KIM: “Ding-Dong,” Avon (Not) Calling

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It seems speed must be the key to investment success.

“High-frequency” trading firms spend billions in a high-stakes arms race to gain a milliseconds edge on executions. In 2013, the SEC gave Twitter and Facebook instant legitimacy as sources of investment information by granting companies permission to disseminate financial information via social media. Trading systems utilizing computerized algorithms scan millions of data sources for key words and make instantaneous trades, often without human oversight. Data vendors pay Twitter to access all 500 million daily tweets, which they repackage to feed the insatiable appetite of these traders.

Closer to home, E*TRADE challenges you to be “Type E,” while Scottrade promises to let me “Trade Like Mickey,” all with a click on my smartphone.

While speed may be valuable to ***traders***, it can be extremely detrimental to ***investors***.

On May 14, 2015, a Form SC TO-C related to Avon Products Inc. (“Avon”--AVP) was posted on the SEC’s EDGAR online filing system at 11:35 AM, stating PTG Capital Partners LTD. (“PTG”) had submitted a proposal to Avon’s board for PTG to acquire Avon at $18.75/share (almost 3 times AVP’s prior day closing price of $6.67).

Predictably, Avon’s stock reacted swiftly as traders jumped on the news. According to Bloomberg, more than 12 million shares of AVP (worth about $91 million) changed hands in 19,941 trades in the 25 minutes after the filing. During that stretch, AVP went on a wild ride from $6.60 to $8 and back to $7.20.

Unfortunately for those who bought AVP based on the headline of a buyout at $18.75, at 12:34 PM *The Wall Street Journal* reported Avon believed the purported bid was a hoax, which Avon subsequently confirmed at 1 PM.

What?

The hoaxer used the correct form and posted it on the SEC’s EDGAR, which made it look legitimate. It’s apparently not difficult to register to be able to file on EDGAR. There are thousands of filings on EDGAR each day. The SEC cannot vet each filer nor assure the accuracy of the filings. Instead, filers are responsible for the truthfulness of their filings under federal securities law and violations can lead to criminal sanctions.

This is obviously little deterrent to swindlers, but those who were tricked could have protected themselves by ***slowing down*** to actually read the filing and applying some common sense.

First, the purported acquirer offered an almost 200% premium to the prior day’s closing price. The fraudster clearly wanted an attention-grabbing headline, but a premium of that magnitude is ludicrous.

Second, it’s no coincidence PTG Capital Partners had the same initials as TPG Capital, L.P., a private equity firm with $67 billion under management. This was important because TPG acquired Avon Japan in 2010 and was reported to have considered a bid for Avon earlier this year. Significant parts of PTG’s self-description were lifted directly from TPG’s website (but neglected to change “TPG” to “PTG” in two places). Finally, the filing listed the law firm of Trose & Cox PLLC (also fictitious) of Ft. Worth, TX (where TPG is located). All of this was meant to make the filing appear credible.

This sloppy hoax was exposed quickly and the stock never approached the headline price. The next hoax will be better executed and more convincing. #SpeedKills.

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