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CNBC probes stock-game claims

Trading abuse is alleged. It wouldn't be the first time greed has marred a promotional contest.

By Walter Hamilton, Times Staff Writer
May 31, 2007

NEW YORK — Even when it's play money, some people can't help themselves. They cheat.

CNBC may have to confront this reality, one of the risks faced by companies that sponsor games for customers and, more to the point, for people the companies hope will become customers.

It happened to McDonald's several years ago with various promotional prize contests, and to Taco Bell in the late 1980s in its "Wheels, Reels and Meals" sweepstakes. Contestants scammed the games, swiped tens of thousands of dollars and gave the companies angling for positive PR black eyes instead.

CNBC said Wednesday that it was investigating claims that people playing its online "Million Dollar Portfolio Challenge" may have engaged in "unusual trading."

The idea — besides drumming up publicity — was to teach the contestants that CNBC called "aspiring moguls" how to trade stocks, not how to be at the center of Wall Street's next financial scandal.

About 375,000 people entered the competition, which started in March, creating more than 1.5 million mock portfolios of stocks they bought with "CNBC Bucks." Although stock picks were made with fake money, the \$1-million prize will be the real thing.

"There are always going to be cheaters. You can try your best to make it fair for everyone, but sometimes a few people are going to try to find ways around it," said Timothy Sykes, a hedge fund manager and blogger who offered players advice during an evening feature that aired regularly on CNBC. (The feature had a decidedly light air. One night, according to a video clip on Sykes' website, three female models helped him by holding up signs of stock charts. "Suddenly, I feel woefully overdressed," that evening's CNBC host, a woman, said as Sykes introduced the models.)

Several contestants complained that trades made by some of the 20 finalists violated contest rules, CNBC said in a statement, and the channel then launched an investigation.

CNBC didn't disclose the alleged improprieties in the statement. In rules posted on its website, CNBC said participants had to abide by federal securities laws just as if they were really trading stocks and that the channel "reserves the right to terminate contest participation by any participants suspected of cheating, attempting to exploit the contest or other inappropriate behavior."

Ten weekly winners were to receive \$10,000 each. Weekly winners through May 14, along with 10 other contestants with the highest cumulative portfolio returns, squared off for a two-week final that ended Friday.

The cable channel said it still hoped to announce a winner by July 8 but added that "it is more important to ensure the individual awarded the grand prize is in compliance with the rules."

Among the finalists, according to a CNBC blog, are an investment manager with an MBA from Stanford University, a radiology resident in Detroit and a retired chemical engineer from Bollingbrook, Ill. The leader going into the final day, according to the site, was Nancy Beaumont, a counseling director at Touro University in Vallejo, Calif. She couldn't be reached for comment.

Many companies use online contests as an inexpensive way to lure potential customers.

"It's a reason to go to a site," said Bonnie Carlson, president of the Promotion Marketing Assn., a New York-based trade group of companies that manage online promotions. "They are definitely liked and they are growing."

Many companies worry that contestants will try to hack into their computers to fudge the results, said Melissa Landau Steinman, a specialist in advertising law at law firm Venable in Washington, D.C.

She added that CNBC probably had no legal liability because contests normally have lots of fine print.

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"CNBC has probably written a very careful set of rules that disclaims all sorts of liabilities," she said.

In a coincidence of timing, CNBC announced Wednesday that it would air a six-episode series beginning next month entitled "American Greed: Scams, Scoundrels and Scandals."

"People will do anything for money," CNBC said in its announcement.

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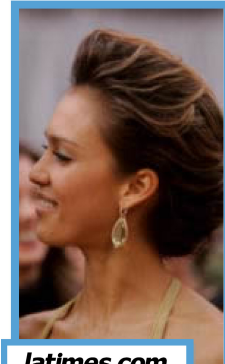
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