U. S. Securities and Exchange Commission
Washington, D.C. 20549 (202) 272-2650

News Release

FOR IMMEDIATE RELEASE 88-111

SEC RELEASES NEW FLYER ON PENNY STOCK FRAUD

Washington, D.C., November 30, 1988 -- David S. Ruder, Chairman of the Securities and Exchange Commission, today re-affirmed that the Commission is mobilizing efforts to protect investors from fraud in the sale of "penny stocks." A Market Manipulation Task Force, headed by Joseph Goldstein, Associate Director of the Division of Enforcement, has been established to address the problem. One part of the Task Force's effort is a public education campaign. As part of that campaign, the Commission today released "Information for Investors," a flyer providing information on warning signs of penny stock fraud, basic information on penny stocks, and advice for investors.

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Information for Investors

From the U.S. Securities and Exchange Commission

BEWARE OF PENNY STOCK FRAUD!

The Securities and Exchange Commission has received many complaints from investors who have lost money by purchasing penny stocks. This brochure is designed to acquaint investors with some of the warning signs of penny stock fraud. For some, penny stocks can be a legitimate investment opportunity. The key is to be alert. Learn the warning signs of penny stock fraud, and investigate before you invest.

THREE WARNING SIGNS OF PENNY STOCK FRAUD

1. UNSOLICITED TELEPHONE CALLS. Beware of a salesperson who promises you quick profits with little or no risk. Remember, if an investment opportunity sounds too good to be true, it probably is.

2. HIGH PRESSURE SALES TACTICS. These tactics include statements by a salesperson such as:

   - the salesperson has "inside" information on a stock and that you should purchase now, before the information becomes public;
   - you have a unique opportunity, available only for a short period of time, to buy a stock at a special or below market price;
   - there have been a series of increases in the price of a stock and you should purchase immediately before the stock rises even further; or
   - you may buy a particular stock only if you agree also to buy stock of another company.

3. INABILITY TO SELL YOUR STOCK AND RECEIVE CASH. Fraudulent penny stock brokers usually will strongly resist your desire to sell your stocks for cash. You may be unable to reach your salesperson when you want to sell, or your salesperson may refuse to sell your stock unless you buy another stock.

SOME BASIC INFORMATION ABOUT PENNY STOCKS

What are penny stocks? How are they different from other stocks?

Penny stocks are low priced (usually trading under $3 per share, initially) and, with few exceptions, are not traded on an exchange or quoted on the National Association of Securities Dealers Automated Quotation (NASDAQ) system. Most penny stocks are sold legitimately, but some are sold fraudulently.

How are penny stocks traded and quoted?

Penny stocks are traded in the over-the-counter market. With exchange listed or NASDAQ quoted stocks, volume and price information is collected electronically and made available to the public so investors can determine recent volume and price movement. With penny stocks, price and volume information is not usually collected automatically and made available to the public. Brokerage firms trading a penny stock can usually provide information only about trades they make.

Then how can I obtain information about current penny stock prices?

It can be difficult or impossible. One private company prints a daily list of firms trading particular over-the-counter stocks, including penny stocks. This list, known as the "pink sheets," includes prices of some penny stocks. Most brokers subscribe to the pink sheets. Some newspapers also publish penny stock prices. However, for many penny stocks, no prices are published. And published prices are not necessarily the price for which you can sell your stock.

INVESTIGATE BEFORE YOU INVEST

No stock goes up all the time. Penny stock investments can be highly speculative. Be sure you understand the risk of loss, including the loss of your entire investment. While there are risks with any investment, the following risks are particularly great with penny stocks:

RISK OF MARKET DOMINATION AND PRICE MANIPULATION. Many penny stocks are traded by a single brokerage firm, or just a few firms. When a stock is traded by a single broker, or a single broker controls most of the market, that broker has a monopoly, and could take unfair advantage of you by manipulating market prices.

RISK OF BEING OVER-CHARGED. Brokerage firms that sell penny stocks generally earn their profits on these sales by charging you a mark-up above the price the firm is paying for the stock. The National Association of Securities Dealers (NASD) generally sets limits on mark-ups. Undisclosed, excessive mark-ups are illegal. Some firms sell penny stocks with undisclosed mark-ups of 100 percent or more. Because of the limited number of firms trading any one penny stock and the limited availability of current price information, the opportunity for unscrupulous brokerage firms to overcharge you is a particular problem.

LACK OF STOCK PRICE INFORMATION. Frequently, it will be difficult or impossible for you to use sources other than your broker to monitor your broker's recommendations or changes in the value of your investment.

LACK OF INFORMATION ABOUT YOUR INVESTMENT. Companies with stock traded on an exchange or quoted on NASDAQ are required to make quarterly and annual reports publicly available. Some penny stock companies distribute quarterly and annual reports, but many do not.

Before you decide to buy a penny stock, consider these important steps:

CHECK OUT YOUR ALTERNATIVES. If your broker's firm is the only one actively trading the stock, you will be dependent on that firm, even if you become unhappy with the firm's or your broker's performance.

KEEP RECORDS. Ask your broker to send you written copies of any predictions about the price of the stock or the prospects for the company. Keep notes of what the broker tells you.

OBTAIN INFORMATION. Ask your broker for written information about the company. If the broker will not provide information, or tells you there is no time to read it, you should be wary of investing.

CHECK OUT YOUR BROKER. Inquire about your broker's experience and background, and about the background of his or her firm. Ask your broker to confirm this information in writing. In addition, contact your state's Division of Securities Regulation or the local office of the NASD to determine if the firm and salesperson are licensed to do business in your state.

ASK ABOUT PRICE. Ask your broker to tell you the difference between the price you are paying for the stock and the price at which the broker's firm is currently buying the stock back from other customers. A large difference suggests that you may be at a serious disadvantage when you try to sell your stock.

IF YOU ARE THE VICTIM OF IMPROPER ACTIVITIES

Confirm any current instructions to your broker by a certified letter or mailgram.

Document your complaint and bring it to the attention of the branch manager, compliance officer, and president of the brokerage firm.

If you can not resolve your complaint, or if you suspect fraud, contact an attorney, your local SEC regional office, or your state's Division of Securities Regulation. You may also write the NASD Surveillance Department, 1735 K Street, N.W., Washington, D.C. 20006 or to the Securities and Exchange Commission, Office of Consumer Affairs and Information Services, Mail Stop 2-6, Washington, D.C. 20549.