

Source: WSJ analysis of CoinMarketCap.com trading data

A pump-and-dump scheme is one of the oldest types of market fraud: Traders talk up the price of an asset before dumping it for a profit and leaving fooled investors with shrunken shares. The Securities and Exchange Commission regularly brings civil cases alleging pump and dumps using publicly traded stocks. Manipulations of cryptocurrencies are no different, but regulators have yet to bring a case in the more opaque market for them. The SEC declined to comment.

“Cryptocurrency exchanges are unregulated markets, so the kind of market manipulation banned on, say, the New York Stock Exchange can essentially be carried out with impunity,” said Ben Yates, a cryptocurrency lawyer at London-based RPC.

The boiler rooms of yore have an online analog in the “pump group,” a chatroom where coin traders gather. The biggest of the dozens the Journal analyzed is Big Pump Signal, with more than 74,000 followers on the messaging app Telegram. It is also the most prolific: After launching its chatroom on Telegram in late December after reaching capacity on another messaging app, Discord, the group promoted 26 pump operations that saw \$222 million in trades.

Many more such groups exist, potentially adding millions or tens of millions more in activity, the Journal found, but operate in private chat rooms, accessible only by invitation, generally overseen by a anonymous moderator.

These schemes became more pervasive following the recent explosion in initial coin offerings (<https://www.wsj.com/articles/what-crypto-downturn-ico-fundraising-surges-in-2018-1530466008?mod=searchresults&page=1&pos=8>)—the securities-like digital tokens (https://www.wsj.com/articles/whats-an-initial-coin-offering-icos-explained-in-11-questions-1506936601?mod=article_inline) sold by startups to fundraise for projects. ICOs pulled in about \$20 billion over the past 18 months, up from the \$300 million raised between 2014 and 2016, according to research site CoinDesk.

Big Pump Signal’s strategy is straightforward, like others pumping coins: announce a date, time and exchange for a pump; at the set time, announce, or “signal,” the coin being pumped, let the traders create a buying frenzy, and

then quickly sell. It can all happen in minutes, and successful traders publicly gloat about their profits.

One day in early July, for instance, Big Pump Signal commanded its many followers to start buying an obscure coin created for untraceable transactions called cloakcoin—at exactly 3 p.m. EDT on an exchange called Binance. “@everyone be sure to ride the waves!” urged the anonymous moderator of the group’s Telegram channel.

The Cloakcoin Pump In Realtime

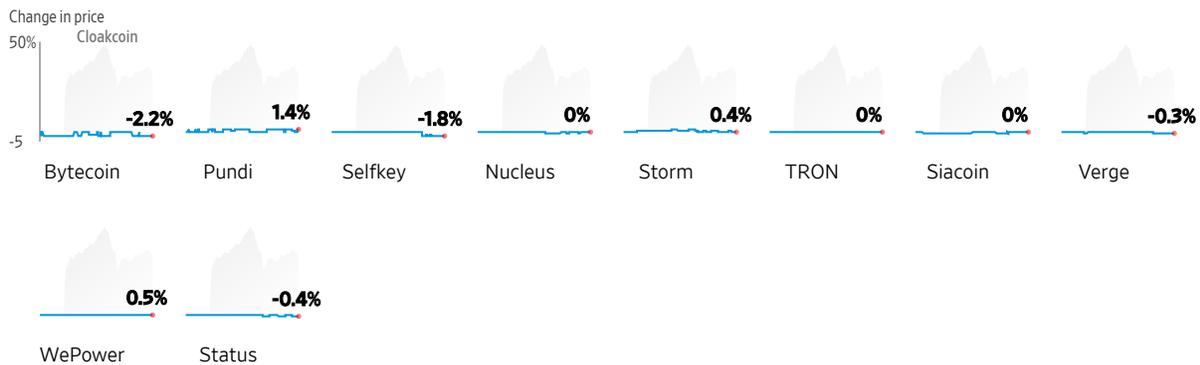
The price of cloakcoin skyrocketed on the cryptocurrency exchange Binance shortly after Big Pump Signal sent a message on Telegram to followers telling them to buy. Prices of Binance’s ten most-traded bitcoin pairs barely moved during the Cloakcoin pump.

Cloakcoin’s July 1 price performance*

Current time: 3:04:00 p.m. ET



Price performance of 10 most-traded bitcoin pairs on Binance*



*Change versus preannouncement price

Source: WSJ analysis of Binance trading data

The buying mania was immediate: the price of cloakcoin jumped 50% to \$5.77 on the exchange before plummeting almost a dollar after two minutes. In total, 6,700 trades worth \$1.7 million were executed—compared with virtually no trading the hour before.

Similar practices were outlawed in the 1930s (<https://www.wsj.com/articles/SB938130086664487472>) when groups of traders bought and sold stock among themselves to inflate the price before unloading it on the public. Nonetheless, pump and dumps proliferated during the dot-com boom, pushed by “boiler room” brokerages like the notorious Stratton Oakmont, founded by “Wolf of Wall Street” Jordan Belfort. In 1999, Mr. Belfort pleaded guilty

(<https://www.wsj.com/articles/SB938130086664487472>) to charges of securities fraud for running pump-and-dumps affecting 34 companies and costing investors more than \$200 million in losses.

The exact number of pump groups involved in crypto price manipulation couldn't be determined, but the Journal found 63 actively pushing different pump schemes. The groups have names that don't hide their purpose, such as Orion Pump, MEGA Pump and A+ Signals. Most operate on Telegram and Discord, where collectively they had 236,000 followers at the end of June.

Like the other active groups, the Big Pump Signal operation is a mystery: the moderator is anonymous; the ownership of an associated website is cloaked; and attempts at contacting the moderator were unsuccessful.

Many of the groups the Journal identified charge monthly fees ranging from \$50 to \$250 or require members to evangelize the service for access to trading information. One operation, Cosmic Trading, advertises training and publishes other groups' pump signals, for a fee.

In a message, the group's administrator on Discord said Cosmic Trading "is a publishing company" that is "strongly against pump and dump."

It isn't known how much the pumpers profit, as exchanges don't publish investor histories. But the operators have an advantage in selecting the coin, buying at the bottom and selling it at whatever peak they decide.

For the traders, "it's a gambling thing, and they're addicted to it," said Dave Jevans, the CEO of cryptocurrency analytics firm CipherTrace. All of them buy in the frenzy with the intention of taking a profit and selling before the dump, sort of like a game of crypto chicken: the longer they wait for prices to peak the more money they can make, but the risk of losing everything is heightened by the inevitable crash.

It "incentivizes the poor followers to keep buying until the [target] price is reached, which it often never does," said Taylor Caudle, who participated in a January operation at Big Pump after following the group's earlier efforts. "I instantly lost \$5,000 in about 30 seconds."

In less than a minute after placing a buy order on DigixDAO—a coin offered by a startup that claims to back its tokens with gold and listed on crypto exchange Binance since November—the price dropped steeply and never recovered, said the 27-year-old Mr. Caudle, who lives in San Diego.

Mr. Caudle maxed out a credit card to participate.

"Needless to say I felt extremely angry, and voiced my findings" on Discord, he said in an email, "which were of course met with nothing but 'Too slow bro,' and 'Lol sucks 2 b u' comments."

Binance, currently the largest online exchange by volume, according to research site CoinMarketCap.com, is frequently used for pumps. It has hundreds of coin listings, many small enough for a pump group to effectively buy and control.

Representatives from Binance didn't reply to requests for comment.

The target coins of Big Pump Signal over the past six months are typical of the pump groups: coins with just enough trading activity to garner broader interest, pulling in new traders, and inexpensive enough for people to buy up a meaningful share.

Some of the group's most successful pumps include coins with names like Pesetacoin, Stealth and Agrello, each costing between six and 31 cents a coin before the pump was announced.

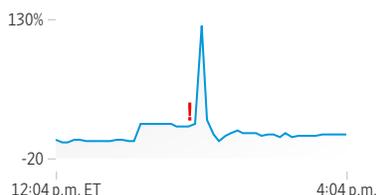
Top Signals

Big Pump Signal's most successful efforts increased the price of three inexpensive coins by more than 70% each compared with preannouncement trading.

! Pump announced

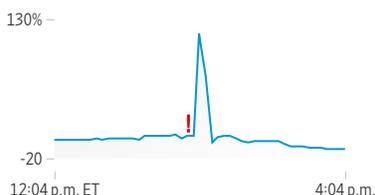
Stealth

March 16, 2018



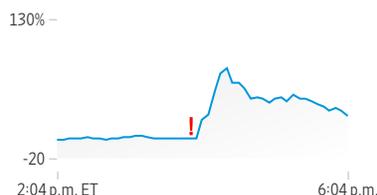
Pesetacoin

Feb. 21, 2018



Agrello

March 11, 2018



Source: WSJ analysis of CoinMarketCap.com trading data

Cloakcoin was a middle-of-the-pack pump for Big Pump Signal. The coin was traded on only eight exchanges and was ranked 225 among other cryptos on CoinMarketCap in early July, which tracks market activity across 1,600 coins.

In the July pump, the richest trades happened within the first minute of trading, the Journal found. The biggest trade was for \$11,000, moments after the moderator's order sent the price sky-rocketing, according to the Journal's analysis.

"Obviously, we were surprised," said Harry Sidiropoulos, cloakcoin's marketing manager. "We cannot say why it happened, but it's definitely not from our side."

At the same time, the traders were very pleased with the cloakcoin pump. "What a great pump," a user called Althanasia wrote about the event on Discord. "This was amazing," said another, Berdo.

One user, named SexyHomer, claimed he made \$1,400 on the cloakcoin pump, noting that he didn't go "big" on this one. "I'm keen for the next one I will be going to go big," he wrote.

Write to Paul Vigna at paul.vigna@wsj.com (mailto:paul.vigna@wsj.com)

Write to Shane Shifflett at shane.shifflett@wsj.com (mailto:shane.shifflett@wsj.com)

Methodology

The Journal identified 105 groups offering trading "signals" on chat applications Telegram and Discord by collecting links from advertisements of "pump groups" posted to popular cryptocurrency message boards including Reddit and bitcointalk.org.

The Journal on June 29 visited each Telegram or Discord link to determine if the group was still active and found 63 rooms with publicly accessible chat histories. While reviewing communications taking place since Jan. 1, the Journal collected the name of cryptocurrencies mentioned in messages sent by moderators

directing followers to trade at a specific date and on a single exchange.

The Journal then downloaded pricing, volume and market capitalization data at five minute intervals from CoinMarketCap.com between Jan. 1 and Aug. 2. The Journal found 121 different digital coins mentioned in chat logs with corresponding trading data found on CoinMarketCap.com among 175 messages directing participants to trade.

To determine additional volume, price performance and gains or losses in market capitalization, the Journal compared changes in trading data from two hours prior to a "pump signal" against data from two hours after.

Additionally, the Journal downloaded trading data of every bitcoin pair listed on Binance at one-minute intervals directly from the exchange on July 1 and July 4, the dates Big Pump Signal traded Cloakcoin and Nexus. The Journal analyzed the trading data for changes in price and volume an hour before and after the "pump signal" was posted to Telegram.

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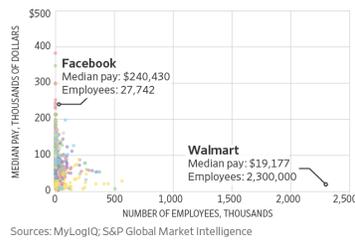
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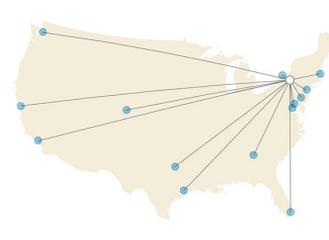
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