

Hello Everyone,

Well, we're about to find out if geopolitical events will have any effect on the markets. They sure didn't seem to in 2019.

I thought about trying to connect the events in Iran with today's report, but I've learned first reports are not always the most accurate reports...especially with respect to motive. Better to stay quiet until the smoke clears.

Thus, today's missive addresses an old Wall Street trick called ***pump and dump***. One hundred years ago, this was done via whisper campaigns. Today computers and algorithms do it.

I hope it makes you a better investor.

Signed, Your Wondering-If-That-Recent-"Earthquake"-Adjacent-To-Iran's-Underground-Nuclear-Facilities-Was-Natural-Or-Manmade Financial Advisor,

Greg

KKOB 01.03.2019 Pump and Dump

Bob: So, Greg, your topic today is entitled "pump and dump". And, I must admit the term doesn't sound like something that fits with a stock report.

Greg: Ah, but it does. And to make point, let's start with a real world example. Bob, have you ever hear of a large Houston based engineering and construction firm named McDermott?

Bob: No. I follow a lot of things, but McDermott isn't one of them.

Greg: I get that. Still, McDermott is big---and it is publically traded. It trades under the symbol MDR. Anyway, on Monday trading in McDermott shares was halted when its stock crashed from a high of \$10/share to under a \$1.00. The speculation was the company would declare bankruptcy and restructure.

So, here's what going on. McDermott is being investigated over disclosures about losses in their Louisiana liquefied natural gas

project. And even with \$1.7 billion in loan commitments--- that is not enough to cover their \$4.3 billion of debt. Thus, by January 15th, they are likely file for creditor protection.

Bob: But, that means the shareholders could lose everything. Even I know that in a bankruptcy the government, the lawyers, and the bondholders get paid before the stock holders do. So, that's why the stock tanked.

Greg: Exactly. So why mention this big, but rather obscure, company today? Well, this is where the pump and dump term comes in. The real story *isn't the dramatic fall* of McDermott on Monday. It was *the rapid rise in the stock* 12 days before the fall.

You see, starting on December 18th, MDR shares began to rocket up. And, yes, I know the overall market was rising, but not like this. The stock more than doubled in 12 days. Then "bam!" They hint at bankruptcy.

So, the question is, why did it rise so fast? Who was buying that stock at elevated prices? Who was selling as the stock rose?

This is where pump and dump (or P & D) comes into play. By definition, pump and dump is "***a form of securities fraud that involves artificially inflating the price of an owned stock through false and misleading positive statements, in order to sell the cheaply purchased stock at a higher price.***"

Bob, in short, bad-players pump the price up and then dump it to an unsuspecting public----thus, leaving the losses to the uniformed who didn't know what was going on.

Bob: So, you're saying McDermott could have been involved in a pump and dump scheme so insiders could get out of the stock at high prices before the stock cratered.

Greg: Well, “could have” is the right term ---and I don’t know who was involved. All, I’m saying is---- this has all the markings of a P & D operation. And, it should be investigated. And I wonder how many pension funds got nicked in this.

Bob: OK, I get all that. So, my guess is the Securitas and Exchange Commission is responsible for the investigation. But, I would think that could take months or years.

Greg: That’s correct. And, Bob, by the time everything is done, investors rarely get much back.

Bob: OK. So another quick question. You used McDermott to make the pump and dump point. But, can this happen in a bigger way? What I mean is---can P &D happen to a whole sector? Or even to the stock market as whole?

Greg: That is a great insight. And, yes. We saw this happen to the tech sector during the dot com era. And, the same thing happened during the housing mess with mortgages. There is even evidence of a massive pump and dump before the crash of 1929.

The point is, if your stock is soaring for a real reason...profits tripled, a new contract was signed, a new drug was just approved...then cheer your success.

If, however, the stock, or a sector, is soaring for no apparent reason, be wary of a pump and dump. Does that make sense?

Bob: It does. That’s a nice report to start the year. Let’s talk again on Monday. Until then, and how do people reach you?

Greg: My direct line is new---its 250-3754. Or go to my website at zanettifinancial.com.

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