

Energy Investments

With energy demands and a desire for energy independence increasing globally, investments in traditional and alternative energy resources are being promoted more often and are becoming attractive to investors. Some examples include: wind turbines, solar panels, biodiesel, ethanol, coal, oil, gas, hydrogen, wave, geothermal, oil sands, and liquefied natural gas. These investments are highly risky and are not appropriate for all investors. It is not unusual for unscrupulous promoters to follow the headlines and take advantage of unsuspecting investors by engaging in fraudulent practices.

Promoters sometimes prey on investors interested in socially responsible products by labeling them as “green energy” investment opportunities. The phrase “green energy” implies that the products are ecologically friendly when in fact the promoters may be operating a fraudulent shell company and not producing anything.

What are the Common Ways Energy Investment Products may be Offered?

- **Commodities:** The purchase of energy products today in order to make money from price changes in the future.
- **Exchange Traded Funds (ETFs):** Intended to mirror the performance of a particular energy segment or index.
- **Private Placements:** Energy investments are often sold through a private placement memorandum purchased through a subscription agreement.
- **Crowdfunding:** Energy investments soon may be made available to the general public through an online crowdfunding portal.
- **Limited partnerships:** Purchasing membership units in an energy investment partnership where the investors’ liability is limited and the general partner makes all managerial decisions.
- **General partnerships:** Purchasing membership units in an energy investment partnership where the investors’ liability is not limited and the investor may receive tax benefits from the investment.
- **Joint Venture:** An investment in a specific project or for a finite period of time sometimes involving fractional interests in energy leases.
- **Stock in energy companies:** Purchasing stock from a particular company that does business in the energy segment.
- **Bonds or secured notes:** Purchasing a debt instrument from a particular company that does business in the energy segment.

(over)

To learn more or for help with these or other products, contact:
Alabama Securities Commission, 401 Adams Avenue, Suite 280, Montgomery, AL 36104 |
(334) 242-2984 or (800) 222-1253 | (334) 242-0240 (fax) | asc@asc.alabama.gov |
www.asc.alabama.gov



Be an Informed Investor

Why Investors Need to be Cautious About Energy Investments

- Private placement offerings may not be subject to regulatory oversight and therefore are considered risky.
- Even though the underlying project may be legitimate, any revenues realized can be absorbed by fees such as high sales commissions paid to the promoters and “expenses” skimmed off by the managing partner, leaving the investors as the last to be paid.
- Promoters have attempted to structure their joint ventures or general partnerships to avoid securities regulation, which would deprive investors of important protections.
- Energy investments may be especially risky for those who cannot afford to lose their investments, particularly for those close to retirement.
- Investors anxious to recover previous portfolio losses may be tempted by energy investment opportunities and the development of new energy technologies that sound too good to be true.
- Promoters often house the investment opportunity in a complex investment structure that fails to offer clear disclosures of its risks and costs.

How to Protect Yourself When Considering an Energy Investment

- Before investing, ask questions about the risks and fees involved. Conduct your own independent research or seek the opinion of a financial professional who is registered with your local securities regulator.
- Never invest in something you don't fully understand.
- Do not agree to participate in a general partnership or joint venture if you have no specific experience, knowledge or education in the energy segment and would have to rely on others' expertise.
- Beware of sales techniques that include repeated phone calls, cold calls, or high-pressure sales pitches hyping the profitability of the deal or promising a sure thing.
- Do not be fooled by professional-looking websites boasting current productivity levels and profits, and featuring photos of energy production sites.
- Call your state or provincial securities regulator and check on the investment opportunity, the salesperson and the promoter.

The Bottom Line

If you have any questions about energy investment offerings, contact the Alabama Securities Commission at (334) 242-2984 or (800) 222-1253.