DISB
Government of the District of Columbia
Department of Insurance, Securities and Banking

Consumer Alert

Warning Signs of a Penny Stock Scam

The District of Columbia Department of Insurance, Securities and Banking (DISB) wants District of Columbia residents to be aware of the warning signs of penny stock scams. Penny stocks are generally stocks that trade at less than five dollars a share. This relatively low price per share can make them attractive to many investors with limited resources. Penny stock promoters often reach out to victims by cold calling them. Use this information to recognize and protect yourself. Many calls come from overseas using technology to mask their true location and identity.

EXAMPLES: There are several types of penny stock investor fraud:

- **Pump and dump schemes** involve the use of false, misleading or exaggerated statements to sale and therefore boost the price of a stock over time. Such schemes involve telemarketing and internet fraud.

- **Chop stocks** are stocks purchased for pennies and sold for dollars, providing both brokers and stock promoters massive profits. Brokers are often paid "under the table" or with undisclosed payoffs to sell such stocks.

- **Dump and dilute schemes** involve companies that repeatedly issue shares for no reason other than taking investors' money. Companies using this kind of scheme tend to reverse split the stock periodically. A reverse split is where the corporation consolidates stocks (more shares become less) to give the appearance of a higher value for your stock.

ACTION: Use this information to recognize penny scams and protect yourself:

1. Beware of unregistered financial advisers who guarantee returns. These are the two most common signs of a fraudulent investment scheme. Few legitimate investments offer a guaranteed profit. To find out if the caller

is licensed, ask her/him whether the U.S Securities Exchange Commission (SEC) or DISB issued them a license.

2. Be wary of promises of quick, high returns that are "a sure thing" because the initial investment is low.
3. Be skeptical about "hot industry" pitches. Scammers take advantage of the latest trends, news stories, and claims to dupe victims, i.e., a pitch suggesting you invest in cannabis because of claims that it kills the coronavirus.
4. Watch out for the suspicious soft sell. Brokers who don't push you to buy right away might still be scammers. Many penny "stockbrokers," registered or not, may spend weeks or months trying to win your trust. Do not drop your guard just because the broker isn't pushing you to buy immediately.
5. Listings aren't a guarantee. Though most penny stock scams involve companies not included on a legitimate exchange, those listed on NASDAQ or the New York Stock Exchange can still be part of a scheme.
6. Phone calls are not the only method that shady brokers use. Pitches come via spam emails, direct mail, newsletters and even radio or TV ads.

If you believe you have been a victim of a penny stock scam, please contact the DISB Enforcement and Consumer Protection Division at 202-727-8000.

About DISB

The mission of the Department of Insurance, Securities, and Banking (DISB) is three-fold: (1) cultivate a regulatory environment that protects consumers and attracts and retains financial services firms to the District; (2) empower and educate residents on financial matters; and (3) provide financing for District small businesses.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
MURIEL BOWSER, MAYOR

Issued April 23, 2021