

# Tips and tricks

Rookie investors and new media have given rise to a dangerous phenomenon in China: the stock blogger con artist *By Jeremy Goldkorn and Maya Alexandri*

**E**arlier this year, China's hottest blogger was a self-styled stock guru. Now he's under arrest for illegally providing investment services.

Wang Xiujie, known by his online nickname Daitou Dage 777 ("Pioneer Eldest Brother 777"), allegedly reaped more than RMB13 million (€1.2 million) in ill-gotten gains. An unemployed former bank clerk, Wang claimed that he'd worked in the Shanghai securities industry since 1992 and boasted that his stock picks had a 90 percent accuracy rate.

New media was integral to Wang's confidence game. He promoted himself on a blog, hosted by NetEase, where he dispensed investment advice and posted a picture of himself posing as James Bond. Millions of netizens flocked to his blog, making it for a time China's most popular.

Wang also organised more than 10 stock investment groups through the instant messaging platform QQ, each with more than 100 members. The members paid annual subscription fees, ranging from RMB3,000 to more than twice that amount, to receive stock tips delivered to their mobile phones. Readers of Wang's blog also sent him money to invest on their behalf, creating a fund that reportedly totalled RMB7 million.

Counselling his followers that paying attention to financial news reports

was foolish, Wang explained that publicly available information was useless because everyone had already seen it. He advised people to follow him instead, claiming that he'd developed his own system over his years of experience as a stock broker.



## Wang was wrong

Luck was initially on Wang's side, and in February 2007 he correctly predicted that the Chinese stock market would rebound. But within a few months his subscribers were losing money. A Xiamen resident surnamed Liu complained to the authorities, prompting Wang's eventual arrest

Although Wang's claims about his stock-picking prowess were obviously

outlandish and his demise was seemingly inevitable, it's not surprising that Wang was able to swindle so many at the outset. China's bullish stock market has provided fertile ground for charlatans to exploit. Since January 2007, the Shanghai Composite Index has increased by almost 2,000 points. This spectacular rise is attracting many new and inexperienced investors, eager for guidance.

While investors everywhere are hungry for tips and vulnerable to spurious advice from frauds, the situation in China is unique. Historically, individuals' investment options have been limited, and China's stock market is still relatively young. In addition, reliable financial information isn't readily available. *China Daily*, for example, lists books, TV shows, blogs and seminars as the main information sources used by individual Chinese investors. Absent from this list are the real-time economic indices and market reporting on which investors elsewhere in the world rely.

But the situation appears to be changing. Just as new media were integral to Wang's scam, new media, in the form of increasing online sources for financial information, they may also prove critical to consumer protection. Dow Jones now offers a Chinese-language real-time financial newswire and has since 2002 published the *Wall Street Journal* online in Chinese. The

*Financial Times* also publishes online in Mandarin, as do *Business Week*, *Fortune* and *Forbes*.

Whether Chinese individual investors will come to rely on these foreign sources is unclear. Chinese investors may not be interested in non-local content, and to the extent that the financial news isn't real-time, it may be of limited use. On the other hand, foreign media sources often enjoy a certain cachet in China, as they're frequently perceived to be credible and incorruptible.

Nevertheless, China is rapidly developing its own home-grown financial media brands. *China Business News*, *Securities Market Weekly*, *Caijing* and Hexun.com (the last three all owned by media group SEEC) are leading brands in the field of financial news and information, and appear to have growth potential. In fact, Dow Jones has been rumoured to be in talks with Hexun about buying a stake in the portal and financial news site.

### Looking for info or shortcuts?

But the larger question may not be whether new media will prove a reliable source of financial news and information, but rather whether Chinese investors will use it. Outside China, the theory that underlies much securities regulation is that the free flow of information is necessary for efficient market operation. Market regulators focus on ensuring fair access to financial information with the idea that, as long as everyone has access to the same information, the market will set prices accurately. For this reason among others, insider trading is unlawful.

In China, however, that theory is on less solid ground. Daitou Dage, for example, disparaged publicly available information as useless, since everybody knows it. Odds are

high that the people who paid for his stock tips weren't seeking fair access to reliable financial information; they were likely looking for a fast track to riches. Indeed, notwithstanding Daitou Dage's arrest, media reports indicate that, among individual investors, demand for a Daitou Dage-like advisor is still high, and other would-be stock gurus have rushed to position themselves as the "second" elder brother.

But whatever it is that Chinese investors are seeking, whether it's quality financial information or a stock-picker who inspires their confidence, if they go online, they'll find a new media source that meets their criteria.

The quality of those media sources is going to be of increasing concern to all of us. National Public Radio in the US gave the following lead-in for a report on a worldwide market dip attributed to a shudder on the Shanghai exchange in February this year: "It used to be said that when the New York Stock Exchange sneezes, the rest of the world catches a cold. But the old saying worked in reverse today, when a plunge in China's market sent ripples around the world."

Misleading information about the markets in Shenzhen and Shanghai is no longer merely a local concern. The next Daitou Dage in China could lose or make you money, no matter where in the world you have invested it.

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