UNDER SURVEILLANCE

PennyStockChaser Hides Profits, Secrets from Investors

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This June, shortly after PennyStockChaser announced that it had become the most popular website for "hot penny stock tips" in the business, the Internet-based tout sheet began dropping a familiar name that once carried considerable weight on Wall Street.

It listed Mike Schonberg – a name formerly attached to such legendary investment firms as Dreyfus and UBS – as its official contact person. Keeping with its secretive nature, however, the website stopped well short of offering any details about Schonberg's professional background.

If Mike Schonberg is the same "Michael L. Schonberg" who tainted Dreyfus by investing client funds in risky penny stocks a decade ago – a likelihood that *The Street Sweeper* spent the past week trying to prove – PennyStockChaser may have kept its mouth shut for good reason. After all, Schonberg left Dreyfus with a reputation for using investor funds to pump up worthless penny stocks that he owned and ultimately sold.

PennyStockChaser appears to engage in similar practices. Already, during just seven months of operation, the young website has collected almost 200 million free trading shares in microcap companies that it was paid to tout. Although PennyStockChaser fails to disclose whether it has already sold those shares – shunning a practice adopted by more transparent firms – it could have scored millions by selling some of those pumped-up stocks before they crashed and left ordinary investors with big losses.

In early August, for example, the website highlighted Atlantic Wind & Solar (AWSL) – a company with no revenue, few employees and an "office" that apparently belongs to UPS – in one of its featured profiles. Shares of AWSL, which fetched 84 cents on the day of that report, rocketed toward $5 over the next few months before reversing course and losing serious ground. PennyStockChaser received 140,000 free shares of AWSL – worth $675,000 at their peak – for its favorable coverage.

Timothy Sykes, a former hedge fund manager with a keen eye for penny-stock fraud, suspected blatant hype and shorted 3,000 shares of AWSL ahead of its recent plunge.

"I still expect the stock to fall 50% to 90% from its pumped-up highs, in accordance with other PennyStockChaser pump and dumps," Sykes wrote in a blog on his official website. An "SEC (Securities and Exchange Commission) halt is also possible ... I've predicted three SEC trading halts in a row – GVBP, EMGE and SPNG – and this one is waaaaay up there as the next potential halt."

The Pink Sheets, an exchange known for its lenient listing standards, actually stopped publishing price quotes for AWSL – and issued a “buyer beware” notice for investors – due to potential dangers associated with the stock. Even so, AWSL still sells for around $3 a share, making it one of the biggest gainers on PennyStockChaser’s “Past Winners” list despite its recent fall.

Trailer Park Trash?

Several of the stocks on that list fetch even less now than they did when PennyStockChaser first started promoting them.

Take Precision Petroleum (PPTO), for example. An early favorite of PennyStockChaser, touted when the website was still brand-new, PPTO portrays itself as an independent energy company focused on exploration and development opportunities throughout North America. According to PPTO’s latest quarterly report, however, the company has never generated any revenue and has just $1,316 in the bank to finance its big plans.

Like AWSL, regulatory filings show, PPTO also lists an odd address for its headquarters. Based on Internet-based satellites, that address appears next to possible outbuildings or mobile homes – on a barren piece of land – in a tiny Oklahoma community known as “Slaughterville.”

Nevertheless, PennyStockChaser wholeheartedly endorsed the company during repeated touts this spring. With PPTO rising to 86 cents a share in early May (but still down from the $1.50 it originally fetched three months earlier), PennyStockChaser described the stock as a target of short sellers that would soon “skyrocket” on positive news and intense buying pressure.

“We talk to PPTO management,” PennyStockChaser stated in a press release focused on the stock, “and they tell us to expect more good news in the coming days and weeks.”

PennyStockChaser then directed investors to (now-broken) links for press releases, hosted by a site called launchyourcampaign.com, about PPTO’s promising future. One day later, PennyStockChaser again touted PPTO and insisted that investors “should really read the PRs” located at launchyourcampaign.com for more information about the company’s potential. By doing so, PennyStockChaser treated those press releases almost like independent sources.

Based on Internet searches, however, PennyStockChaser and launchyourcampaign.com shared the same Internet Protocol (IP) number – typically linked to a single computer – until the latter site suddenly disappeared.

Missed Connections

Meanwhile, PennyStockChaser has gone on to promote companies with some intricate connections of their own.

AWSL stands out as a prime example. In its regulatory filings, AWSL lists Gilles Trahan as the chairman of its board. Another penny-stock company, MSE Enviro-Tech (MEVT), claims Trahan as its chairman as well. Over the course of the past few years, both AWSL and MEVT have retained Geneva Bancorp – which previously employed Trahan as its top officer – to provide investor relations services for their companies. Depending on the press release, Trahan can be found touting the prospects of MEVT on behalf of either Geneva Bancorp or the company itself.

As the firm hired to manage investor relations for AWSL and MEVT, Geneva Bancorp turned to PennyStockChaser for promotions of both companies.

“The same guys who brought us AWSL have brought us MEVT,” PennyStockChaser proclaimed late last month. “AWSL has made members a fortune, and we are sure MEVT will do the same ... The stock could see a move to the $5 (range) and make members big money – if they move fast.”

With its price hovering around 40 cents a share, however, MEVT has actually lost some ground instead. Still, since PennyStockChaser received 350,000 free trading shares in the company – worth $140,000 even at current prices – the firm stands to make money on the stock regardless.

Dark Secrets

PennyStockChaser offers few clues about those who actually run the website and therefore stand to profit from its trades. The firm lists no officers or directors on its website and now provides only generic contact information -- completely stripped of any names – in its press releases.

It even hired an outfit known as "Domains by Proxy," which specializes in concealing the identities of website operators, to register its domain name instead of handling that routine matter itself.

"Domains by Proxy was conceived to deal with one of the biggest shortcomings of the Internet – the loss of privacy," the firm states on its website. "If you want to keep your personal information private and still retain full benefits of domain registration, then a 'private registration' is for you. Your identity is nobody's business but ours."

For a while, PennyStockChaser did mention a few names – including Schonberg's – in its press releases. This summer, for example, it listed Michael Scott Jacobs (occasionally misspelling his last name) as its certified financial advisor. It even provided Jacobs' official broker registration number, which can be used for background checks showing that Jacobs was previously sanctioned by the Financial Industry Regulatory Authority. Although Jacobs neither admitted nor denied any wrongdoing, he inked $1 million worth of settlements – and saw his principal license suspended – as a result of his alleged misconduct.

PennyStockChaser identified Jacobs as its CFA in many of the same press releases that listed Schonberg as its official contact person. Even though the two men apparently worked together, however, Jacobs implied that Schonberg was a stranger when *The Street Sweeper* contacted him at his new employer – a tiny financial firm in Boca Raton, Fla. – for information about Schonberg's current whereabouts and his professional background.

"I know absolutely nothing," Jacobs stated in a rush. "I can't help you at all."

History Lesson

There is no shortage of information about the Michael Schonberg (also known as Mike) who ruined his career on Wall Street by investing client funds in the same types of risky companies that PennyStockChaser now touts.

In just one story about the infamous fund manager, published more than a decade ago, *BusinessWeek* reveals that Schonberg established big stakes in dubious penny stocks for three giant investment firms – UBS, Omega Advisors and, finally, Dreyfus – before his ultimate downfall. Schonberg even bragged about his aggressive strategy to the press when one of his Dreyfus-sponsored funds briefly became the top performer in the industry ahead of its looming crash.

"Right now, the fund is considered a 'microcap' fund based on the stock it owns," Schonberg told the *Pittsburgh Post-Gazette* back in May of 1996. "We can own anything."

While at UBS and Omega, *BusinessWeek* later observed, Schonberg had exercised similar judgment. During his final months as chief investment officer at UBS, the magazine reported, Schonberg ordered a big purchase of Chromatics Color Sciences – a hyped-up penny stock – that made UBS the company's largest institutional holder. UBS liquidated that position around the time that Schonberg departed, the magazine added, but Dreyfus soon wound up with a similar stake in the same company with Schonberg managing its funds.

Meanwhile, *BusinessWeek* discovered, Schonberg had personally received "cut-rate" shares of that stock.

The SEC later fined Dreyfus $2.55 million and temporarily suspended Schonberg from associating with any investment advisors in response to the fiasco, *Dow Jones* reported in May of 2000. It also adopted more stringent rules aimed at preventing similar conflicts in the future, *Dow Jones* added.

Manuel Asensio, a famous short seller who declared Chromatics an outright fraud, assumed that justice had been served.

"The stock is at 3 cents," Asensio noted in a 2002 deposition taken for a Chromatics-related lawsuit. "The underwriter was taken out. The brokers were taken out. And the crooked portfolio manager was taken out.

"Why," he asked, "should the SEC do anything further?"

Big 'Coincidence'

Later that year, *Wall Street Reporter* – a news outlet targeted by the SEC for touting stocks without disclosing the compensation it received in return -- began listing "Michael Schonberg" as one of its senior analysts. By early 2003, Schonberg had risen to become the firm's official research director. He would hold that position until at least 2006.

After that, his name disappeared from public view until PennyStockChaser began listing "Mike Schonberg" as its official contact person in June. It stopped mentioning Schonberg by name – although he still works there – in its official press releases three months later. It dropped his name from press releases touting penny stocks (rather than its own website) even before that.

Internet searches turn up just eight addresses in the entire country for people named Michael or Mike Schonberg. Based on a background check conducted by a former FBI agent, one of those addresses (as well as a disconnected telephone number) belongs to the former Dreyfus fund manager. Unless one of the other seven also promotes penny stocks – an unusual career path for most – the Schonberg from Dreyfus and the Schonberg at PennyStockChaser appear to be one and the same.

Nevertheless, in a recent email exchange, PennyStockChaser suggested a possible case of "mistaken identity" – saying that its own Schonberg has no (current) affiliation with Dreyfus or *Wall Street Reporter* either one – and labeled the entire situation a "coincidence indeed." It later ignored a request to confirm, on the record, that its Schonberg had never worked for Dreyfus at all.

If PennyStockChaser has in fact located its own Mike Schonberg to promote penny stocks – a scenario that many experts doubt – then the two men appear to share more than the same name. In an article covering a shareholder lawsuit filed against Schonberg 11 years ago, *Reuters* could have been describing the strategies embraced by either man.

"The complaint ... alleged Schonberg, after starting to run the (Dreyfus) funds, started to invest in small, illiquid and volatile companies with little – and sometimes no – revenues or earnings," *Reuters* stated, "and displayed an 'obsession' with microcap stocks."

* *Editor's Note: The Street Sweeper hired an independent fact-checker to verify the accuracy of this story. Whenever possible, it has also included links to the actual documents used during the course of its research.*