack of historical data about how cryptocurrencies perform, does that make it harder to predict whether it's a good investment?

Ryan Owen:

That has certainly played a part. You know, cryptocurrencies have only been around since 2009. And so while in that timeframe, they've done well, and I'm excited to see where they go in the future, it's very speculative at this time. And so there's not a lot of history to back up the fact that, oh, people are gonna continue to want these in the future. It could be a long-term fad or bubble as some people call it. Although, you know, personally, I'm hopeful that they're gonna continue to stick around in one form or the other.

Sarah Fister-Gale:

So Ryan, what kinds of regulations exist for traditional investments?

Ryan Owen:

There are a lot, and I believe that Regions has done podcasts focusing more specifically on that. So I would encourage any listener to go check that out, but probably the primary one when we talk about regulation and the traditional investment market is going to be the SEC, the S-E-C, the Securities and Exchange Commission. They're the prime regulator who controls any new security issuances, company filings. They guide the stock exchanges and they also investigate fraud, so they're the main one that helps protect consumers or investors. And in addition to them, there's FINRA, who helps govern brokers, and there are other regulatory agencies that make sure that everyone involved in the process is vetted and legitimate. And so it's good for traditional investments that the end investor can be confident that the whole process is transparent and regulated, although that doesn't work a hundred percent of the time, ideally that should help protect end consumers.

Sarah Fister-Gale:

Are there similar regulations in place for crypto, or is this still too new of a space?

Ryan Owen:

Good question. So right now there's a lot of debate in the space of which entity has regulatory authority over cryptocurrencies. So the SEC has made its bid there. And the head of the SEC, Gary Gensler is a verifiable expert in the crypto space. So a lot of people are optimistic that he will be able to continue to drive the regulation that a lot of people on the space crave in order to give it more legitimacy in the eyes of the public.

Sarah Fister-Gale:

According to the 2022 Crypto Crime Report from Chainanalysis, which is a blockchain analysis company that provides data to government agencies, exchanges and financial institutions, worldwide $7.8 billion worth of cryptocurrency was stolen from victims in 2021. How common is it for fraud to occur in this space?

Ryan Owen:

I would say fraud is fairly common in the space, especially when you venture outside of the exchanges that are regulated in the US. The largest by volume is Coinbase, and they have a curated list of cryptocurrencies. And so the reason that fraud is quite common is once you wade outside of those walled gardens, it is very common for people to try to take advantage of investors' lack of knowledge in the space. And because cryptocurrencies are so new and the technology and the lingo is still evolving, a lot of people can get caught up in something and not really understand what they're investing in and end up giving money to a scammer. And so with that in mind, it is important that investors understand that cryptocurrencies have no mechanism for putting things back. So, unlike a bank where if there's checking account fraud, the bank can intervene, there's no mechanism like that in cryptocurrency. And so investors are taking on the risk of losing their funds permanently if they're involved in something like that. Because of that nature, it has attracted a lot of criminals, and so it is much more likely that they're gonna be able to get away with their criminality in comparison to traditional investments.

Sarah Fister-Gale:

The Chainanalysis report mentions “rug pulls” being one of the biggest drivers of scams, accounting for $2.8 billion lost in 2021. What is a rug pull and how does it work?

Ryan Owen:

So a rug pull is effectively just a Ponzi scheme that collapses. So the idea behind a rug pull is, someone creates a token or an investment and tries to get a lot of people to invest in it. They generate a lot of hype via social media and other things. And if they can get people to invest to the point where they're happy to abscond with those funds, they can liquidate their holdings, turn tail and run. And so, one of the examples in that number, the largest scam that occurred was about $2 billion. And so, our point on that is it's really important to understand what you're investing in, do your own research and learn what you're investing in. And if it sounds too good to be true, it almost certainly is. And so even people who are financially savvy still fall victim to scams every single day because the scam artists are incredibly clever and they try to stay one step ahead of the people they're scamming.

Sarah Fister-Gale:

Is this something that investors should be talking to their financial analyst or advisor about?

Ryan Owen:

That's a good question. And part of the situation is that even normal financial advisors are still learning about the crypto space because it's so new and so different from traditional assets. I would encourage you to talk to your financial advisor or talk to someone at Regions who knows about cryptocurrencies. It's kind of an evolving space that I encourage people to be very cautious about.

Sarah Fister-Gale:

I've also heard the phrase wash trading, what is wash trading, and how does it play out in this space?

Ryan Owen:

So wash trading is an example of fraudulent volume. So there are two different reasons why wash trading could occur, and one of them actually ties back into the rug pull question. The version of wash trading that occurs on exchanges is that an exchange, usually foreign exchange, will do lots of buying and selling of the same assets to try and promote artificial volume on the exchange. Why they might wanna do that, is that it can confuse investors or fool investors into thinking that there's more activity on that exchange. And therefore it looks more like a legitimate exchange. “Hey, all these people are using it. So it must be legitimate,” even if it's not quite so legitimate. And even if it is legitimate, it could end up in larger spreads for traders and things like that.

The second form of wash trading would be if someone is buying and selling their own tokens to try and manipulate price or manipulate volume. So it looks like there's a lot of activity. That ties back into the rug pull question in the sense that if someone were trying to pull off a rug pull, they might do a lot of wash trading on their own asset to make it look like there's a lot of people buying and selling, and maybe even they would increase the price every little bit. So it looks like the price is going up a whole lot on their coin, and that could get a lot of people to buy into the hype and say, “oh my goodness, this coin is up a hundred percent over the last day. I need to buy into it,” when really it's all phony volume and a fraud.

Sarah Fister-Gale:

Wow. You need to take a lot of caution in this space, it sounds like.

Ryan Owen:

That is definitely what I want to get across.

Sarah Fister-Gale:

So it seems like there's a lot of interest in cryptocurrency projects being driven by social media platforms. And you mentioned that earlier, what risk does this pose for potential investors?

Ryan Owen:

That is very true. And I also wanna note that that occurs in normal traditional markets as well. So with cryptocurrency, you have to be really careful and distrustful of anyone in social media. Scammers love to use social media in order to get lots of eyeballs or lots of people interested in what they have to say. Anyone who follows Elon Musk on Twitter has seen a dozen people below him posting scam links, saying there's crypto giveaways. And the best thing you can do in that instance is if you find a scammer, report them to whatever social media platform you're on. So nobody else gets taken advantage of, so their content gets removed. I would say for an investor, if you're trying to research a coin, there are good mechanisms to use social media to learn about that, but be aware that there are paid actors or paid shIlls who go on to social media sites in order to specifically say good things about certain coins and bad things about other coins and prop up their own specific coin.

Sarah Fister-Gale:

The topic of fraud and cybersecurity is something that comes up often in this podcast, and we know that over the last few years, phishing schemes, malware and ransomware attacks have all become increasingly common. Are we seeing similar activity in the crypto space?

Ryan Owen:

That is a good question. There are a lot of malicious actors out there who want to get access to your funds and they don't care how they do it. So an example is, with the phishing scheme, they'll send you a link that they hope you click on in order to steal your tokens. They can make it very sophisticated. There's one going around right now that says, oh, you need to upgrade your Ethereum in order to not have your coins burned. And they're hoping that the investor clicks on that link, enters their wallet information. So whether it's a fake website that they have you sign into and steal your coins, or they pretend to be someone you know, and they hack someone's account and post a fake link. There are various methods that the scammers are always trying to stay ahead of investors and try and steal their funds. The cryptocurrency space is rife with opportunities for scammers, and so it's incumbent on people to be very diligent and never lose focus that you are dealing with real money and you need to be very diligent to prevent yourself from getting taken advantage of.

Sarah Fister-Gale:

So I feel like we've talked about a lot of risks and dangers in this space. What are some steps individuals can take to protect themselves?

Ryan Owen:

That is a great question. So in the cryptocurrency space, it is important for people to take steps to prepare themselves so they don't get taken advantage of. Obviously, the traditional recommendations will apply, you know, use two factor authentication, don't reuse passwords, make sure your email is secure. Those sorts of things are very important to prevent yourself from level one. Probably the most important thing to do is understand what you're investing in and take a moment to take a step back before you make each transactions or do anything in the cryptocurrency space, make sure that you are understanding what you're trying to do. A lot of people like to self-custody - that hearkens back to the "being your own bank". And so if you're self-custodying, you are holding those assets with no recourse if you lose them. So to date there have been roughly three to 4 million Bitcoins, which is almost $120 billion in value that have been permanently lost. And so the number one thing to be safe in the crypto spaces is, if you're going to custody yourself and not rely on regulated exchanges to hold your coins, you need to be very cautious that you have taken all precautions to securely store your backup phrase.

Sarah Fister-Gale:

Now, as you know, at the end of these podcasts, we like to ask our guests to sum up everything we've discussed. What are some key takeaways for anyone thinking about investing in cryptocurrency?

Ryan Owen:

The cryptocurrency space is very exciting and evolving, and I encourage anyone to look into it more and research it more if you're excited about it. The main thing that you can do is educate yourself. A common phrase in traditional finance is don't invest in anything you don't understand. I'd say a lot of people in the crypto space don't understand what they're investing in and so they fall victim to scams. The most important thing you can do is educate yourself and be constantly diligent that there are people out there trying to take advantage of you in this new medium. And so that if you're going to get involved in it, you need to be cautious and educated.

Sarah Fister-Gale:

Thank you so much, Ryan. It's been so interesting talking to you.

Ryan Owen:

Thank you very much. I've enjoyed our conversation.

Sarah Fister-Gale:

And that was Ryan Owen. He's a portfolio manager for Regions Bank. To learn more about cryptocurrency, be sure to check out our conversation with Michael Moorefield in episode 43. You can find it at regions.com/wealthpodcast, or by accessing Regions Wealth Podcast on your favorite podcast platform.