

U.S. Securities and Exchange Commission
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News
Release

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SEC CHAIRMAN ANNOUNCES MAJOR INITIATIVE
AGAINST PENNY STOCK FRAUD AND MANIPULATION

Washington, DC, October 21, 1988 -- David S. Ruder, Chairman of the Securities and Exchange Commission, today announced a major Commission initiative against market manipulation and fraud in the over-the-counter penny stock market, long a matter of concern in the Rocky Mountain area and, with the growth of computers, telefax machines and wide-area telephone systems, now a nationwide concern.

“The Commission will not hesitate to bring proceedings against broker-dealers, registered representatives, attorneys, accountants, public relations firms, transfer agents and others when their activities as participants in the penny stock market violate the law,” he said. Chairman Ruder was addressing the Twenty-First Annual Rocky Mountain State-Federal-Provincial Securities Conference in Denver, Colorado. The Conference, sponsored by the Denver Regional Office of the SEC, brings together regulators from the state and federal level, from Canada, members of the securities bar and others to discuss areas of common interest.

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In his remarks, released in Denver and in Washington, Chairman Ruder stated that the Commission is mobilizing its efforts to protect small investors from penny stock fraud and manipulation. He described some common forms of penny stock market abuse and spoke of certain patterns identified by the SEC:

- a thinly-traded market;
- control by one or only a few brokers who often have contacts with the promoter of the stock;
- matched purchases and sales of the penny stocks effected to increase their prices;
- false or misleading press releases;
- high pressure “boiler-room” sales practices by professionals and young, inexperienced sales personnel;
- grossly inflated spreads and mark-ups; and
- dumping of securities at inflated prices.

He cited examples of ways in which penny stock market abuse hurts innocent investors, including one instance of a customer paying \$25,000 for a stock without knowing that the broker’s commission was \$12,500, exactly half of the amount paid by the investor.

Chairman Ruder announced the formation of a task force on penny stock manipulation at the SEC, under the leadership of Joseph Goldstein, Associate Director of the Division of Enforcement, and with the assistance of the Commission’s Regional Offices. The aim of the task force will be to identify the problems posed by penny stock manipulation, to consider regulatory solutions to those problems, and to consider how to educate investors regarding the dangers of penny stock fraud. Chairman Ruder called on others to participate in this effort.

“I am asking members of the securities bar and the accounting profession, members of the public, the Justice Department, the National Association of Securities Dealers, state securities administrators and the securities industry to join with the staff of the Securities and Exchange Commission in a vigorous effort to combat abuse in the penny stock market,” said Chairman Ruder.

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