Anonymous Stock Tippers, Paid Touts and Suckers: Barry Ritholtz

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By Barry Ritholtz

March 25 (Bloomberg) -- A quick note this morning on anonymously stock tips, one I hope will be less cranky than yesterday's screed.

Greenlight Capital hedge-fund manager David Einhorn last month filed suit against the Seeking Alpha website, demanding to learn the identity of an unidentified blogger who had revealed that Greenlight was acquiring shares of Micron Technology Inc.

(Disclosure: I have a contentious history with Seeking Alpha, and a good relationship with Einhorn, though I doubt my critique of activist Apple investors pleased him).

That suit has now been dropped, after Greenlight said it learned the identity of the author. But it raises the interesting question of who publishes anonymous stories, and for what reason?

In the case of Micron, the motivation appeared to be a scoop -- to spotlight a hedge fund's position before the public or media. This is a legitimate goal. Why the author felt a need to publish this anonymously was never stated. However, not everyone who publishes under a pseudonym is as pure of heart.

As an example, have a look at the yeoman's work done in January by TheStreet.com's biotech columnist Adam Feuerstein:

A single individual used three different pseudonyms to publish articles on Seeking Alpha touting Galena Biopharma

(GALE_) and other biotech stocks. Seeking Alpha removed five articles from its web site Sunday, all of which included an identical paragraph about Galena and its experimental breast cancer vaccine Neuvax. The articles, published over the past two months, appeared to have been written by three different people all under the cloak of anonymity using the aliases Elegant Trader, Momentum Trading and Thomas Option Hunter. After looking into the matter, Seeking Alpha discovered that a single individual wrote all five articles.

Fortune's Steven Gandel expanded on Feuerstein's work, finding multiple sites that ran paid touts posing as independent news articles:

Stock promoters have a new way to play the new media game.

In the past year or so, several finance websites -- including Forbes.com, Seeking Alpha, Wall St. Cheat Sheet, and others -- have published articles by authors who were allegedly paid to promote the stocks they were writing about. These articles were not labeled as advertisements and carried no disclosures that the authors had been compensated by their subjects.

In fact, on at least one of the websites -- stock blog Seeking Alpha -- the articles carried a disclosure stating the author had not received any compensation from anyone outside of Seeking Alpha to write the article. Seeking Alpha now admits that some of those disclosures were inaccurate.

Gandel noted more than 100 paid tout articles have appeared on these sites, and were subsequently removed.

Therein lies the challenge of anonymous stock tipping publications. These sites allow guest contributors, without any editorial oversight, to pretty much publish whatever they want.

As Seeking Alpha explicitly noted this week, it is “protected by Section 230 of the Communications Decency Act, which provides immunity from liability for providers and users of an ‘interactive computer service’ who publish information provided by others.”

In other words, caveat emptor.

There are no mechanisms or policies to insure that these writers are objective, that they disclose their positions and reveal any conflicts. Although the paid touts were eventually discovered, it was long after the stocks in question rose or fell. We don’t know if these folks profited from those moves.

But the potential is there for a classic pump and dump scenario.

If you follow the stock advice of anonymous bloggers, you pretty much get what you pay for. As to the business model of the sites that are built around them, I have no idea what kind of future they might have. Forbes.com is up for sale, and I have to wonder about Seeking Alpha’s exit strategy.

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