Global Hunter Securities and its Analyst Ping Luo's "Pervasive Hatred" Sales Pitch Blindsides Investors

On Friday, March 11th, shares of China MediaExpress Holdings, Inc. (NASDAQ: CCME) were halted. The last trade price was $11.88.

On Monday, March 14th, CCME issued a press release stating that its auditor, Deloitte, had resigned, and that Deloitte "was no longer able to rely on the representations of management, and recommended that certain issues encountered during the audit be addressed by an independent investigation." The CCME release also stated that CCME's CFO resigned effective immediately. Soon after CCME's release, NASDAQ announced that it had extended the halt in trading of CCME shares until the company responds to a request for information from NASDAQ.

Deloitte being unwilling to sign off on CCME's books shouldn't come as a surprise after all the reports released since the end of January suggesting that CCME was engaged in fraud. See Citron Research, Muddy Waters Research, Bronte Capital, and most recently, thefinancialinvestigator.com, which includes video clips.

One of CCME's only defenders after the multiple and extensive fraud allegations surfaced was Global Hunter Securities ("Global Hunter") and its analyst, Ping Luo. Luo had steadfastly maintained a buy recommendation on CCME shares with a $26 price target. Indeed, in a lengthy report dated February 17th, Luo's sought to dispel the negative evidence against the company with "extensive due diligence" supporting CCME.

In fact, Luo claimed to have been given material non-public information by CCME, including "all of its contracts with advertising clients and bus operators, tax filings, and bank statements."

The report did not disclose non-public information, but Global Hunter used the information as a basis to recommend buying CCME stock. For instance, Luo gave a list of CCME’s advertising clients she spoke with to reportedly corroborate CCME’s disclosures, but the actual client names were redacted. Global Hunter only described CCME’s bank statements and tax filings to say that they "matched GAAP reported numbers."

On the same day, February 17th, well aware of the fraud and irregularities being regularly exposed in the world of Chinese reverse mergers (see, e.g., CAGC, RINO), Global Hunter's China Research team put out a manifesto, "Contrarian Investing: Pervasive Hatred Creates Opportunity," which was signed by Luo as well as three others of the China Research team. This was followed by an investor presentation on March 2nd to discuss Global Hunter's new commitment to the reverse merger space.

Global Hunter wrote, "we don't disagree with most of the negativity…of the roughly 600 US-listed companies in China,
a good 500 are basically un-investible." However, they continued, in the companies that remain, "there are some compelling opportunities." And rather than arguing that skeptics are wrong, they invited investors "to go under the hood with us and get comfortable with the work we're doing in the space."

CCME was not highlighted in Global Hunter's 'pervasive hatred' manifesto (though DEER, a deal, was), but Luo did in fact issue a long CCME report the same day. CCME was one of the companies that Global Hunter continued to strongly recommend, as opposed to other "un-investible" reverse merger stocks.

asensio.com has experience with Global Hunter and Ping Luo following Luo's coverage of China Sky One Medical, Inc. (NASDAQ: CSKI $4.50). After asensio.com published more than 20 reports in 2009 addressing financial and other irregularities at CSKI, Luo continued to maintain a buy recommendation on CSKI, such as in Luo's report dated November 18, 2009. Luo's report did not address any of the irregularities discussed on asensio.com. Luo also did not even include in risk disclosures the potential for inaccurate disclosures or regulatory action.

A representative of asensio.com contacted Luo and Global Hunter in 2009 and raised concerns about the lack of adequate risk disclosures as well as the failure to represent that CSKI had been an investment banking client of Global Hunter. Our representative found Luo inexperienced, and unable to discuss details of the company, based on their conversations. Global Hunter's misguided lawyer, Clinton McCord of the Beverly Hills office of Wildman, Harrold, Allen & Dixon LLP, then responded, said to stop contacting Luo under the threat of a lawsuit and accused us of "an attempt to compel [Global Hunter] to publish inaccurate information about a company in which you have an interest."

During 2010, more and more negative information about CSKI was unearthed by asensio.com and others. However, Global Hunter and Luo maintained a buy rating on CSKI shares, even as CSKI shares fell from $22.75 at the start of the year to below $10 at the end of August. Global Hunter then abruptly dropped coverage a day before CSKI's announcement on September 3, 2010 that its CFO had resigned and that its revenue and earnings would be negatively impacted by "the termination of relationships with certain private distributors." CSKI fell more than 30% the next trading day after the announcement, and has continued to sink since then, today trading at the lowest level since its reverse merger in 2006.

CCME's action to purportedly give material non-public information to Luo and Luo's action to give an edited version of the same information to her firm's clients both seem very problematic in light of Regulation FD, the SEC's prohibition against selective disclosure by public companies, as well as other laws and regulations.

Luo's February 17th report also attempted to make representations on the reported due diligence of a third party. Luo stated that C.V. Starr & Co. ("Starr") "continues to believe" in CCME and that Starr "knows about [CCME] far better than any other parties outside the company." Starr and its affiliates are major shareholders of CCME, according to SEC filings. Starr is headed by Maurice "Hank" Greenberg, the scandal-prone former head of AIG.

These apparently deliberate and repeated tactics by Luo to support CCME have been put into stark relief by Deloitte and NASDAQ’s actions with CCME.