Market manipulation and suspicious stock recommendations on social media

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Abstract

Social media can help investors gather and share information about stock markets. However, it also presents opportunities for fraudsters to spread false or misleading statements in the marketplace. Analyzing millions of messages sent on the social media platform Twitter about small capitalization firms, we find that an abnormally high number of messages on social media is associated with a large price increase on the event day and followed by a sharp price reversal over the next trading week. Examining users' characteristics, and controlling for lagged abnormal returns, press releases, tweets sentiment and firms' characteristics, we find that the price reversal pattern is stronger when the events are generated by the tweeting activity of stock promoters or by the tweeting activity of accounts dedicated to tracking pump-and-dump schemes. Overall, our findings are consistent with the patterns of a pump-and-dump scheme, where fraudsters/promoters use social media to temporarily inflate the price of small capitalization stocks.

Keywords: Asset Pricing, Market efficiency, Market manipulation, Pump-and-dump scheme, Stock promotion, Small capitalization stocks, Social media, Twitter, Event study, Security and Exchange Commission

JEL classification: G12, G14.