

# Fraud: the stage is set for a massive pump and dump scheme

A perfectly legitimate company has hit all the buttons that pump and dump fraudsters like to see. How long will it be before that company is a victim of stock fraud?

Pump and Dump scammers read the newspapers, gleaning information on trends and individual companies.

Their life is made easier by bots that trawl the newswires - and press release services - looking for specific terms and words.

If a term or word is fashionable, then the chances are that ordinary people, who also read the newspapers, will already be considering investment in companies that are active in the things that interest them.

The favourites at present are anything to do with China and anything to do with ecology, especially in so-called sustainable development and / or biofuels.

A trigger that the fraudsters look for is an announcement from a company that it has raised finance, or that it has acquired another company, or reversed itself into a Pink Sheet or Bulletin Board company, for example.

A news release from China Clean Energy, Inc. yesterday announced that it had made a private placement of its shares raising USD15 million gross. Its shares are posted on the Bulletin Board.

The funds are raised in the US but the company says in its statement "The proceeds will be used to build a 100,000 metric ton biodiesel plant at Jiangyin Industrial Park and for general corporate purposes." But in fact, it will be used by a wholly owned subsidiary.

So it ticks the fraudster's boxes for china and biofuels. And more - "China Clean Energy Inc., a leading producer of biodiesel fuel and environmentally-friendly specialty (sic) chemical products made from renewable resources in The People's Republic of China ("PRC")" says the release.

But the release also ticks another box - that of claiming limited risk: "certain stockholders of the Company deposited an aggregate of 1.5 million shares of common stock into an escrow account, which shares shall be disbursed, pro rata, among the investors should (i) the Company fail to begin the production of biodiesel at its currently proposed production facility in Jiang Yin, People's Republic of China on or before January 1, 2009 or (ii) the Company fail to achieve at least \$14,000,000 of adjusted net income during 2009."

That means, then, that existing shareholders have in effect given a partial guarantee that the funds will be used as specified and that the company will be making substantial profits within two years.

From the point of view of pump and dump fraudsters, that partial guarantee is a fantastic bonus that they can talk up, regardless of the fact that the shares which form the partial guarantee may or may not have value in two years' time.

And so, with the stage set for the fraudsters, it is only a matter of time - possible as early as today in the US as weekends are a favourite time for pump and dump spammers - before inboxes around the world are force fed a diet of spam insisting that the recipient would be an idiot to miss the chance to invest in CCGY, the ticker symbol for China Clean Energy, Inc.

For the company, which did nothing wrong and has simply made a corporate announcement which, in a slightly different form, it will have to make via official filing, there may now be a worrying time.

And it is increasingly likely that the company will be the victim of such a fraud - for in October 2006 it came to the attention of the wires when it did what its investment advisers call a "reverse merger."

As recently as mid December last year, an anonymous tipster at blogspot.com started to pump the company - claiming that its biodiesel strategy was better for the environment than ethanol production, and that its raw materials were essentially waste materials imported from e.g.

Malaysia and Indonesia and trees that grow on otherwise infertile terrain. This, the tipster says, means that there is less competition for food-grade crops and land than ethanol production requires. The tipster says "With crude oil prices continuing to be inflated, demand for alternative fuels, especially renewable biofuels, will increase. And as demand for those expands, the above policies will favor biodiesel more and more, such that in the long run, it may well become the most economically viable biofuel in China." Despite this, he claims to have no position. Suspicion is raised as another website which used blogging software carries exactly the same comments and position statement.

This is what those tipsters say about themselves:

1: China OTC Player is an experienced private investor who worked on Wall Street in the 90s and is currently an expert in over-the-counter Chinese stocks. His focus is on uncovering hidden value in lesser known companies for long-term investment. He received his MBA from Stanford University and has a Bachelor in Civil Law from Oxford University.

2. This blog is used to record my activities in uncovering the hidden potential in Chinese OTC stocks. I've been investing for over 20 years, and of late, some of these high growth but little known companies have presented particularly attractive investments.

One of the sites carries a link to the other.

Yesterday, according to Yahoo charts, the company's shares were volatile - with spikes and collapses all over the place. But a closer look shows that the changes were within a small range - just USD 4 cents from top to bottom, ending the day down 2 cents. That's a 1% fall, incidentally, and values the company at more or less the price it says the shares were placed for.

In the past few months, the company has been heavily "featured" on many stock pick sites. A significant proportion of such sites are part of the pump and dump industry, but masquerade as legitimate tip sheets. Some are just stupid people who get visitors to their sites just by repeating what they have found elsewhere. And so the number of sites carrying the tips does not represent true quality and certainly does not represent any form of proper research and analysis.