“Pump and Dump”; *where would you turn? How far would you go? How hard will you fall?*

“I had a very strong work ethic. The problem was my ethics in work”.

These are the words of Seth Davis (Giovanni Ribisi) from the movie “Boiler Room” (2000). The movie depicts the story of a young man who desperately wants to please his father, a federal judge. Thinking he'll please dad, he takes a job in a small brokerage house, where trainees make cold calls to lists of well-paid men, and then apply high-pressure tactics to sell initial public offerings exclusive to the firm. In the movie Vin Diesel plays the role of the ultimate stock market wheeler dealer. His character is the Director of Sales of this fly-by-night company that exists solely to engage in “Pump and Dump”.

In 2009, Sixteen year old Jonathan Lebed made headlines around the world as the youngest person - and the first minor - ever to be accused of securities fraud. Officials said his strategy was to buy a stock, hype it relentlessly on the Internet and then sell it when the price soars--what the regulators all over the world call "Pump and Dump".

Securities fraud comes in many forms, but surely the most common scheme is “Pump and Dump”. These scams have become quite complex in the modern Internet age. As the name implies a pump and dump involves buying up a stock, artificially inflating the price, and then selling at the higher price for a tidy profit.

It is a scheme that attempts to boost the price of a stock through recommendations based on false, misleading or greatly exaggerated statements. Unwitting investors then purchase the stock, creating high demand and raising the price. This seemingly "real" rise in prices can entice more people to believe the hype and to buy shares as well. The perpetrators of this scheme, who already have an established position in the company's stock, sell their positions after the hype has led to a higher share price. After pumping the stock, perpetrators make huge profits by selling their cheap stock into the market. When the people behind the scheme sell their shares and stop promoting the stock, the price plummets, and other investors are left holding stock that is worth significantly less than what they paid for it. The victims of this scheme will often lose a considerable amount of their investment as the stock often falls back down after the process is complete. Perpetrators frequently use this ploy with small, thinly traded companies.

In Pump and Dump often the stock promoters will claim to have "inside" information about impending news. Newsletters that purport to offer unbiased recommendations then tout the company as a "hot" stock. Messages in chat rooms and bulletin board postings may urge you to buy the stock quickly or to sell before the price goes down. Interested parties (sometimes few stockbrokers) send daily e- mails to investors urging them to buy the stock without giving any valid reason to buy these shares. Or you may even hear the company mentioned by a radio or TV analyst. A company's web site may feature a glowing press release about its financial health or some new product or innovation. The perpetrators of these scams try to convince the prospective investors that the cheap or penny stock is actually worth more than its valuation, or that it will soon skyrocket. In a successful campaign, the influx of spam will artificially drive the stock's price to a point where perpetrators decide to sell their shares. This usually coincides with them ending the spam campaign, which could reduce interest in the stock, helping to drive the valuation back to its original low price, which could also be exploited in the market. Perpetrators frequently use this ploy with small, thinly traded companies because it's easier to manipulate a stock when there's little or no information available about the company.

This practice is illegal based on securities law and can lead to heavy fines. "Pump and Dump" scheme is also known as *"Hype and Dump Manipulation".*

To steer clear of potential scams, always investigate before you invest:

Consider the Source

When you see an offer (i.e. a recommendation to buy a stock without giving any valid reasons), don't take a final decision to invest, until you can prove through your own research that it is legitimate news. And remember that the people touting the stock may well be insiders of the company or paid promoters who stand to profit handsomely if you trade. If you get a mail from your stockbroker to buy a stock, always ask for background information and the stock broker's research recommendation. Stockbrokers recommend investors to buy or sell shares based on research.

Research the Opportunity

Always ask for — and carefully read — the prospectus or current financial statements. Check the Colombo Stock Exchange (CSE) website "www.cse.lk" to obtain financial statements of listed companies.
A Listed company should make immediate disclosure of price sensitive information to the CSE in order to ensure the maintenance of a fair and orderly securities market. 'Price sensitive

information’ in relation to any listed Securities of an Entity (listed company) is a reference to information which:-

1) relates to specific matters relating to, or of concern (directly or indirectly) to the Entity and;

2) is not generally known to those persons who are accustomed or would be likely to deal in those listed Securities but which would if it were generally known to them be likely to affect materially the price of the listed Security.

Such information includes, but is not limited to, information known to the Entity, concerning the Entity’s property, assets, business, financial condition and prospects; mergers and acquisitions; and dealings with employees, suppliers and customers; material contracts or development projects, whether entered into in the ordinary course of business or otherwise; as well as information concerning a significant change in ownership of the Entity’s Securities owned by insiders, or a change in effective or voting control of the issuer, and any developments that affect materially the present or potential rights or interests of the issuer's shareholders.

Disclosure of price sensitive information should be made by way of an announcement to the CSE. Under no circumstances should disclosure of price sensitive information be made on an individual or selective basis to analysts, shareholders or other persons unless such information has previously been disclosed and disseminated to the Exchange.

The CSE website provides these information “live’ to investors in order to help them in their decision making process. Listed companies file reports with the CSE that any investor can get for free from the CSE's website. It is always better to clarify any “rumor” by browsing and obtaining information from the website. Professional stock analysts regularly research and write about listed companies, and it's easy to find their stock prices in the newspapers.

The website “www.sec.gov.lk” of the Securities and Exchange Commission of Sri Lanka (SEC) will also give you additional information about Rules & Regulations and directives by the SEC.

Independently Verify Claims

It's easy for a company or its promoters to make grandiose claims about new product developments, lucrative contracts, or the company's financial health. But before you invest, make sure you've independently verified those claims.

Watch Out for High-Pressure Pitches

Beware of promoters who pressure you to buy before you have a chance to think about and fully investigate the so-called "opportunity." Don't fall for the line that you'll lose out on a "once-in-a-lifetime" chance to make big money if you don't act quickly.

Always Be Skeptical

Whenever someone you don't know offers you a hot stock tip, ask yourself: Why me? Why is this stranger giving me this tip? How might he or she benefit if I trade?

Easy Money Doesn't Exist

As with anything in life, use your common sense. If it sounds too good to be true you don't want to be the one to find out that it isn't. You work too hard for your money so don't fall prey to the temptation of potential easy money.

Remember to take these Precautionary Steps

1. Never invest in a stock based on a hot tip.
2. Always take extreme steps of due diligence to identify companies with strong managerial teams and solid financials.
3. Get educated.

Although these simple steps will not guarantee safety, they can help put an investor on the right path.

Punishment for "Pump and Dump"

Section 51 (2) of the Securities and Exchange Commission Act of no 36 of 1987 (as amended) states that a person who is found guilty of this offence shall be liable on conviction after summary trial by a Magistrate to of imprisonment of either description for a period not exceeding five years or to a fine not less than Rs 50,000 and not exceeding Rs 10 Million or to both such imprisonment and fine.

The most important point that an investor should understand is that Pump and dump scams revolve around illegal activities carried out by an investor, broker, a group of investors, brokerage firms or even promoters at times, to promote a stock they hold. The perpetrators may be anyone. Each such pump and dump scam has different tactics and information used. However, the general idea behind the scam is the same.

Remember "A Pump-and-Dump is really buy, lie and sell high." As an investor you should make informed investment decisions.