

Celebrity crypto endorsers like Kim Kardashian spark concern for unwary investors

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Celebrities, including reality TV star Kim Kardashian West and Tesla Inc. CEO Elon Musk, are touting cryptocurrency products, leading to

worries that such endorsements could harm vulnerable investors.

Kardashian West posted an Instagram story of a paid advertisement in June for EthereumMax, a lesser-known digital token, according to the U.K.'s financial watchdog.

The post had substantial reach. According to a study by Morning Consult, a data intelligence company that surveyed 2,200 U.S. adults in September, 1 in 5 respondents had heard about Kardashian West's ad. "A striking 19 percent of respondents who said they heard about the post invested in Ethereum Max as a result," with an error margin of 2 percent, Morning Consult said.

Celebrity endorsers of crypto also include superstar NFL quarterback Tom Brady and his wife, businesswoman Gisele Bündchen, who appeared in ads in September for crypto exchange FTX.

"I'm getting into crypto with FTX. You in?" Brady asks in the commercial.

Such boosting of financial products can entice ill-informed investors and potentially hurt those taken by the allure of the endorsement, rather than features of the product, said Lawrence Cunningham, law professor at The George Washington University.

"At scale, that can lead to a systemic misallocation of capital with adverse system wide effects," Cunningham said in an email.

Social media influencers are routinely paid by scammers, said Charles Randell, chair of the U.K.'s regulatory watchdog, the Financial Conduct Authority, and some promote coins that turn out to not exist at all. Some celebrities don't disclose that they're getting paid.

That disclosure has been paramount for U.S. regulators. Professional boxer Floyd Mayweather Jr. and music producer DJ Khaled were charged by the Securities and Exchange Commission in November 2018 for failing to disclose that they had been paid for promoting investments in crypto.

There is excitement for crypto, but a lot of it is speculative, and celebrities are amplifying that, Cunningham said.

"This part of the enthusiasm, this star power exuberance, exacerbates an otherwise spontaneous social phenomenon," Cunningham said in an interview. "I understand it. I do think we'd all benefit from a little self-regulation."

Some celebrities have experience in crypto, but many don't, Cunningham said.

Education is key, said Cleve Mesidor, public policy adviser at the Blockchain Association.

Cryptocurrencies were created by "cypherpunks, libertarians, people of color who wanted to have economic freedom," Mesidor said in an interview. "It was misfits who came together and created this thing. As it has grown and becomes more mainstream, there are wealthy players injecting themselves into the narrative, but they don't understand crypto."

She said that if these celebrities don't educate themselves, they will hurt consumers. Mesidor also leads the National Policy Network of Women of Color in Blockchain, a group that advocates for diversity, equity and inclusion and promotes female industry leaders in blockchain.

She said she wonders about the motivation for celebrities like Tesla's

Musk, who she says has co-opted the culture of crypto and has the power to move markets. Prices skyrocketed when the electric car and space entrepreneur added "#bitcoin" to his Twitter bio.

Mesidor said she took years to learn about blockchain. She first heard about bitcoin in 2013, when she was a presidential appointee under the Obama administration as a director of public affairs for the Department of Commerce's Economic Development Administration.

"Celebrity endorsements can be harmful to retail and ordinary investors when they are driven by FOMO [fear of missing out] and not backed by research and an understanding of the financial instrument being advertised," Mesidor said. "When it comes to the livelihoods of new investors, high-profile individuals have a social and ethical responsibility to the consumers."

'Do your own research'

Celebrity endorsements of crypto should be received with the same skepticism applied to other endorsements, the Securities and Exchange Commission's Hester Peirce said in an email.

"It's your money that's on the line, so do your own research and make your own decision based on your own risk tolerance and your own circumstances," the crypto-friendly Republican commissioner said. "After all, if things turn out badly, the [celebrity](#) won't be there to bail you out."

The SEC warned investors in 2017 that virtual tokens or coins sold in celebrity-backed initial coin offerings may be securities and therefore must comply with federal securities laws. ICOs are a fundraising method in which companies raise capital, often through their own cryptocurrency issuance.

"Celebrities who endorse an investment often do not have sufficient expertise to ensure that the investment is appropriate and in compliance with federal securities laws," the SEC said in the 2017 statement.

If a cryptocurrency qualifies as a security, and someone who is compensated for promoting it tweets about it without disclosing that compensation, it's a 17(b) violation, as seen in the Khaled and Mayweather cases, said Ashley Ebersole, a partner at the law firm Bryan Cave Leighton Paisner and former SEC enforcement lawyer. The reference is to Section 17(b) of the Securities Act.

Another regulator, the Commodity Futures Trading Commission, could also bring enforcement.

"You could potentially see the same thing from the CFTC side, but there would need to be a claim of intent to manipulate the market or of deceptive or fraudulent intent behind those statements," Ebersole said in an email.

"People have been burned over and over again by Wall Street and the big banks, so they're turning to cryptocurrencies—dreaming of riding the coattails of professional investors and celebrities who make earning millions look easy," Senate Banking Chairman Sherrod Brown, D-Ohio, said in an email.

Too often, crypto mirrors Wall Street, where a few get rich at others' expense, Brown said.

The more crypto is discussed, the more policymakers will want to learn more about it, said Kristin Smith, executive director of the Blockchain Association.

"It puts more pressure on lawmakers to understand this stuff, and often

as they tend to understand things, they want to have more oversight and regulatory goals," Smith said. "It builds the overall pressure for them to act."

Individual investors shouldn't make massive investment decisions based on what they see online, Smith said.

"There is a responsibility upon those who do have such influence to make sure that they're being very careful and accurate in the way that they describe and speak about what's going on, whether it's with a crypto asset or some other kind of asset," Smith said.

Some celebrities are taking a different approach. Actors Ashton Kutcher and Mila Kunis explain through social media posts—including a two-minute YouTube video with the co-founder of Ethereum, Vitalik Buterin—how digital assets work. Buterin and Kunis answer Kutcher's questions on Ethereum and decentralized finance throughout the video.

"He's been trying to be a source of information and education as opposed to promoting different cryptocurrencies, which I think is a great role for celebrities interested in this space," Smith said.

The post Celebrity crypto endorsers like Kim Kardashian spark concern for unwary investors appeared first on Roll Call.

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