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## NEWS RELEASE

For Immediate Release

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### Financial Literacy Month Tip of the Week

## Unicorns ... Myth, or the Next Big Thing?

**Boise, Idaho** ... Unicorns do exist in the investment world, but are hard to identify and the search for a profitable one can be arduous because of their scarcity.

"Investment options abound for Idahoans to increase their retirement holdings, but caution is advised for those considering investments that are speculative and highly risky" Idaho Department of Finance Director Gavin Gee said. "We caution investors to undertake rigorous due diligence when considering any speculative investment option."

Unicorns are not just the stuff of fairy tales. Some financial unicorns exist today. Nevertheless, investing in unicorns is speculative, and generally they are unavailable to retail investors. Retail investors looking to bet on a unicorn may be able to do so indirectly through a mutual fund or exchange-traded fund. **But beware ... investing in unicorns is risky. This investment may bite!**

### What Does it Mean to be a Financial Unicorn?

In the area of financing businesses and start-up companies, the term "unicorn" refers to a privately held company with a supposed valuation on paper of more than \$1 billion. A privately held company is one that generally cannot sell shares to the public and is owned by a limited number of investors. Private companies can raise capital to fund their businesses in a variety of ways, and recent changes in federal and state securities laws have expanded these options.

Investors in unicorns typically are private funds (such as venture-capital, private-equity or hedge funds), wealthy individuals, and direct owners or employees of the unicorn itself. Retail investors generally cannot purchase shares of unicorns directly. However, those retail investors interested in betting on a particular unicorn could search for a mutual fund or ETF with exposure to one or more unicorns.

Investing in unicorns carries very real risks, particularly when investing directly. As privately held companies, there is no public market to trade the securities of unicorns. This means that the securities are illiquid, or not easily sold or exchanged for cash. The market valuations of unicorns therefore may not reflect the intrinsic value of these businesses. Unicorns also are unlikely to have the same level of robust public disclosure requirements as publicly traded companies.

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Investors in start-ups historically limited opportunities to sell shares before the company held an initial public offering (IPO) and a secondary trading market opened. Accordingly, investments in start-up companies were highly illiquid. However, a federal law that went into effect on December 4, 2015 eased the way for early investors to resell shares. This enabled unicorns to expand their investor base and develop market awareness prior to making a public offering (though unicorns should still be considered illiquid). In addition, regulatory changes enacted in 2012 raised the ceiling on the number of investors a private company could have before the company would be obligated to register its securities and become publicly traded. This regulatory change has helped unicorns stay private for longer periods of time.

### What are Some Risks of Investing in private, pre-IPO Shares?

**Fraud:** Weak internal controls and corporate governance infrastructure may lead to fraudulent practices by a unicorn. For example, a company could create false sales and shipping documents to artificially increase sales numbers.

**Disclosure:** Since the securities of unicorns will not be registered at the state or federal level, investors may lack important information to make an investment decision.

**Liquidity:** There is no guarantee shares can be resold after purchase.

**Valuation:** The valuation on a unicorn pre-IPO may not reflect the intrinsic value of the enterprise. In addition, even if the unicorn eventually is publically traded, there is no guarantee the stock price will rise.

**Access & Reality:** As noted, a retail investor's ability to gain access to shares in a unicorn is limited. However, many smaller, retail-oriented private placements would have investors thinking that their business model is the next great "ground floor opportunity" when statistics show that a majority of new start-ups will eventually fail. More often, true unicorn prospects are seldom made available to retail investors due to a true unicorn's access to larger venture capital funds and investors.

### The Bottom Line

Before making any decisions with your money, do your homework. To learn more, contact the Idaho Department of Finance or visit our website at [www.finance.idaho.gov](http://www.finance.idaho.gov). The department's website also has tips on saving and investing, as well as information on recognizing, avoiding and reporting investment fraud.

*Governor Otter has proclaimed April "Financial Literacy Month." Department of Finance press releases and a list of **free** financial literacy events can be found on the internet at [www.finance.idaho.gov](http://www.finance.idaho.gov) and may be obtained by contacting the department at (208) 332-8000 or Idaho toll-free at 1-888-346-3378.*