

INTERVIEW WITH KEITH WOODWELL

PAM

Your reaction to these kinds of stories of somebody this young, high school students, who are actually breaking the law, and have figured out, and just what was your first reaction?

KEITH

Well, it's the glory of the internet and the age that we live in, where almost anyone can pretend to be anyone else they want to be. You know, the internet affords you great power and great anonymity and using those tools, I think Cole was able to capitalize on this and pretend to be somebody other than who he really was, a 17 year old operating out of his house.

PAM

Can you explain to me exactly where he broke the law. At what point along the continuum of just simply sharing his opinions about particular stocks, when did this cross the line into the ??

KEITH

Well the hallmarks of the typical pump and dump scheme is when you take some kind of controlling interest in the companies who share your offerings or trying to sell to others. And my understanding in this case, is that he had about 50% interest in the company at one point, and you cross a certain threshold, and the threshold is actually pinned at 30%. Once you reach that point, you have affirmative obligations to disclose your own positions, disclose potential conflicts of interest that you have when you're soliciting the stock to others. And that's when he crossed that line. It's one thing to give unsolicited recommendations to others, it's another to have undisclosed conflicts of interests, as he did in this case.

PAM

Get your reaction Keith, if you could start this out with either Jack or Pam, that'd be great.

KEITH

Sure

PAM

What's your reaction to the, this is the idea that he's not the first 15 yr old kid who figured out how to do this. We're really talking about something that seems sophisticated, but really isn't if a 15 yr old can do it.

KEITH

Yeah, you know Pam, I think that in some ways almost anyone could do this. If they have the access to the right message boards, and have the internet skills where they know how to get their message out either through unsolicited emails or through social networking sites, which a lot of the teenagers are probably more skilled at that than some of us from our generation, but they know how to leverage these tools that the internet provides to reach the biggest audience they

can. And of course you have that added layer of being anonymous essentially when you're making these postings to the internet. And if you can sound convincing, and walk the walk and talk the talk, as he did in this case, I think you can convince a lot of people.

PAM

So how does the internet, the message boards, chat rooms, etc. How does this gray area within the internet or that just pop up, how are they policed?

KEITH

Well unfortunately, that's a really tough assignment Pam. It's not easy to get behind the internet and figure out who's putting these postings on boards. You know, at the end, it's buyer beware. People have to talk protection into their own hands, and verify what you receive. You can't trust what you get in an unsolicited email, or even old fashion cold call or postings to the internet you have to be able to verify things for yourself. And there's a couple of easy ways people can do that. One is just to check out the person making the offer. Do you know who it is? Is it just a username on some social networking site? Or do you have an actual name and a face, and maybe a firm that this person is claiming to belong to? That's something that you can verify. You can go to your state securities regulator. You can go to their website and check out their licensing history, see if there's been previous complaints or disciplinary actions taken against this person. If you're dealing with a username and a number on the internet, you know that's a really difficult thing to police unfortunately.

PAM

Other things to watch out for when you're online and learning how to research, and you're learning how to access, you're a beginner. Sometimes it's really hard, really blurred on what's education, what's advice, and what's outright baloney.

KEITH

Yeah you know Jack, the internet gives marvelous tools to investors and we have more info now at our fingertips than we've ever had before certainly. But that's no substitute for using professionals. And really, I think, in the end, you can do a lot of research on your own, you can check things out, there's a wealth of information available to investors today, but in the end I think there's no substitute for using licensed professionals. Licensed broker dealers who have met certain requirements, are subject to reporting and disclosure requirements, licensed by your state or the federal govt, who are answerable to you, and meet certain qualifications and background, and if nothing else, after you've done your own homework and your own research on the internet, and you think you've got some good ideas, it's always a good idea, I think, to run those by a professional. Check it out with them, see if it makes sense, and there's certain hallmarks out there that people need to be aware of, that are very common in these pump and dump schemes, it's almost always a small company that's thinly traded, that is to say there's very few shares of the company that are traded on the open market. That's what enables someone to take a controlling position in the stock, and then pump it up, create some kind of hype, get the message out there to get people to buy it at an inflated price. You're not gonna be able to do that

with a Wal Mart, Home Depot, these are huge companies that have millions of shares everyday. It's a small company usually that you've never heard of but that someone's trying to create a lot of buzz about.

PAM

I almost feel like I was in your head cause I was gonna use hallmarks. Before you even said it I was gonna say what are the hallmarks. What are some other hallmarks of out right fraud from family trading, big positions, small penny, that kind of thing, or anything that's even like a hallmark thing, or even just the kind to stay away from.

KEITH

Yeah, you know Jack and Pam, there's a lot of things people can do, simple checklists people can keep in mind that will keep you outta trouble, and they apply to most kinds of investment fraud, and certainly the pump and dumps are no exception. And that's high risk, and high pressure sales tactics. If someone is pushing you and saying, look this is a limited opportunity, you gotta get in now or you're gonna be too late. This is gonna close tomorrow. They're not giving you time to make an informed decision, there's almost always a reason for that.

PAM

Yeah you're right, it's that hurry up.

KEITH

You're gonna miss the boat on this one if you don't get in now. (Pam also talking)

KEITH

... you know there's some great scenes. They use boiler room tactics, and there was a movie a few years ago called Boiler Room, that's probably instructional in this regard, that they're really good at using these tactics to make you think, look 'I've gotta get in now or I'm gonna be too late, I'm gonna miss the boat on this one,' they'll tell you about one that you missed last week and how much money people made off of that. And pretty soon it sounds good enough to make a decision with out really thinking it through. So any time you can step back, take a deep breath, consider what your doing, maybe ask for a prospectus, or company financials, something you can sit down and read, and do the research for yourself, and then make an informed decision.

PAM

Like when you go shopping and you give yourself the 10 day rule

KEITH

Yeah (laughs)

PAM

Do I really want this?

KEITH

Yeah maybe come back later and see if you still feel the same about it.

PAM

Good point, I'm gonna bring up a few things that are a little philosophical, a little gray area...

KEITH

Sure

PAM

We talk about creating a false perception around a stock, gonna give you two different levels, all of a sudden snap out of the world of the internet and the message boards, wait one question before I do that, how pervasive in your experience, is this problem online?

KEITH

Well there's almost no question Pam, today that's how pump and dump scams work, through the internet. In the old days, they operated out of a boiler room in some office on Long Island, or New Jersey, or Florida, and they'd have a room full of cold callers, reaching out to everyone. That still happens occasionally, but that's really not the model we see anymore. What we see now is people operating through the internet. And they do it through messaging boards, where there's a lot of different sites where people go to find information and they can share information and it's a powerful tool. But unfortunately, the con men out there know this is a tool they can manipulate to their benefit. So they're operating on those sites, where they have a target audience already willing to listen. This are people who are individual investors, they're already interested in researching companies, and finding the next big thing. So you've got the perfect audience waiting there for the con men to take advantage. They know where those people are, and they go to the same sites that the legitimate investors do, so it makes it a little more difficult ...

PAM

Sorry, ?? Investopedia, legitimate, and just because they do have a blog, there's nothing to stop the motive to pump and dump, and pepper those sites as well. They're not only on the sleazy sites, they're also in plain site on some of the good sites.

KEITH

Absolutely, in fact, I think it's almost exclusively where they're operating. They're not getting much bang for their buck sending out unsolicited emails to everyone's Yahoo account. They're on the CNBC site, Motley Fool site, and the Yahoo finance site, and they have multiple identities that they use to post blogs there and to chat with the people who are in these user groups, using these tools to research stocks and talk about investment ideas, and they're gonna be there as well. That's why you have to take all the things you read, especially if they come from anonymous postings, with a grain of salt, because you don't know who's behind the mask. In this case it could be a 15 or 17 yr old kid who's operating out of his basement. They aren't necessarily who they say they are.

PAM

Sitting in his pajamas eating Cheerios. That is so wonderful, you have no idea, it's going exactly like I dreamed it would.

KEITH

Good

PAM

Now I'm gonna ask you a question, separate issue sorta related. A couple of yrs ago, our pal Cramer, was bounced off the air for having on CNBC for having a questionable ?? or whatever he was having questionable activities at the same time he was trading, it was in stocks and he was trading in his hedge fund, he did an interview with Aaron ?? where he actually said verbatim that manipulating the stock was actually kinda fun and the reason it was ok is because the regulators don't even understand what he's doing, so you got Cole has to pay sentence and he's punished, you got [Jonathan Lebed] who did the pump and dump, then you get Cramer, he's admitting that he's manipulating stocks, yet, we're all still kinda 'Boo yah Jim.'

KEITH

Yeah it's... The difficult thing is, unfortunately the reality is Pam, the SEC and the State Regulators, we don't have a very high batting average when it comes to these pump and dump schemes. Most of them can operate in the shadows, using the internet, and they're basically anonymous, and unfortunately it's the minority of the cases that we're able to successfully investigate and prosecute and that's because it is a bit of a gray area, giving stock advice is certainly a legitimate activity and if I want to go onto the message board on the Motley Fool, and talk about what stocks I'm investing in and why I think it's a great deal, and why I think it's gonna go up over the next 6 months, I have every right to do that. That's my freedom of speech, and anyone else can do the same thing and when you cross the line, is when you have apparent conflicts of interest without disclosing. And you'll notice that there's been a big change at the financial networks, CNBC at the forefront of this. When they have someone who's gonna come on, talk about a stock, make some recommendations, they'll have a disclosure that says, 'Cramer owns this stock in his charitable trust.' or he doesn't own it personally but the foundation or the company that he works for or his firm has a large position in this stock they'll give those disclosures. Those are very informative. You know, it's one thing if somebody is pumping a stock that they own a big piece of, they've got a reason to pump that stock. If you have someone who's doing a legitimate financial newsletter, and they're making recommendations and they don't own the stock themselves, they make their money from doing the recommendations, that's a different animal. So I think one area you could look for is what conflict of interests they have, and are they good at disclosing them. Particularly with these pump and dumps, they're usually with very small, thinly traded companies, and the claim is usually about a breakthrough technology, that's just been approved by the FCA or some govt agency, or they got a big contract they just signed with some govt agency or even a foreign country

PAM

...

KEITH

Right or some big lawsuit that they're gonna settle, and get millions of dollars. You need to be able to verify those things independently, and they need to disclose what interest do they have in this already. And if they can't be upfront about what is their interest in this company and if they've already taken a position on this stock, you need to be very wary and when they cross that line and I believe it's 30% in most cases, where they directly or indirectly control 30% of the stock, there's a whole new set of requirements that they have to meet. And they've gotta make all kinds of disclosures and frankly, they have to be very careful about who they're soliciting at that point. That's when they cross the line.

PAM

... Cramer, so full of elegance, just throwing it in everybody's faces that he had crossed the line. You know, in that interview, ?? a couple of years ago. And it was kinda in the news and then it went away, throwing it in the regulator's faces, saying, Look I've done this...

KEITH

You can't catch me

PAM

... perception of this as we go along. A few questions, again it's gonna get a little philosophical, and away from the hard and fast, thinly traded stuff. We got a guy who's usually dark and quiet, doesn't talk a lot, somebody ?? Now as these stories come out, every now and again, and he'll announce so that the mass media knows he's there. ?? In commercial, real estate market, companies, what have you...

KEITH

Sure, and that's cuz he's taking a bet against it already.

PAM

That's right, all I'm saying is a guy like that creates this huge perception, about what his expectation is half the people listening to this stage doesn't understand that he's short. I'm not saying it's illegal but I'm just saying it's really interesting how ? you get information from people who are considered gurus that they've got their own best interest.

KEITH

Absolutely, in the end Pam, there is no substitute for doing your own due diligence. It's one thing to get ideas from people who are prominent in the industry, or have a track record where they've made billions of dollars in investing, but in the end, you need to do your own due diligence. And that starts with the very basics, it's the things people don't like to do. It's reading company

financials, it's actually reading through a prospectus itself, and making a decision based on real facts, not somebody else's spin on those facts...

PAM
George?

KEITH

Yeah I think even with George Soros, Jim Cramer, it doesn't matter who it is. They all have their own take and spin on things. One very telling example that I guess I'll share with you, that I think illustrates the point that you're getting at, Bernie Madoff was on TV in 2007, some of his video has been covered recently and I've seen different clips of him where he talked about activities he was engaged in, and how he was sure that the regulators were on top of all this, and anybody that does anything wrong is gonna get caught. That's one story that they put out there. And that's one story cuz look if there's bad activity going on the regulators are out there, they're gonna catch it, and at the same time, they're counting on the regulators not catching them. But the other thing is what happened last yr with big names, not with small companies thinly traded, but with Bear Stearns and Lehman Bros. And what happened to the investment bankers on Wall Street, and there's been a lot talk in the regulatory community about who took down Bear Stearns and how did that happen? One day Bear Stearns seemed to be fine, the next day there were a lot of rumors circulating and a lot of talk about Bear Stearns has got liquidity problems, they may not be able to pay their debts on time. You have to look behind those rumors and say, who stands ...

PAM
Is this a ...

KEITH

Yeah, who stands to gain from this? And what the SEC has started to uncover, and my understanding is their investigation is still ongoing but yes, there were some shady transactions that took place just before these rumors started. Somebody had taken a huge short position by buying puts on Bear Stearns at a very low price, they were only like two weeks out. And the chances of Bear Stearns dropping, they have to drop about 80% for these puts to have value, in two weeks, that's a very very long odds, but low and behold, it happened. In fact Bear Stearns dropped about 98% in a couple weeks. So you have to question, who's behind these stories, where did it originate, who stands to gain? Unfortunately, I think it's a reality that there is some level of manipulation that happens in the stock market, and the only protection, I think for investors is to do your own due diligence, don't get sucked into something that you do not understand. If you don't understand an investment that someone's trying to promote to you, you shouldn't invest in it get professional advice, get people who know what they're talking about and do the due diligence yourself.

PAM

That's why we really advocate diversification.

KEITH

Absolutely, you can't put all your eggs in one basket.

PAM

I can't thank you enough for bringing up the Bear Stearns, I know one remedy for the bigger picture, and I think one comment on this is around these bigger issues regulators are certainly, by the time this airs it will have already happened, I'm thinking the uptick rule in some sense, will be reinstated by then.

KEITH

I think so, I think it's inevitable. I have to admit Pam, I'm not a big fan of the uptick rule. Short selling is a legitimate activity, the real problem I think is out there is naked short selling, where people are shorting a stock that they don't actually borrow, because normally to short a stock, that's a legit activity. Anyone can bet that a stock price is gonna go down instead of up

PAM

I'm gonna interject. But you're not talking about me with no clothes on in front of my computer? (Keith laughs)

KEITH

No the naked short sell just means you're selling a stock that you don't own. The promise is well I'm selling it now, but you're hanging out there naked because you don't own the underlying shares. And that's technically illegal. If you're going to short a stock, if you're gonna bet against it, which this uptick rule hopes to slow down at least, you're require to own the shares themselves or just borrow them from someone who does. But a simple tactic which is illegal is called a naked short sell where you sell stock that you don't own, with the promise that you hope the stock price goes down and you'll be able to buy it on the cheap in a few days or a few weeks. That's illegal now, but it is so difficult to enforce and if we can find a way to maybe tighten up the regulation or laws that we already have, I think thats a better tool frankly to get at this problem of bear raids and people taking a short position and pushing the stock down. We have some tools now (Pam talks at last sentence)...

PAM

It goes along the philosophy of creating a false perception.

KEITH

It is, there's no doubt about that and I've heard a lot of conspiracy theories about what happened with Wall Street last yr and what happened to Lehmann Bros and Bear Stearns and it was all about creating that perception. Create the perception that Bear Stearns is in trouble, and guess what, pretty soon they are in trouble. Because if the lenders lose confidence in the ability of the

company to pay, they all start to ask for their money at once, and you can't pay it all back at once.

PAM

Alright that's excellent. I think you see why this whole show is much more than the story of Cole Bartoromo. Much more about average people swim in the water or are they gonna get eaten by sharks? Anyway, I want to do one more thing with you, I'm gonna say a big '?? Keith' (Keith laughs). That's exactly right, laugh like you just did, and I'm gonna just say it.

KEITH

Alright

PAM

A big 'Boo yah Keith'

KEITH

And 'Booyah to you P&J, push that button

PAM

Excellent, I love you. Is there anything else you can think of that you can...

KEITH

I think you got it, I'm a fan of the show now, I have to admit I hadn't heard of it before, but I went and watched a couple of episodes and you're doing a great job. Frankly, you're getting the message out there that we would like to be getting out there as much as we can.

(Off camera voice) We did have a fun question that would involve Chloe, I don't know if you were gonna have Chloe in this segment or not? ... We were gonna have you ask Keith about his previous job with the CIA, only the President has authorized to brief Chloe on that

PAM

Oh tell me about that

KEITH

Well I can't share a lot of the details, it was a fun job, but I do have permission from the President to brief Chloe on some of the details if she's interested further.

PAM

Even though they're not getting a labrodoodle, they're getting a portuguese water dog.

KEITH

I know but it's allergies, I'm sure other wise they would have chosen a labrodoodle.