

COMMISSION ADVISORY

~~~~ CONSUMER WARNING ~~~~

### **Beware of Claims that Commodity Futures or Options Trading Will Be Profitable Because of a Possible Conflict with Iraq**

The public should be wary of sales pitches claiming that energy or other commodity futures or options can be traded profitably with little risk because of well-known events such as the possibility of conflict in Iraq.

The United States Commodity Futures Trading Commission ("CFTC") is the federal agency that regulates the trading of commodity futures and options contracts in the United States. The CFTC investigates and brings actions against firms suspected of making fraudulent claims in selling commodity futures and options. The CFTC has brought numerous actions against commodity brokerage firms and brokers who have solicited customers by claiming that they could earn large profits with little risk based on published reports or well-known current events.

#### ***The Sales Pitch***

Commodity brokerage firms and brokers often use telephone calls, e-mail messages and "spam" (mass e-mailings), along with Internet advertisements, discussions in Internet chat rooms, and television or radio ads, to interest members of the public in investing in commodity futures and options. Recently, some of these firms and brokers have been making claims that the possibility of war in Iraq creates an opportunity to make large profits by trading in commodity

futures and options in markets that could be affected by turmoil in oil-producing states. Solicitations of this nature may promise quick profits with a limited amount of risk, or may indicate that knowledge of foreign affairs, and specifically, the growing conflict between the United States and Iraq, could enable a customer to capitalize on the effect of this conflict on world energy markets. The solicitations also may claim that the firm or broker has special knowledge about world affairs that would enable them to advise you about how to invest profitably.

### ***What is Wrong with the Pitch?***

The pitch is misleading because it suggests that the broker has special information that gives him an edge in executing a customer's trades. It is true that increases in demand or limitations in supply of a particular commodity might affect the commodity's price. However, when such changes are already anticipated by the market, then they will not necessarily affect the value of a **futures** or **option position** on those commodities. This is because traders in the markets have already factored this information into the price. For example, in the growing conflict between the United States and Iraq, market professionals have already taken into account the possibility that future supplies of oil may be disrupted. As a result, the prices of futures and options already reflect this possibility.

In addition, as new information enters the markets, market professionals, who pay close attention to global economic and political factors that might affect the price of the futures and options that they trade, quickly adjust the prices that they pay and demand for these instruments, taking these factors into consideration. Unless the firms or brokers making these claims have unprecedented, superior information about world affairs, they cannot purport to have better information than that which is already reflected in the marketplace.

In addition, claims that the risk of purchasing commodity futures and options can be predetermined or fixed are misleading. Purchasers of commodity futures or options contracts can lose every penny given to a broker and, because futures contracts are "leveraged" or "marginied," customers may be liable for losses in excess of their initial deposits.

### ***Warning Signs Of Commodity Futures Or Options Fraud***

If you are solicited by a company that claims to trade commodity futures or options contracts and asks you to commit funds for those purposes, you should be very careful. Watch for the warning signs listed below, and take the following precautions before placing your funds with any company that offers leveraged or financed commodity transactions:

- *Avoid any Company that Predicts or Guarantees Large Profits Because of Well-Known Current Events, Published Reports or Predictable, Seasonal Changes in Demand*
- *Stay Away from Companies that Promise Little or No Financial Risk*
- *Carefully Scrutinize Unsolicited Phone Calls and e-mails about Investments, Especially Those from Out-of-State Salespersons or Companies with Which You Are Unfamiliar*
- *Be Wary of High-Pressure Efforts to Convince You to Send or Transfer Cash Immediately to the Firm via Overnight Shipping Companies, the Internet, by Mail, or Otherwise*
- *Hang Up on Aggressive Cold-Callers Promoting "Safe" Investments in Commodity Futures or Options*
- *If You Are Suspicious, Contact the CFTC, the National Futures Association, Your State Attorney General's*

*Office of Consumer Protection, or the Better Business Bureau Prior to Trading*

- *Be Sure You Get Written Documentation about the Product, the Company, and Its Track Record, in order to Verify the Data. If You Can, Before Doing Business with any Company, Check the Company's Materials with Someone Whose Financial Advice You Trust*
- *Don't Deal with Individuals Who Won't Give You Their Background Information or Last Name*
- *If in Doubt, Do Not Give Money to Anyone. If You Can't Get Solid Information about the Company and the Investment, You May Not Want to Risk Your Money*

### ***For More Information and Contacts***

General information on the commodity futures markets and the CFTC is available through the World Wide Web. Members of the public may report suspected wrongdoing to the CFTC's Web site at [www.cftc.gov](http://www.cftc.gov). You also can communicate directly with the CFTC's Division of Enforcement via e-mail at [enforcement@cftc.gov](mailto:enforcement@cftc.gov). You may also write or call the U.S. Commodity Futures Trading Commission, Division of Enforcement, Three Lafayette Centre, 1155 21st Street, N.W., Washington, DC 20581, (202) 418-5320.

To check on the registration status of a firm and its disciplinary history, contact the National Futures Association's Information Center at (800) 621-3570 or its website at:

<http://www.nfa.futures.org/basic/search.asp>