SEC warns of rise in risky email stock schemes

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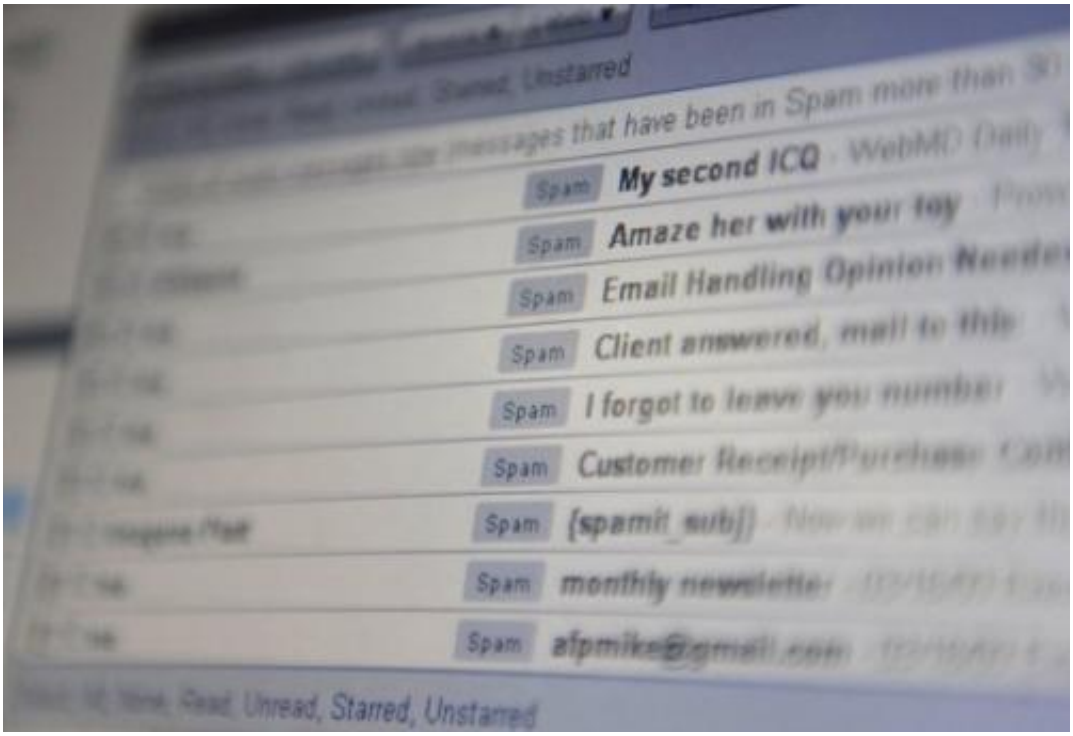

A computer screen inbox displaying unsolicited emails known as "spam" in Hong Kong on March 20, 2009. US market regulators warned Wednesday of a rise in spam email and social media-based stock promotions that are actually "pump and dump" schemes aimed at cheating small investors.

US market regulators warned Wednesday of a rise in spam email and social media-based stock promotions that are actually "pump and dump" schemes aimed at cheating small investors.

With US share markets powering to record highs in recent months, "email stock spamming is back in high gear," the Securities and Exchange Commission and the Financial Industry Regulatory Authority said in a joint alert.

They cited a new study on online threats by computer security expert McAfee noting a rise in large-volume emails promoting stock investments to small market players.

The emails try to get recipients to buy shares in companies, often low-priced "penny stocks", by offering ostensible inside information that will push up the price once it becomes public.

The subject lines and the short messages are written to quickly spark interest in the low-priced shares, the regulators said.

"Investors should treat emails like these with extreme caution—they are very likely part of what are called 'pump-and-dump' scams."

"In reality, the fraudsters sending these emails are often paid promoters or company insiders who stand to gain by selling their shares after the stock price is 'pumped' up by the buying frenzy that they create through the mass email push."

Once the scheme's promoters take advantage to dump their shares, the promotion ends and support for the share price collapses, leaving the tricked investors with large losses.

Scammers are also using chatrooms and social media like Twitter and Facebook to promote the schemes, the two agencies said.