



Leibniz Institute for Financial Research SAFE
Sustainable Architecture for Finance in Europe (<https://safe-frankfurt.de/>)

SAFE Finance Blog

Touted Stocks - Who Can Think of It?

02/12/2018

SAFE Program Director Andreas Hackethal about surprising research results on pump-and-dump maneuvers



Who does not know the auspicious e-mails with the surefire stock tip. Anyone who naively follows the tip must expect considerable losses. Mostly, the strip-pullers choose unknown companies with very low share prices (penny stocks), stock up with their shares and then start a so-called pump-and-dump maneuver. They praise the shares to private investors by means of anthem-like fake reports, by e-mail, in investor forums or, as in the movie "The Wolf of Wall Street", by telephone. If a surge in purchasing sets in, the

price rises rapidly in view of the thin market volume. During these price fireworks, the strip-pullers sell their own shareholdings and thus realize still high prices, before the prices burst like a soap bubble. The profits of the strip-pullers are mirrored by the losses of the tricked investors.

Large pump-and-dump schemes can lead to significant price distortions in the market and will be prosecuted, if they are recognized. The market functioning and the efficient capital allocation are at stake. In addition, the confidence of investors in markets and institutions can be damaged.

To counteract pump-and-dump maneuvers and to ensure effective investor protection, it is important to understand which investor groups are particularly vulnerable and which patterns and levels of losses are typical. My research colleagues Christian Leuz (Chicago Booth), Steffen Meyer (University of Hannover), Maximilian Muhn (Humboldt University of Berlin), Eugene Soltes (Harvard Business School) and I investigated this question by combining two data sets. Firstly, with the help of the German Federal Financial Supervisory Authority (BaFin) and based on extensive own research, we have identified over 420 presumed pump-and-dump maneuvers between 2002 and 2015. Then we trawled all trades of over 110,000 investors from a German online bank for trades in the affected shares over the relevant period.

In fact, about six percent of all investors were involved in pump-and-dump maneuvers. On average, EUR 6,972 or approximately 11.4 percent of the respective portfolio value was invested in the advertised shares. On average, every investor suffered a loss of 28 percent, or EUR 800, on their investment. Extrapolating, this means an average loss of at least EUR 1.2 million per maneuver and, aggregated for the entire period, a three-digit million amount.

Among those affected was a disproportionately high number of older males, less wealthy and with a lower education level compared to the average investor. However, a look at the portfolio composition and the investment behavior of those affected suggests that not all of them were completely gullible or fell prey to the stock spam. Instead, the results indicate that a considerable share of investors consciously and deliberately invested in touted stocks. More than a third invested in more than one scheme, and 11 percent of the investors even four times or more. And around 30 percent of the investments actually had a positive return.

Detailed analysis of the general trading behavior of the investors concerned reveals that one in three investors traded not only touted stocks but also other highly speculative shares or was engaged in fully fledged day trading. Such alleged victims regularly take substantial risks with large stakes.

Contrary to what might be suspected, our investigation thus shows a significant heterogeneity among the concerned investors. While it is true that vulnerable individuals who are prone to misleading promoted investment offers and who act naively belong to this group, many investors also deliberately invest in pump-and-dump schemes, hope for high profit opportunities and also take the risk of larger losses into account.

What is needed is a differentiated investor protection concept that takes into account the diversity of the investors concerned. To protect those investors who are vulnerable due to their inexperience and prone to stock fraud, ideas from the field of behavioral economics could be fruitful. These include concrete indications of the nature of pump-and-dump schemes and action-oriented checklists at the exact time of the purchase decision or salient depiction of the losses typically to be expected. Of course, these techniques are less promising or even counterproductive for investors who invest deliberately in touted stocks. Although their need for protection could be called into question in general, it nevertheless appears to be justified, as these investors also incur losses on average, generate corresponding negative externalities on market integrity and, finally, create incentives for further fraud.

Andreas Hackethal (<http://safe-frankfurt.de/research/researchers/researchers-details/showauthor/109-hackethal.html>) is Professor of Finance at the Goethe University Frankfurt.

Leuz C · Meyer S · Muhn M · Soltes E · Hackethal A · Who Falls Prey to the Wolf of Wall Street?


Loaz, S., Meyer, S., Mann, M., Cortes E., Mackenroth, A. Who Can Think of It? The Role of Wall Street: Investor Participation in Market Manipulation (https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3073817), NBER Working Paper No. w24083.

Keywords: Household Finance (https://safe-frankfurt.de/news-latest/safe-finance-blog/search-result-blog.html?tx_news_pi1%5BoverwriteDemand%5D%5Bcategories%5D=182&cHash=219248e328a909c6ab29dc8885f8d), Financial Literacy (<https://safe-frankfurt.de/news-latest/safe-finance-blog/tag/financial-literacy.html>), Investor Protection (<https://safe-frankfurt.de/news-latest/safe-finance-blog/tag/investor-protection.html>), Private Investment (<https://safe-frankfurt.de/news-latest/safe-finance-blog/tag/private-investment.html>)



Back (<https://safe-frankfurt.de/news-latest/safe-finance-blog.html>)

Want to get regular updates?

 Subscribe to the Finance Blog RSS feed (<http://safe-frankfurt.de/home/rss-policyblog.xml>)

 Follow us on Twitter (https://twitter.com/SAFE_Frankfurt)

Enter your email address to get regular blog updates.

* Please read our data protection statement (<https://safe-frankfurt.de/about-safe/data-protection.html>)(pdf version (https://safe-frankfurt.de/fileadmin/user_upload/editor_common/Files/Data_Protection_Statement_10Jan2020.pdf))

I agree to the data protection statement.*

Subscribe

RECENT POLICY PUBLICATIONS

Apr 2020

Corona-Bonds und ihre Alternativen (<https://safe-frankfurt.de/policy-center/policy-publications/policy-public-detailsview/publicationname/corona-bonds-und-ihre-alternativen.html>)

Marcel Thum, (https://tu-dresden.de/cdd/leitung_und_beteiligte/mitglieder/lebensraum-und-infrastruktur/Thum) Alfons J. Weichenrieder (<https://safe-frankfurt.de/research/researchers/researchers-details/showauthor/52-weichenrieder.html>)

Apr 2020

The Case for Corona Bonds (<https://safe-frankfurt.de/policy-center/policy-publications/policy-public-detailsview/publicationname/the-case-for-corona-bonds.html>)

Matej Avbelj, (<https://www.eui.eu/DepartmentsAndCentres/Law/People/Fellows/BBF/Matej-Avbelj>) Antonia Baraggia, (<https://www.mmg.mpg.de/person/99018/2553>) Jürgen Bast, (https://www.uni-giessen.de/fbz/fb01/professuren-forschung/professuren/bast/team/prof_leitung) Bojan Bugarič, (<https://www.sheffield.ac.uk/law/staff/bbugaric/index>) Emanuel Castellarin, (<https://unistra.academia.edu/EmanuelCastellarin>) Francesco Costamagna,

(<https://www.law.georgetown.edu/ctls/staff/francesco-costamagna/>) Anuscheh Faraha, (<https://www.oer5.rw.fau.de/prof-dr-anuscheh-farahat/>) Matthias Goldmann, (<https://safe-frankfurt.de/research/researchers/researchers-details/showauthor/549-goldmann.html>) Anna-Katharina Mangold, (<https://www.europeanstudies.info/en/about-ma-eus/our-team/administrative-team/prof-dr-anna-katharina-mangold-llm-cambridge/>) Mario Savino, (<https://unitus.academia.edu/MarioSavino>) Alexander Thiele, (<https://www.uni-goettingen.de/de/pd-dr-alexander-thiele/418590.html>) Annamaria Viterbo (<http://www.dg.unito.it/do/docenti.pl/alias?anna.viterbo#profilo>)

Apr 2020

Emerging Evidence of a Silver Lining: A Ridge Walk to Avoid an Economic Catastrophe in Italy and Spain (<https://safe-frankfurt.de/policy-center/policy-publications/policy-publ-detailsview/publicationname/emerging-evidence-of-a-silver-lining-a-ridge-walk-to-avoid-an-economic-catastrophe-in-italy-and-spa.html>)

Christopher Busch, (<https://safe-frankfurt.de/research/researchers/researchers-details/showauthor/468-busch.html>)

Alexander Ludwig, (<https://safe-frankfurt.de/research/researchers/researchers-details/showauthor/112-ludwig.html>) Raúl Santaaulàlia-Llopis (<https://www.barcelonagse.eu/people/santaaulalia-llopis-raul>)

All Policy Publications (<https://safe-frankfurt.de/policy-center/policy-publications.html>)

Contact

Leibniz Institute for Financial Research SAFE

Theodor-W.-Adorno-Platz 3
60323 Frankfurt am Main

Phone: +49 69 798 30080

Fax: +49 69 798 30077

Email: info@safe-frankfurt.de

Find the right contact person (<https://safe-frankfurt.de/about-safe/contact.html>)

 Follow us on Twitter (https://twitter.com/SAFE_Frankfurt)

SAFE →

- About SAFE (<https://safe-frankfurt.de/about-safe.html>)
- Job Offers (<https://safe-frankfurt.de/about-safe/career/job-offers.html>)
- How to find us (<https://safe-frankfurt.de/about-safe/how-to-find-us.html>)

Policy Center →

- SAFE Senior Policy Fellows (<https://safe-frankfurt.de/policy-center/safe-senior-policy-fellows.html>)
- Policy Publications (<https://safe-frankfurt.de/policy-center/policy-publications.html>)
- SAFE Finance Blog (<https://safe-frankfurt.de/news-latest/safe-finance-blog.html>)
- Policy Center Team (<https://safe-frankfurt.de/policy-center/policy-center-team.html>)

Research →

- Research Departments (<https://safe-frankfurt.de/research/research-departments.html>)
- Researchers (<https://safe-frankfurt.de/research/researchers.html>)
- Data Center (<https://safe-frankfurt.de/data-center.html>)

News & Events →

- All News (<https://safe-frankfurt.de/news-latest/all-news.html>)
- Newsletter (<https://safe-frankfurt.de/news-latest/newsletter.html>)
- Expert List (<https://safe-frankfurt.de/press/expert-list.html>)



Home (<https://safe-frankfurt.de/footer-menu/home.html>) →

About this site (<https://safe-frankfurt.de/footer-menu/about-this-site.html>) →

Data Protection (<https://safe-frankfurt.de/footer-menu/data-protection.html>) →

© 2020 SAFE