SEC Enforcement Case Summary
Activist Short Publisher Charged in $20 Million Fraud Scheme

On July 26, 2024, the SEC charged activist short seller Andrew Left and his investment adviser firm, Citron Capital LLC, for engaging in a $20 million multi-year scheme to defraud followers by publishing false and misleading statements regarding his supposed stock trading recommendations. In a prior settled action, Anson Fund managers were charged for conduct involving Left and other short publishers.

The SEC alleged that Left used his Citron Research website and related social media platforms on at least 26 occasions to publicly recommend taking long or short positions in 23 companies and held out the positions as consistent with his own and Citron Capital's positions. The complaint alleges that following Left's recommendations, the price of the target stocks moved materially. Once the recommendations were issued and the stocks moved, Left and Citron Capital quickly reversed their positions to capitalize on the stock price movements. As a consequence, Left bought back stock immediately after telling his readers to sell, and he sold stock immediately after telling his readers to buy.

The SEC's complaint described the scheme in greater detail, noting that beginning in 2008, Left began publishing tweets and reports on the Citron Research platform (formerly StockLemon.com). These publications frequently purported to expose negative information on target companies, were often larded with hyped rhetoric, and frequently urged his readers to sell their stock in the target companies. At times, these publications also presented positive information on target companies and encouraged Left's readers to buy. Left and Citron Research had a substantial following – on twitter alone, Citron Research had more than a hundred thousand followers.

The SEC noted that Left often drafted Citron Research's short publications in a sensationalist exposé style and strongly encouraged readers to sell the stock of the target company. These publications would often declare a company a "fraud," "scam," or "scheme," and use powerful imagery and language, such as calling a company "the Harvey Weinstein of social media," "uninvestable," declaring that "investors have been warned," "wait until Senate finds out what Citron has published," and warning that the "SEC should immediately HALT this stock." Other times, Left used the platform to recommend "long" investment ideas by presenting positive, favorable descriptions of a target company and its stock's value. On the long side he also used powerful imagery and language, such as "S&P Stock of the Year," "biz is on fire" and "Citron Research is Bullish on the Most Shorted Stock in the World."

Through these reports and tweets, the SEC claimed that Left exploited his Citron Research platform by taking the following steps. First, Left established long or short exposure in the target company through equity shares and/or options. Next, Left issued reports and tweets informing his readers or leading them to believe that he had long or short exposure in the target company. Left then recommended that his readers trade in the same direction as his positions. In many cases, Left gave his readers a purported price target, *i.e.*, a share price at which the stock would trade. Following Left's reports and tweets, the price of these target stocks moved on average more than 12%. Unbeknownst to the market, however, Left planned to capitalize on those price movements and quickly reverse his own positions in the equity shares and options – which he had induced readers to follow – but at prices far higher (or lower) than the price targets Left had pushed to his readers and the marketplace. In one example cited in the SEC's case, the defendants apparently told the market that they would stay long on a target stock until the price hit $65 when, in fact, they immediately began selling the stock at $28.

The SEC's complaint describes various false and misleading statements and actions by Left to misrepresent and conceal his trading activity, including misrepresentations in statements Citron

Research publications and misrepresentations in media interviews. The complaint further alleged that the defendants published trading recommendations without conducting adequate research. The SEC further alleged that defendants falsely represented to the market that Citron Research was an independent research outlet that had never received compensation from third parties to publish information about target companies when, in fact, the defendants had entered into compensation arrangements with hedge funds (as described in the Anson Funds case summary). Left held himself out as a "private investor" who led "a team of investigators." According to the SEC's complaint, in July 2011, Left told the Financial Times that "the role I play in the market is I try to tell the other side of the story, when everybody blindly cheerleads, there's always another side of the story ..." In the "About Citron Research" section of the Citron Research website Left represented that "The goal of this website is and has always been to provide truthful information in an entertaining format to the investing public."

In August 2019, Left continued to promote Citron Research as an independent research firm, telling his readers that "in 18 years of publishing, we have never been compensated by a third party to publish research." However, the SEC's complaint and other settled enforcement actions reveal that Left was paid more than $3.5 million from hedge funds managers with which he had agreements to provide advance information regarding short reports and provided trading recommendations to trade around reports and tweets issued by Citron Research.

The litigated case was filed in U.S. District Court for the Central District of California with other related actions filed or expected against other associates of Left and colluding hedge fund managers. In a parallel action, the Fraud Section of the Department of Justice and the U.S. Attorney's Office for the Central District of California announced criminal charges against Left.

The case should serve as another warning for hedge fund managers and investment advisers that utilize information posted by short activists and other prolific online parties or who themselves are active posters regarding their investment positions or theses in social media. The SEC has issued investor alerts warning investors of social media investment fraud and imploring them to be skeptical and never make investment decisions based solely on information from social media or other unverified platforms.

See Summary – https://www.sec.gov/newsroom/press-releases/2024-89