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# **Fraudulent activities in penny stocks**

An Introduction to fraudulent activities in penny stocks: We all suffer from some kind of fraud or misappropriation of our money from cheaters many times in our life. There are few people engaged in fraud and uses various fraudulent measures to sell penny stocks to people. The Securities and Exchange Commission of United States of America seems to be inappropriate in controlling all these frauds as many fraudulent activities takes place daily.

These stocks are highly risky due to various reasons and fraud is one of the reasons. Sometimes a few market makers control the stock and thus adopt the fraudulent activities such s spam and phone calls.

Role of Brokers or Market Makers: In recent past the fraudulent activities of some of the brokers or market makers has been noticed by people and reported to the Securities and Exchange Commission of United States.

If a company offers a few market makers (one or two) to sell or buy the penny stocks of the company. These market makers therefore hype about the company and mislead the investor for buying. As all the stocks of the company will be in the hands of a bunch of people, these people control the stock prices.

Many times the company pay for some dealers or brokers for selling the stocks and for getting more money, the broker or dealer adopts fraudulent methods for selling the stocks. The dealer or broker will generally contact you over phone and hype about the stocks. Sometimes the dealer or broker can use email to convince the people. The poor people and people who do not have resources to verify the particulars of such emails or such phone calls easily get victims.

Sometimes the dealer or broker may offer free stocks and after manipulating the prices can ask for more investment in a specific penny stocks. This may be one of the techniques to lure the people but you should avoid taking free penny stocks. Sometimes free pamphlets or free newsletters can be offered to the people and these free newsletters should also be avoided these newsletter may contain some misleading information. Some brokers may ask you to make investment quickly and you should avoid quick decisions, as in most of the cases this technique is part of frauds.

You should go through the prospectus of the company and see all the particulars including risk factors very carefully. Penny stocks listed at pink sheets are highly risky and you should ensure about these stocks before investing in them. You should enquire about your broker from the state office of the Securities and Exchange Commission before dealing with the broker.

Summary: By taking some of the common and simple steps, you can be safe while investing in penny stocks. Do enquire about your broker from other investors as well as from the state office of the Securities and Exchange Commission before investing in his or her recommended penny stocks.

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