



Enforcement Reporter

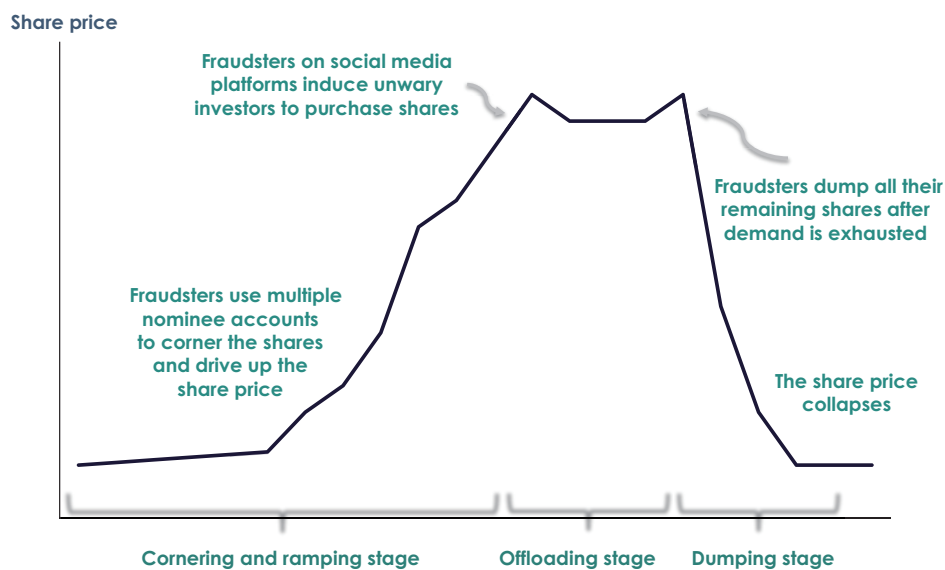
Highlights

- Warning about stock investment scams conducted through social media
- Avoid being caught up in a ramp and dump scam
- Legal and regulatory provisions

An increasing number of retail investors have fallen victim to ramp and dump scams conducted through popular social media platforms. These scams account for about 20% of the market manipulation cases currently under investigation by the Securities and Futures Commission (SFC). This issue of the *Enforcement Reporter* explains how the scams operate and provides tips for avoiding them.

A ramp and dump scam is a form of stock market manipulation where fraudsters use different means to "ramp" up the share price of a listed company and then "dump" the shares to other investors at an artificially high price. These scams normally take place in three stages: cornering and ramping, offloading and dumping.

Ramp and dump scams



Stock investment scams conducted through social media

Cornering and ramping

First, the fraudsters pick a listed company which typically has a small market capitalisation, low market liquidity and high shareholding concentration. These stocks are relatively easier to manipulate and the cost of doing so is lower.

The fraudsters purchase a significant portion of the company's shares using numerous nominee accounts. This is referred to as "cornering" the shares. Normally, the aggressive purchases from the cornering and related activities would significantly drive up the share price.

Offloading

In the next stage, the fraudsters begin to offload their shares by colluding with accomplices to disseminate favourable (and usually false and misleading) information about the company via popular social media platforms such as Facebook, WhatsApp and WeChat, among others. To induce unwary investors to buy the shares, the fraudsters use various means to try to establish trust (see Gaining Trust on pages 2-3). The share price may go up or stay relatively flat at this stage, depending on the fraudsters' strategy.

Dumping

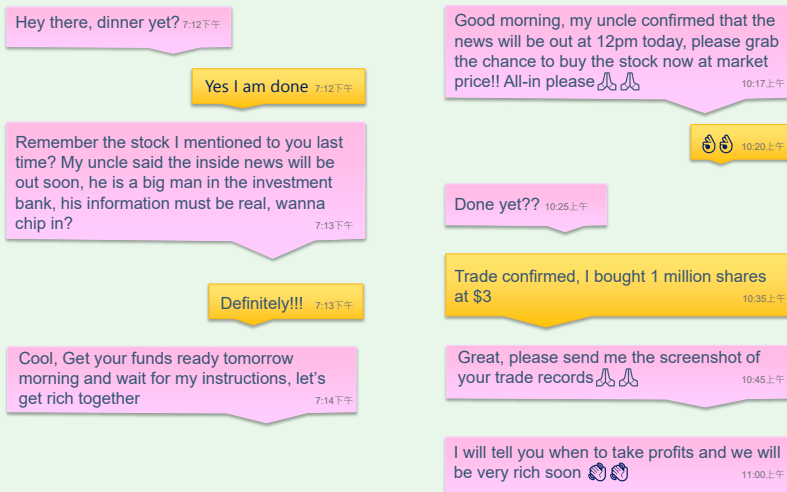
The fraudsters may dump all of their remaining shares, leading to a collapse of the share price. Or once the induced demand is exhausted, any further selling—whether by the fraudsters or anyone else—will also result in a share price collapse. Often, the investors who fall victim to the scam will not be able to contact the fraudsters after the crash.

Gaining trust: Online friends

To convince investors to buy shares, the fraudsters or their accomplices may patiently work to establish a relationship with them on social media by making frequent contact on the pretext of friendship or romance. Once a

relationship is established, the fraudsters may claim that they have inside information about a listed company and use the promise of guaranteed profits to induce the investors to buy the shares at an inflated price.

These are typical conversations between scammers and victims:



Hey there, dinner yet? 7:12 下午

Yes I am done 7:12 下午

Remember the stock I mentioned to you last time? My uncle said the inside news will be out soon, he is a big man in the investment bank, his information must be real, wanna chip in? 7:13 下午

Definitely!!! 7:13 下午

Cool, Get your funds ready tomorrow morning and wait for my instructions, let's get rich together 7:14 下午

Good morning, my uncle confirmed that the news will be out at 12pm today, please grab the chance to buy the stock now at market price!! All-in please 🙏🙏 10:17 上午

🙏🙏 10:20 上午

Done yet?? 10:25 上午

Trade confirmed, I bought 1 million shares at \$3 10:35 上午

Great, please send me the screenshot of your trade records 🙏🙏 10:45 上午

I will tell you when to take profits and we will be very rich soon 🙏🙏 11:00 上午

Gaining trust: Investment teachers

Some fraudsters set up investment groups on social media platforms and claim to offer investment tips or inside information to induce investors to join. The fraudsters may identify themselves as "investment masters" or "investment teachers". Some have impersonated

well-known investment advisors¹ and popular market commentators. Often, the unwary investor finds out too late that the other members of the social media investment group were accomplices colluding with the fraudsters to set a trap.

These are typical conversations between an "investment teacher" and the unwary victims:

Welcome to the Sure Win Investment Group, I used to be the top fund manager in Hong Kong. I am now retired and to be charitable, I am going to offer you guys investment tips for free!!! 6:21下午 (Stock Master)

Wow, this is really cool!! Many thanks for that, I must be able to buy a flat soon 6:25下午 (Cheater 1)

Not just a flat, should be a house in the peak 6:27下午 (Stock Master)

Thanks a lot Master, you are the best!!! 6:32下午 (Cheater 2)

It sounds great, thanks Master!! 6:33下午

Hey guys, stock xxx is going to go up crazily soon, it is going to announce very favourable annual results this Friday 10:42上午 (Stock Master)

The current price is clearly a once in a lifetime bargain, please go ahead to buy as much as you can at market price now 10:50上午 (Stock Master)

I bought 2 million shares Master 10:55上午 (Cheater 1)

I got 5 million 11:00上午 (Cheater 2)

I used all my funds to buy 500,000 shares Master 11:05上午

Well done, please PM me your screenshot guys 11:10上午 (Stock Master)

¹ "Advising on securities" is a regulated activity under the Securities and Futures Ordinance and persons conducting such activity may require a licence from the SFC. The public register of licensed persons is available at the SFC's website.

Avoid being caught in a ramp and dump scam

1. Be sceptical

In the virtual world, fraudsters can easily disguise themselves. Be sceptical of the identities of anyone you meet online, particularly if they claim to be an investment advisor or celebrity. Be especially vigilant when offered unsolicited investment advice by online "friends".

2. Pay attention to warning signs

These red flags are signs of a ramp and dump scam:

- Unsolicited investment advice
- Substantial share price increase without positive news
- Small cap stock with low liquidity and high shareholding concentration
- Your online "friend" asks you to send a screenshot of your trading record

3. Do your homework

Many of the stocks recommended by the operators of these scams were clearly overvalued and there was no justification for their prices to surge. Investors are strongly advised to do their own homework before investing or seek independent advice from licensed investment advisors.

4. Conquer your greed

Greed is one reason that these types of scams are successful. Remember that there is no such thing as a low risk investment with high guaranteed returns—a claim frequently used by fraudsters to entice unwary investors by manipulating their fear of missing an opportunity.

Legal and regulatory provisions

Multiple provisions under the Securities and Futures Ordinance (SFO) relate to market manipulation. The SFC would like to remind the public that market manipulative activities or transactions may be regarded as "market misconduct" under Parts XIII and XIV of the SFO, subject to maximum penalties of 10 years' imprisonment and a fine of \$10 million, as well as other sanctions.

False trading (Sections 274 and 295 of the SFO)

False trading may occur when a person does "anything" with the intention to create a false or misleading appearance of active trading in a stock listed in Hong Kong. For instance, "anything" may refer to conducting "wash trades" in a stock without any change of beneficial ownership and "matched trades" where the trader offers to buy a stock at a price that is almost the same as the price at which he or she proposes to sell.

Stock market manipulation (Sections 278 and 299 of the SFO)

Stock market manipulation may occur when a person enters into two or more transactions in a listed stock that increase or reduce the stock price with the intention of inducing others to buy or sell the stock.

Disclosure of false or misleading information inducing transactions (sections 277 and 298 of the SFO)

Disclosure of false or misleading information inducing transactions may occur when a person discloses or disseminates false or misleading information that is likely to induce another person to buy or sell a stock in Hong Kong.

Learn more

The Investor and Financial Education Council has developed a dedicated "Beware of online scams" portal to inform and educate the public about these ramp and dump scams.

The official SFC Facebook page provides regular reminders to investors to watch out for frauds and scams.

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