

Ronit Tuladhar

A New Age of Cryptocurrency Pump-and-Dump

Author Biography

Ronit Tuladhar is a rising junior studying finance and information systems at the University of Maryland, Robert H. Smith School of Business. Ronit's research interests include the equity market, financial literacy, and the development of technology within the financial sector. These interests served as catalysts for his research. Additionally, Ronit has found recent interest in start-ups after having the opportunity to provide consulting services to a local startup, Dockshare. On-campus, Ronit is involved and holds leadership positions within Ascend as well as the Collegiate Financial Management Association (CFMA).

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Abstract

With the sudden rise in the popularity of cryptocurrency, coupled with a lack of regulation within the cryptocurrency market, many shady schemes have found a market to operate and thrive in. Amongst these schemes is the age-old pump-and-dump, a scam that has been a part of the equity market for many years. My research will aim to highlight pump-and-dumps within the

cryptocurrency sphere. But more specifically, investigate a recent development of the involvement of social media influencers in P&D schemes. Influencers are utilizing their massive follower to promote various altcoins. However, many of these altcoins become subject to pump-and-dumps, leading hundreds or thousands of impressionable fans with damaging losses. Utilizing a multiple case study method, this research will investigate the process behind influencer-backed cryptocurrency projects that end up being pumped-and-dumped, as well as the impact that influencers have on these projects.

Introduction

In today's society, credit cards and cash are king, and coupled with a global pandemic, it was hard to picture a world where cryptocurrency would surge the way it has over the past couple of years. Nonetheless, the cryptocurrency global popularity is growing at an unfathomable rate, with popular coins like Bitcoin (BTC) and Ethereum(ETH)being up 500+% (Jabotinsky and Sarel, 2021) and providing investors with returns few would have predicted.

As with anything that shows potential to make money, scammers have now flocked to the cryptocurrency market. And with legal regulations unable to keep up with the sudden evolution of the crypto market, it has become increasingly easier for scammers to exploit the obscure nature of the crypto industry. Fake exchanges, Ponzi schemes, and pump-and-dump schemes are amongst the more popular schemes within the crypto space (Xia et al., 2020). This study will focus on pump-and-dump schemes and their scalability through the usage of social media influencers.

To anyone in the crypto industry or familiar with the industry, the age-old pump-and-dump scheme certainly isn't something new. There have been numerous studies on this topic within the

cryptocurrency market ranging from the anatomy of a P&D (Xu and Livshits, 2019), methods of detection for P&D scheme (Victor and Hageeman, 2019), the role of social media in P&D's (Nghiem et al., 2020), etc. However, these schemes have grown in scale simultaneously, with cryptocurrencies rise over the past two years. And with this rise, we've seen a new development with P&D schemes. Social media Influencers have now taken to their massive online platforms to promote alt. coins and their respective Telegram or Discord groups in the hopes of enough traction to raise the price of said alt. coin. And as this study will uncover, many of these coins end up being a part of the typical P&D event. But the scale of these events is anything but typical, with hundreds of thousands of unknowing and impressionable fans being left out of pocket and the influencers being the ones to get out early and profit from their initial investment. This paper will follow and analyze this recent development of crypto P&D schemes, something that prior literature in this space has yet to do.

Literature Review

Observation case study methods are one of the main ways that prior research has been done on this topic. A researcher(s) will examine and analyze a pump-and-dump event by joining an active pump-and-dump group either through Discord or Telegram. Researchers at the Information Sciences Institute at USC were able to illustrate the progression of a typical pump-and-dump scheme by joining and observing a Telegram channel, Mega Pump Group. From there the researchers were able to gather data on how a pump-and-dump event is orchestrated by observing a single pump-and-dump event that took place on September 5th, 2019 targeting the coin DATA (Nghiem et al., 2020). Additionally, they observed and reported any other interactions within the group, such as admins of the group providing positive assessments of past events to entice group members (Nghiem et al., 2020). We've also seen literature on

pump-and-dumps utilize longitudinal studies to collect data for pump-and-dump events. Zu and Livshits (2019) were the pioneers of using the longitudinal study method for this topic, after having analyzed a data set of 412 pump-and-dump events spanning from June 17th, 2018 to February 26th, 2019.

The longitudinal study is a method that can yield a lot of data on pump-and-dumps due to the sheer volume of pump-and-dumps that occur every day. It's estimated there to be an aggregate trading volume of ~6 million USD a month per 100 groups (Xu and Livshits, 2019). However, I believe that the case study observation method is one that I want to replicate for my study as well. There has not been enough of these large-scale "influencer" pump-and-dump events for me to be able to create a dataset large enough for a longitudinal study. Therefore, I think a case study method is the best option to go about illustrating how these operations are now taking place on a much larger scale than they previously were. I can illustrate my problem through a real-world example, which can help the reader understand the underlying problem. And with the majority of cases of these influencer pump-and-dump events occurring very recently, it gives an opportunity to provide modern-day real-world context to highlight a problem that has now seeped into pop culture and is affecting hundreds of thousands of impressionable people worldwide.

Methodology

Comparative Case Study

Following my literature review of cryptocurrency pump-and-dumps, it's clear that a case study method is a popular method amongst researchers (Nghiem et al., 2020). And in my case, I want to be able to demonstrate how this new trend of influencer altcoins is differentiating itself from the classic crypto P&D that takes place every day. The best way to go about showing this

distinction between the two is to conduct a comparative case study that analyzes both events and pits them against each other.

With this case study, I plan to research highly popular altcoins that have been backed by social media influencers and have served as a front for pump-and-dump schemes. I will gather data from various cryptocurrency tracker sites that will provide me the charts, trading volume, market cap, and other important indicators vital to analyzing whether a coin should warrant any investment. Additionally, I will gather any marketing or mention of these respective coins by social media influencers on platforms such as Twitter, YouTube, etc. From there, I will move on to gathering data on typical cryptocurrency P&D. The process for this will differ, as I will resort to data from prior case studies done on typical pump-and-dump groups and events. The reason for this is that the current case studies done on cryptocurrency P&D groups are very extensive and allow for a comprehensive overview of the anatomy of a P&D event and its respective group.

From there, I will then be able to stack up the events against one another. I will compare the scale of both events. This includes both their social media scale and the coin itself. The goal is to uncover definitive data highlighting the disparity in the scale of the typical pump and dump compared to that of an influencer-backed pump and dump. For many that join the typical P&D-specific group, there is at least a surface-level understanding of what cryptocurrency is, given the obscurity of many of these groups. However, with influencers now taking advantage of their large platforms to market these coins, there is now the issue of herds of impressionable fans flocking to these Telegram groups all while having no knowledge about cryptocurrency and quickly getting caught up in the scam. I hope my research serves as a crutch in aiding to uncover yet another dangerous trend that is taking place in the realm of cryptocurrency.

One of the limitations with researching altcoins is that it's difficult to conduct a price analysis on these coins due to them being so new. Being able to fully analyze the quality of an investment takes months and years of data, and a majority of these coins have a very limited life span. The activity surrounding the coin tends to drastically fall off during and following the dump for these coins. Telegram groups lose active users, social media influencers delete tweets, low trading volume, etc. and because of this, it's hard to fully grasp the complete process of these events, as they occur so quickly and disappear just as quickly.

Case Study (2nd option)

With how versatile case studies can be, I felt as though I could also utilize the case study method differently to answer another unique set of proposed research questions. These questions revolve around specifically the altcoins themselves and are more geared towards studying the involvement of the influencer. For example, what is drawing influencers to the realm of cryptocurrency? What does the process of getting an influencer to back a coin entail? What is going on behind the scenes? What tactics are influencers using to market these coins on their platform?. There's a lot that goes into being able to successfully run a "rug pull" on such a large scale. And I think rather than comparing these events to the average pump and dump, it'd be interesting to conduct an in-depth analysis of these events as they aren't as well documented nor discussed within the current literature and media.

To be able to accomplish this, I need to gather and examine the charts for selected influencer-backed altcoins. From there it's possible to document important metrics such as price high and low, 24hr volume high/low, etc. during their respective launches and the days following the launch. The next step was to investigate the influencers and their involvement with their

respective coins. To do so I went through each influencers' Twitter account and documented any tweet that mentioned their altcoin. However, I ran into an issue with influencers deleting tweets associated with these altcoins. Because of this, I wasn't able to gather as many posts as I could, but some have surfaced that were captured before they were deleted. Utilizing both the important data and metrics from the selected altcoins as well findings from social media platforms of the coin's respective influencer(s), I'm able to depict the leverage that an influencer can have on the volatility of altcoins through their social media channels.,

Findings/Analysis

Influencer Backed Coins and Respective Influencers

1. SaveTheKids (\$KIDS), <https://www.youtube.com/watch?v=iLHdygkLW>
 - a. Faze Kay (6.13M - [YouTube](#), 891K - [Twitter](#))
 - b. Faze Nikan (1.41M - [YouTube](#), 635.2K - [Twitter](#))
 - c. Faze Teeqo (2.76M - [YouTube](#), 1.4M - [Twitter](#))
 - d. Faze Jarvis (4.86M - [YouTube](#), 725.1K - [Twitter](#))
 - e. Ricegum (10.3M - [YouTube](#), 2.7M - [Twitter](#))
 - f. Sommer Ray (1.87M - [YouTube](#), 1.2M - [Twitter](#))



2. Milf Token (\$MILF)

- a. Adin Ross (2.4M [YouTube](#), 846.1K - [Twitter](#))



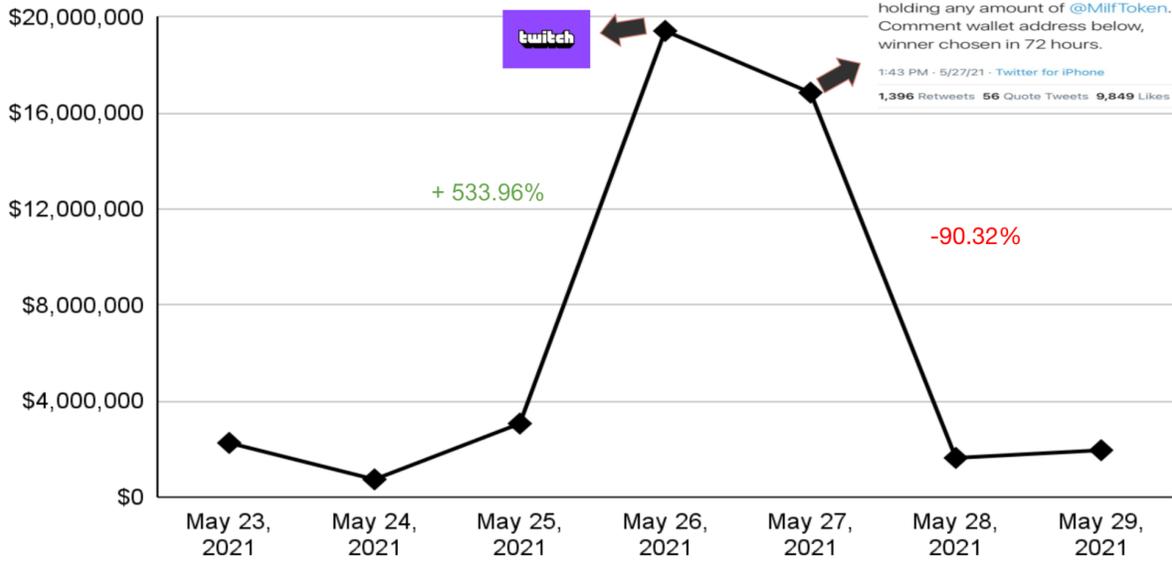
adin @adinross

Giving away \$10,000 in \$milf token to one lucky person. To win, you must retweet this tweet and be holding any amount of @MilfToken. Comment wallet address below, winner chosen in 72 hours.

1:43 PM · 5/27/21 · Twitter for iPhone

1,396 Retweets 56 Quote Tweets 9,849 Likes

MILF Token 24hr Volume Highs



adin @adinross
Giving away \$10,000 in \$milf token to one lucky person. To win, you must retweet this tweet and be holding any amount of @MilfToken. Comment wallet address below, winner chosen in 72 hours.
1:43 PM · 5/27/21 · Twitter for iPhone
1,396 Retweets 56 Quote Tweets 9,849 Likes

3. BankSocial (BSocial)

- a. Faze Banks (5.27M - [YouTube](#), 2.8M - [Twitter](#))

BankSocial Chart

Price Market Cap TradingView

1D 7D 1M 3M 1Y YTD ALL LOG



FaZe Banks @Banks · May 27

Giving away \$10,000 to one lucky person that RT, LIKES and follows @BANKSOCIALio.

This is a project I fuck with heavily and truly believe is the next one to pop. \$10,000 winner chosen at random in 24 hours. Good luck you sexy fucks #BSOCIAL 🚀

(not financial advice lol)

1.6K 15K 16K



FaZe Kay @FaZeKay · May 27

I'm 2x already 🚀🔥

10 24 386



FaZe Banks @Banks

Giving away \$10,000 to one lucky person that RT, LIKES and follows @BANKSOCIALio.

This is a project I fuck with heavily and truly believe is the next one to pop. \$10,000 winner chosen at random in 24 hours. Good luck you sexy fucks #BSOCIAL 🚀

(not financial advice lol)

11:35 PM · May 27, 2021 · Twitter for iPhone

12.5K Retweets 165 Quote Tweets 14.1K Likes

Looking at the MILF Token 24hr chart on the 23rd, 24th, and 25th volume is very stagnant around 1-3million, however on the 26th, popular influencer Adin Ross promotes the token on his [Twitch Livestream](#), from there volume of the coin increases by 534%, the following day it still

stays relatively high because of an Adin Ross tweet giving away 10,000 MILF Token. However, the day after the promotion, volume drops back down 90% and stays relatively flat from there.

The BankSocial 24hr chart follows a similar trend to that of MILF where we have the volume at around 8mill, then following a giveaway tweet by an influencer, FaZe Banks, there is a 69% increase in volume traded, then there is a drop of 30% and the curve flattens out, after the promotion. These findings suggest that influencers can have an immense impact on a crypto project as their marketing tactics attract large amounts of buyers.

It's a common misconception that the price of the asset is what matters when dumping a coin, but in reality, volume is a much more important metric, this is because prior to the involvement of the influencer, the deployer or developers of the coin have the majority of the circulating supply, and in order to dump there needs to be more buyers. Social media influencers aren't necessarily there to drive the price, so much as they are there to generate traffic and overall volume to aid in the manipulation of the market.

As prior research has provided a greater understanding of the structure of a cryptocurrency pump-and-dump, this research builds off of the typical scheme and suggests a recent development that has made its way to the mainstream. The current findings suggest altcoins that have been backed by social media influencers follow a pump-and-dump type movement as the price and volume action of these coins coincide with marketing ploys on social media platforms by the respective influencer. However, given that digital assets have only recently entered the mainstream, there is a very small sample size to work with to demonstrate this relationship.

Looking at the social media statistics, the reach that these influencers have is immense, making the scale at which these schemes are taking place extremely large. Moving forward, it's

important to continue to shed light and strengthen the understanding of this issue by documenting the occurrence of these influencer projects and monitoring the price and volume action of the coins involved within these projects. I believe that the next step to elevate this research is by fitting this into a larger picture. This is a very niche topic that I believe can fit into larger trends that we've seen developed as of late. For example, we've seen pump and dumps rise with the national story that is GameStop stock, Reddit meme stocks, etc., could this be just an extension of this pump and dump movement?

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