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SOCIAL MEDIA INFLUENCERS

STOCK MARKET GURUS

GURU is a Sanskrit term for a “mentor, guide, expert or master” of specific knowledge or field. And when it comes to stock market investing, a number of gurus hog the blogs. They can be referred to as social media influencers. And they have their reverent followers too. Among the gurus are the dubious gurus — the scammers.

ACTIONS BY SEC

In an effort to weed out the scammers, the Securities and Exchange Commission (SEC) of the United States filed a suit against eight social media influencers over a US\$100 million stock manipulation scheme.

These social media influencers used social media platforms, including Twitter and Discord, to manipulate exchange-traded stocks. They promote themselves as successful traders and investors, thereby scamming their followers.

These influencers were charged on the grounds of purchasing certain stocks and encouraging their followers to buy them too. According to the charges, when the prices of those particular stocks went up, the influencers dumped the stocks.

“As our complaint states, the defendants used social media to amass a large following of novice investors and then took advan-

tage of their followers by repeatedly feeding them a steady diet of misinformation, which resulted in fraudulent profits of approximately US\$100 million,” said Joseph Sansone, chief of the SEC Enforcement Division’s Market Abuse Unit.

The SEC charges seek permanent injunctions, disgorgement, prejudgment interest and civil penalties against each defendant for their manipulative actions.

SC GUIDANCE

In Malaysia, there are also several such social media influencers on stock market investing. And their activities were worrying enough to elicit a pronouncement from the Securities Commission (SC), aptly called the Guidance Note on Provision of Investment Advice, issued on Dec 30, 2020.

One would recall that this was during the period of the Covid-19 lockdown when many new investors thronged the stock exchange, fuelled primarily by the moratoriums that left money in their hands and the work-from-home arrangement which left time in their hands.

Both time and money resulted in a bullish sentiment in the stock market.

Interestingly, there is a direct correlation between the bullishness of the stock market and the activities of stock market gurus

and the emergence of new gurus.

THE MODUS OPERANDI

Basically, the modus operandi of scammers is to collect the shares first and then ask their followers to buy them, contributing to increases in share prices. When the share price increases, scammers dump their shares at a profit. The dumping of these shares causes a drop in the share prices, resulting in financial losses to the followers.

Some gurus pick stocks with an attractive financial metric, say, stocks with low price earnings (P/E) ratio within a particular sector, and promote that stock on the premise that it is undervalued compared to its peers.

Minority shareholders must realise that there is a reason why a particular company in a sector is disadvantaged by a lower P/E ratio. Maybe the management is not as good as the other companies in the industry.

Then again, the cash flow may not be as strong either. Any reasonably good investor will know that informed investing involves more than just looking at one or two factors to justify their investment decision.

SELF-FULFILLING PROPHECY

Stock market scammers use the phenomenon of a self-fulfilling prophecy. A self-fulfilling prophecy is a prediction that

comes true at least partly because of a person’s or group of persons’ belief or expectation that a said prediction would come true. This suggests that people’s beliefs influence their actions.

The principle behind this phenomenon is that people create consequences regarding people or events, based on previous knowledge of the subject. Thus, the followers, by their actions, drive prices higher.

The advice for minority shareholders is to have their own methodology for investing. Sure, tweak it as often as necessary.

Read the blogs widely but dispassionately. The “dispassionately” is the hard part as a whole host of biases come into play amid the backdrop of fear and greed.

And when it comes to following the stock market scammers, it is the fear of missing out and the greed to make fast money.

And finally, it is not fated. As Cassius said to Brutus (in Julius Caesar) that men at some times are masters of their fates: “The fault, dear Brutus, is not in our stars, but in ourselves, that we are underlings.”

May 2023 be a year when we become masters of our fate through choice, no matter what the stars say.

The writer is chief executive officer of Minority Shareholders Watch Group

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