

FINRA Podcast

Five Tips to Avoid Pump-and-Dump Scams

ML Hello and welcome to another FINRA Investor Education podcast. I'm Mia LaVerada.

PC And I'm Pete Chandler. If you've ever pumped a few squirts of vanilla hazelnut syrup into your latte, you know there's nothing wrong with that. But if you pump-up a coffee stock with hype and false statements, well that's illegal. And the Securities and Exchange Commission, called the SEC, recently brought fraud charges against alleged perpetrators of a \$78 million pump-and-dump fraud. It involved the stock of Jammin Java, a company that operates as Marley Coffee and uses trademarks of the late reggae artist Bob Marley.

ML The SEC alleges that Jammin Java's former CEO, Shane Whittle, arranged the scheme by using a reverse merger to secretly gain control of millions of Jammin Java shares. He then spread the stock to offshore entities controlled by three fraudsters. Whittle was able to coordinate an illegal offering and fraudulent promotion of Jammin Java stock. Once the price of the stock was artificially inflated, the SEC alleges they dumped 45 million shares on the public market without registering the transactions, and that Whittle and the others pocketed at least \$78 million in illicit profits.

PC The stock's share price and volume began to collapse a few days after the company said it became aware of an unauthorized online stock promotion, and the stock fell even more after the company released disappointing financial results in its annual report. To help

you avoid being a victim of one of these so called “pump-and-dump” scams, here are five tips.

ML First, consider the source. Be skeptical of press releases, spam e-mails and promotional materials like newsletters and blogs from unknown senders. They often come from paid company insiders or promoters to hype a company and its products. Also, be wary if you’re flooded with details over a short period of time, especially if the communications only focus on a stock’s upside with no mention of risk.

PC Our second tip is to do some sleuthing. Find out who’s at the controls of a company before you invest. A good place to start is a basic internet search. If you find indictments or convictions of company officials, or news reports that raise red flags, proceed with caution. As an example, two of the Jammin Java promoters charged by the SEC were previously charged in a separate SEC case.

ML Tip number three: Check for reverse-merger activity. These transactions allow private companies in or outside the U.S. to access domestic investors and markets by merging with an existing U.S. public-shell company. And some pump-and-dump targets have come into existence through reverse-mergers. The SEC noted that many companies fail or struggle after a reverse-merger and they’ve seen fraud and other abuses involving reverse-merger companies.

PC And the fourth on our list to help you avoid becoming a victim of pump-and-dumps is to know where the stock trades. Most stock pump-and-dump schemes involve low-priced, thinly traded stocks that don’t trade on the Nasdaq stock market, New York Stock Exchange or other registered national exchanges. Instead, they tend to be quoted on an

over-the-counter platform like the OTC Bulletin Board or OTC Link Alternative Trading System.

ML Turning now to our last tip, which is to read a company's SEC filings. Most public companies file reports with the SEC, but many companies whose stock trades in the over-the-counter market aren't required to file reports like financials with the SEC because they're too small or have too few shareholders. So check the SEC's EDGAR database to see whether the company has filed anything. If so, then verify these reports against the promotional information, and exercise caution if they don't match up.

PC We hope you found this podcast helpful for learning about how to avoid pump-and-dump scams. To learn more about investing, go to our Web site, finra.org, and be sure to share this podcast with friends and family.

ML For all of us at FINRA, thanks for listening.