



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 potentially risky and may not be 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.
- **Stock in energy companies:** Purchasing stock from a particular company that does business in the energy segment.
- **Exchange Traded Funds (ETFs):** Funds intended to mirror the performance of a particular energy segment or index.
- **Private Placements:** Energy investments are often sold with a private placement memorandum purchased through a subscription agreement.
- **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.
- **Bonds or secured notes:** Purchasing a debt instrument from a particular company that does business in the energy segment.

Are You an Informed Investor?



Georgia Secretary of State Brian P. Kemp



Why Investors Need to be Cautious About Energy Investments

- Private placement offerings may not be subject to regulatory oversight and may therefore be 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 may attempt to structure their projects/investments to avoid securities regulation, which could deprive investors of some 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 sometimes 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 an independent financial professional or attorney.
- Never invest in something that you don’t fully understand.
- Think twice about participating 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.”
- Be cautious of professional-looking websites boasting current productivity levels and profits, and featuring photos of energy production sites.
- Do thorough research to check on the investment opportunity, the salesperson and the promoter.

The Bottom Line

If you have any questions about energy investment offerings, please contact the Securities Division in the Office of the Georgia Secretary of State.

Be an Informed Investor