

July 5, 2020

Attention: Jay Clayton, Chairman  
U.S. Securities and Exchange Commission  
100 F Street NE  
Washington, DC 20549

**Re: GSX Techedu's operational & financial frauds; market manipulation**

To Mr. Jay Clayton,

This letter is in regards to the unmistakable fraud and market manipulator, GSX Techedu (ticker: GSX), and the lack of action to date by the SEC.

The SEC maintains a publicly accessible listing of all public companies that have had their trading suspended or securities delisted. Those lists can be accessed via these links:

1. <https://www.sec.gov/litigation/suspensions.shtml>
2. <https://www.sec.gov/rules/delist.shtml>
3. <https://www.sec.gov/cgi-bin/browse-edgar?company=&CIK=&type=25-nse&owner=include&count=40&action=getcurrent>

Documents prepared by the SEC that explain the rationale for suspensions or delistings are accessible via the same links.

Take, for instance, ORGH, which was suspended on May 29, 2020:

*“The Commission temporarily suspended trading in the securities of ORGH because of questions regarding: (1) the accuracy and adequacy of information in the marketplace, including in a May 27, 2020, press release and corrected press release issued by ORGH concerning ORGH’s business combinations, related parties, and business prospects; and (2) unusual or unexplained trading activity affecting the market for ORGH’s securities.”*  
Source: <https://www.sec.gov/litigation/suspensions/2020/34-88975.pdf>

That is to say, within 48 hours of a press release issued by ORGH related to “business prospects”, trading was halted.

As of July 5, 2020, 131 days have elapsed since the SEC was presented with evidence of GSX’s fraudulent business practices. Over this timespan, additional evidence has emerged, implicating GSX with identity theft; falsified financial filings; disproven public statements by the Company’s CEO and CFO; money laundering through 3<sup>rd</sup> party, loosely affiliated entities, used to fake user growth via computer bots; interviews with former GSX employees and contractors, who attest to the Company’s fraudulent activities; etc.

Essentially, GSX has provided false, grossly misleading information to the SEC and investors detailing their “business prospects” and beyond, yet the SEC has taken no action — not even a public statement — regarding GSX.

Further, item 2, “unusual or unexplained trading activity affecting the market for ORGH’s securities” is also satisfied in the case of GSX. The stock reached its lowest point in its decline on May 21, 2020. On May 28, the well-regarded short seller who helped to expose Lukin Coffee’s fraud, Carson Block of Muddy Waters, released his condemning report on GSX. Since that report’s publication, GSX has risen to meteoric heights, with aggressive pumps and attempts to trigger short squeezes and algorithmic buy orders.

Please refer to Figure 1. Specifically, the price was \$29.85 when Muddy Waters released their report on 5/28. In less than a week, on 6/4, and as social media chatter from China-based accounts began talking up GSX and claiming that short sellers would be sorry, the price climbed by 39% to \$41.45. Within eleven days, the stock blew past its all-time high of \$45.42 by 15% when it reached \$52. By 7/2, the stock was priced at \$63.10 and was nearly 50% higher than its February all-time high, despite evidence of fraud.



Figure 1: May 25, 2020 to July 2, 2020 Stock performance of GSX (117%) vs EDU (11%), TAL (28%) & NASDAQ (9%)

To be clear: GSX’s market cap more than doubled in the span of 30 days, to \$15B USD (from \$2.7B one year prior) and achieved a P/E ratio of 332 (on *contested* earnings) — nearly 700% greater than their legitimate competitor, EDU (P/E of 47) — while the only news for GSX was 12 separate reports of fraud (see Figure 2). These price movements and unreasonably high market cap would raise an eyebrow for any well-regarded company; for a company with many outstanding fraud reports and accusations of up to 90% of earnings being fake, they warrant an investigation.



Figure 2: GSX Stock Performance since 2019 IPO. Key dates highlighted. GSX performance (502%) relative to EDU (49%), TAL (104%) & NASDAQ (33%)

Lately, since the Muddy Waters’ May 28<sup>th</sup> report, single-day 8% to 20% gains have become commonplace for GSX, even occurring on days in which the overall market and other Chinese EdTech companies are negative:

Trading Day	Price Gain
June 2, 2020	+13.4%
June 12, 2020	+9.0%
June 15, 2020	+20.8%
June 17, 2020	+8.5%
July 3, 2020	+10.2%

Extremely large buy orders (relative to daily volume) that drive up the share price in the final minutes of trading are now expected, without fail, by investors in online trading forums. Multi-million share darkpool orders after Muddy Waters’ May 28 report have suspiciously led to GSX’s share price never dipping beneath each darkpool order price (see Figures 3 – 7). In fact, GSX’s share price grows dramatically within 1 – 3 days of each darkpool order.

④ OPTIONS > ALL OPTIONS > GSX

Filter ba

TIME	SYMBOL	EXP	STRIKE	C/P	SPOT	DETAILS	TYPE	VALUE	IV
2:39:00	GSX	06/19/2020	35	CALL	30.29	600@1.75	BLOCK	\$105K	97
2:20:28	GSX	07/17/2020	15	PUT	29.95	170@1.7_B	BLOCK	\$28.9K	201
2:20:08	GSX	07/17/2020	15	PUT	29.93	230@1.7_A	SWEEP	\$39.1K	201
2:04:48	GSX	07/17/2020	15	PUT	30.15	250@1.65_B	BLOCK	\$41.9K	199
1:38:49	GSX	06/19/2020	25	PUT	30.26	174@2.25_A	SWEEP	\$39.2K	141
1:29:52	GSX	06/19/2020	30	PUT	30.36	179@3.702_B	SWEEP	\$66.3K	114
1:21:32	GSX	06/19/2020	30	PUT	30.05	170@4.0_A	SWEEP	\$68K	119
1:19:14	GSX	06/19/2020	15	PUT	30.31	184@0.85_A	BLOCK	\$15.6K	219
1:09:15	GSX	07/17/2020	30	PUT	30.48	244@5.38	BLOCK	\$131.3K	120
12:53:34	GSX	07/17/2020	7.5	PUT	30.23	255@0.6_A	SWEEP	\$15.3K	263
12:46:51	GSX	06/19/2020	30	PUT	29.76	207@4.2_A	SWEEP	\$86.9K	122
12:22:42	GSX	06/19/2020	30	PUT	30.02	212@4.1_B	BLOCK	\$86.9K	122
12:17:04	GSX	06/19/2020	25	PUT	30.55	200@2.45_A	BLOCK	\$49K	151
11:54:40	GSX	06/19/2020	15	PUT	30.67	150@0.95_B	SWEEP	\$14.3K	230
11:47:31	GSX	07/17/2020	10	PUT	30.71	250@0.8_A	SWEEP	\$20K	231
11:47:26	GSX	07/17/2020	25	PUT	30.76	199@3.7	BLOCK	\$73.6K	143
11:47:13	GSX	07/17/2020	10	PUT	30.64	208@0.8_A	SWEEP	\$16.6K	231
11:46:32	GSX	07/17/2020	10	PUT	30.62	292@0.8_A	SWEEP	\$23.4K	231
11:46:29	GSX	07/17/2020	10	PUT	30.59	409@0.8_A	SWEEP	\$32.7K	231
11:46:25	GSX	07/17/2020	10	PUT	30.59	716@0.8_A	SWEEP	\$57.3K	231
11:45:35	GSX	06/19/2020	30	PUT	30.80	187@3.7_A	BLOCK	\$69.2K	120
11:45:12	GSX	07/17/2020	10	PUT	30.73	613@0.8_A	SWEEP	\$49K	231
11:40:48	GSX	07/17/2020	10	PUT	31.07	154@1.8_B	SWEEP	\$19.9K	230

Heat Map OI Volume Alerts Flow Historical

ALERT STREAM BLACKBOX STOCKS

TIME	SYMBOL	MESSAGE	PRICE
4:36:41	GSX	1,000,000 DARK BLOCK \$30.0M	\$30.58
1:10:29	GSX	250,000 BLOCK \$7.6M	\$30.50

Figure 3: May 20, 2020 -- 1 million share darkpool print afterhours at \$30.58 and a snapshot of day's option activity

ALERT STREAM BLACKBOX STOCKS

TIME	SYMBOL	MESSAGE	PRICE
3:34:46	GSX	1,150,000 DARK BLOCK \$37.0M	\$32.61

Figure 4: June 1, 2020 -- 1.50 million share darkpool print afterhours at \$32.61

ALERT STREAM BLACKBOX STOCKS

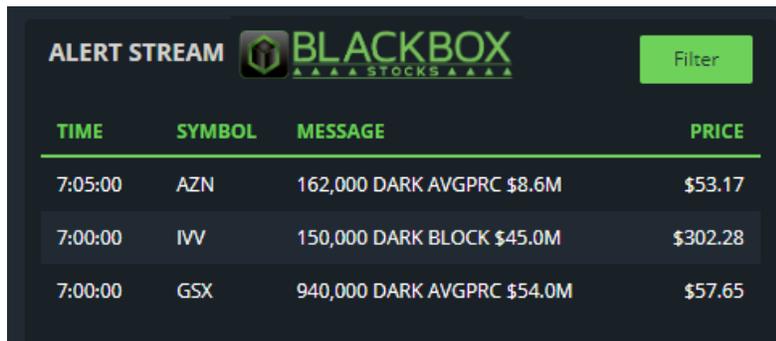
TIME	SYMBOL	MESSAGE	PRICE
3:34:54	GSX	2,154,123 DARK BLOCK \$85.0M	\$39.50

Figure 5: June 11, 2020 -- 2.15 million share darkpool print after-hours at \$39.50. Average daily volume ~5.50 million

ALERT STREAM BLACKBOX STOCKS

TIME	SYMBOL	MESSAGE	PRICE
4:06:44	GSX	1,505,239 DARK BLOCK \$87.0M	\$57.80

Figure 6: June 25, 2020 -- 1.50 million share darkpool print after-hours at \$57.80. 10-day average volume ~4.6 million



The screenshot shows an 'ALERT STREAM' from 'BLACKBOX STOCKS'. It features a table with columns for TIME, SYMBOL, MESSAGE, and PRICE. The messages describe darkpool prints for AZN, IVV, and GSX.

TIME	SYMBOL	MESSAGE	PRICE
7:05:00	AZN	162,000 DARK AVGPCR \$8.6M	\$53.17
7:00:00	IVV	150,000 DARK BLOCK \$45.0M	\$302.28
7:00:00	GSX	940,000 DARK AVGPCR \$54.0M	\$57.65

Figure 7: June 29, 2020: Pre-market darkpool activity, 940K shares. 10-day average volume ~4.6 million

Is this price behavior, especially considering the context of fraud allegations and Chinese firms' history of price manipulation, not adequate to be considered as "unusual or unexplained trading activity affecting the market for GSX's securities"? At the least and in the meantime, **the SEC should be mandating that brokerages restrict trading of GSX in any accounts being used to drive short squeezes.**

On June 6, GSX's CEO, Larry Chen, stated "unless something unexpected happens, this short farce should come to an end in the next two months." Larry Chen, nor his company, have provided any explanation for why the "short farce" would come to an end in 60 days, but his personal network and GSX's price action speak loudly enough.

Source: <https://baijiahao.baidu.com/s?id=1668829642277300301&wfr=spider&for=pc>

On June 8, Yongqiang Qian, a personal friend of GSX CEO, Larry Chen, taunted traders on Twitter with a question of whether there's "any Financial proof?" of the fraud and states "I personally guarantee \$GSX \$100 by end of year". In a subsequent tweet he states, "Please remember it is me short squeeze you and take your put money". He later deleted his tweets, but fortunately they were preserved in a screenshot:



Figure 8: Longtime friend of GSX CEO personally guarantees a GSX share price of \$100 via short squeezes.

Yongqiang Qian (@kunk00) is the founder of New Oriental Education & Technology Group and is presently Chairman of Jiayuan.com.



Figure 9: Photo of Yongqiang Qian at Jiayuan.com's NASDAQ opening bell ceremony.

Yongqiang Qian and GSX CEO, Larry Chen, are longtime friends (since 1999) and former coworkers. Yongqiang Qian posted a WeChat message praising Larry Chen as the accusations of fraud began coming in:



钱永强

聊聊陈向东1. 认识他是1999年8月，那时我要回美完成学位，需要招教逻辑的老师，看简历时打心底喜欢这个人，他和我年龄相仿，少时是颓篱人度，败壁邻灯，为尽快帮助家庭上了初中中专，一步步自学，读过函授，电大等等一步步到那时在人大读博士。他演讲型讲课有时会用力过猛让人不适，但这类人心底纯净，全心投入。后来他一人去了武汉建分校，当年就大幅赢利，创造了奇迹（新东方大多数分校两年能盈利的都是凤毛麟角）。曾经仔细研究过武汉的那两年的报表，自认为运营能力很强的我打心底不希望以后和他成为对手。这人除了读书工作没有什么兴趣爱好，求知欲二十年如一日。相处二十多年，每次陈向东报的预算都是超额完成，答应的事不仅做到还总会给人惊喜。我离开新东方后每隔一段时间杜，沙，陈和我聚在一起喝酒打牌，牌桌上最能看出人品 😊。其实他并不喜欢打牌，只是为了陪我们。这几年老沙创业两次需要大的帮助，和他讨论时他总是义无反顾，冲在前面。一句话，如果有陈向东这样的朋友，是你的幸运。

Figure 9: WeChat post by Yongqiang Qian, praising & alluding to loyalty for GSX CEO, Larry Chen; states that they met in 1999.

There are also accusations of GSX Board Members' and their affiliations with Chinese investment firm, TIGR, and its role in pumping GSX stock price to trigger short squeezes.



Figure 10: Evidence of market manipulation (see Figure 11 for translation).

Translation:

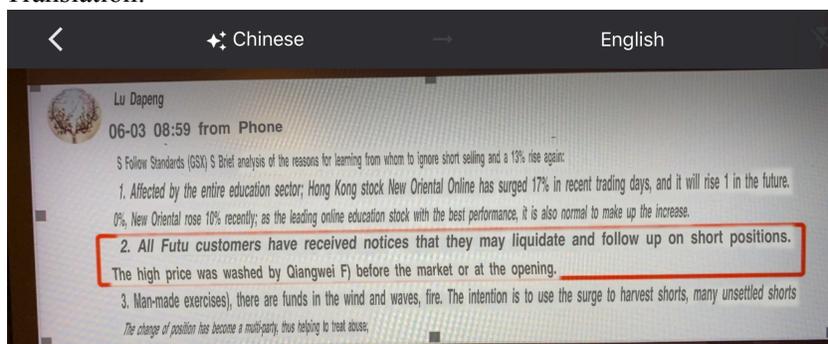


Figure 11: Google translation of figure 10

By comparison to companies that have had their trading suspended or securities delisted, (such as ORGH, cited at the opening of this letter), GSX has an incomparable amount of incriminating evidence stacked up against it. Meanwhile, the SEC and NYSE enable GSX to stay on the market, with no consequence.

It has unfortunately come to a point where one must question this double standard that seems to be at play at the SEC. Is this an allegiance to a foreign power? To the Investment Banks & options underwriters, looking to profit on listings no matter the cost? Are we giving favors to banks, ensuring they have adequate time to exit their positions, in the meantime bleeding dry the retail investor? Are we intent on placating Chinese market participants and leadership?

New policy (e.g., holding Chinese firms to the same accounting and audit standards as the US) will take time to enact. However, that time lag is intended for the sake of fair consideration and providing companies with adequate time to comply. It is *not* to allow frauds like GSX to slip through the cracks and exploit investors in the meantime.

Chinese companies must be made aware through example that the lag time for policy enforcement is not a license to commit fraud on US markets. With the abundance of evidence, egregious degree to which they have manipulated US investors, and sloppiness of their attempts, GSX makes for an ideal, prototypical example of what will not be accepted under any circumstance in US financial markets.

**Mr. Jay Clayton: Please adhere to your obligations as the Chairman of the SEC and delist GSX.**

Sincerely,  
Joseph White

## Appendix:

1. "Brushed Student Counts and Cooked Books: Why We Believe GSX Techedu is the Worst Publicly Traded Education Company". Grizzly Research. 2/25/20. <https://grizzlyreports.com/wp-content/uploads/2020/02/Research-Report-GSX-Grizzly-Research-25-Feb-2020.pdf>
2. "GSX Techedu Inc. – Grizzly Research Presents Smoking Gun Evidence of Fraud". Grizzly Research. 6/2/20. <https://grizzlyreports.com/Research/GSX-New.pdf>
3. "GSX Techedu Inc – The Most Blatant Chinese Stock Fraud since 2011: Up to 70% of revenues are fabricated and the Chinese media agrees". Citron Research, 4/14/20. <https://citronresearch.com/wp->

<content/uploads/2020/04/GSX-Techedu-The-Most-Blatant-Chinese-Stock-Fraud-Since-2011-ver2.pdf>

4. “Conclusive evidence of significant overstatement of revenues and profits through the use of multiple undisclosed related parties at GSX Techedu (NYSE: GSX)”. Citron Research, 4/30/20. <https://citronresearch.com/wp-content/uploads/2020/04/GSX-Conclusive-evidence-final.pdf>

5. “Citron presents to US regulators definitive evidence of GSX Techedu (NYSE: GSX) committing securities fraud through the use of multiple undisclosed related party transactions to hide expenses/liabilities”. Citron Research, 5/7/20. <https://citronresearch.com/wp-content/uploads/2020/05/Citron-presents-to-US-regulators-definitive-evidence-of-GSX-Techedu-update.pdf>

6. “MW is Short GSX Techedu Inc. (GSX US): We are short GSX because we conclude that it is a near-total fraud”. Muddy Waters, 5/18/20. <http://d.muddywatersresearch.com/research/gsx/mw-is-short-gsx/>

7. “GSX: Small Classes, Big Lies”. Muddy Waters, 5/28/20. [http://d.muddywatersresearch.com/content/uploads/2020/05/MW\\_GSX\\_05282020.pdf](http://d.muddywatersresearch.com/content/uploads/2020/05/MW_GSX_05282020.pdf)

8. “GSX (Whom to learn from), The Last to Learn From”. Scorpion VC, 5/6/20. <http://www.scorpio.vc/pdf/200506/174e818f-7df2-4360-be5d-b8ff0d7fb7e5.pdf>

9. “GSX (Whom to learn from), The Last to Learn From. Pt. 2”. Scorpion VC, 5/26/20. <http://www.scorpio.vc/pdf/200526/08dd6ea6-8b67-4609-b44c-5ed60af4a5be.pdf>

10. “GSX (Whom to learn from), The Last to Learn From”. Scorpion VC, 6/15/20. <http://www.scorpio.vc/pdf/200615/bf678d34-c8c5-48e6-b469-99b278a24fc6.pdf>

11. “Identifying Fraud Risks of NYSE: GSX. Submission to Office of Senator Marco Rubio and Senate Committee on Banking, Housing, and Urban Affairs.” Anonymous, 6/8/20. [https://drive.google.com/file/d/1BIFQHRrEF1qb6QC-hA7QVBTqVy\\_k3DtwB/view](https://drive.google.com/file/d/1BIFQHRrEF1qb6QC-hA7QVBTqVy_k3DtwB/view)

12. “A Letter to Mr. Chen Xiangdong of GSX Techedu”. Anonymous, 6/30/20. <https://drive.google.com/file/d/1pysXxXO4IOqoX54-VHiYAqGFPVLNp4J/view>

13. Example of Chinese traders making mockery of American investors. Yahoo Finance, GSX Conversations board, 7/1/2020.



**Simo** 3 days ago

Stupid shorts losing more and more money hahaha. Best wishes from the NEW WORLD POWER



↗ Bullish

↩ Reply Replies (4) 🗳 4 🗨 5