

CRYPTO RUG PULLS





RUG PULL

IT'S A TYPE OF EXIT SCAM

This means the scammers will “pull out” the liquidity of their fake tokens and run away with the money. This is primarily in DeFi but it can occur with NFTs as well, known as exit scams. Once the NFT is minted by investors, the scammers run with the funds.

For rug pulls, the token is generated and then buzz is created to entice investors, usually through Twitter and Telegram. Then it will be listed on a Decentralized Exchange (DEX), like PancakeSwap or UniSwap, and could be paired with a popular coin like Ethereum for a popularity and “validity” boost.





SCAM TIME

TIME TO CREATE MORE BUZZ

At this point the scammers will put in their own liquidity. This will make the new cryptocurrency more enticing and trick investors to put in for exit liquidity.

Cue the investors.

In hopes of making gains, unsuspecting investors put in money. To add to the incentivization, scammers will request the investors to buy into the investment pool by buying the token pair of the scam coin and Ethereum. Once the scammers feel enough tokens have been bought, they will drain all liquidity, leaving only the valueless scam token.





Types of Rug Pulls



Liquidity Stealing

This occurs when the creators withdraw all the coins, which removes the value of the coin, driving the price down to zero.

The most common type of exit scams are in the DeFi environments.



Limiting Sell Orders

The set up is when developers code the tokens so that only they can sell them. Once investors buy the token, sometimes paired with a currency like Ethereum, and there's enough for the scammers then they dump their positions to make the token worthless.



Dumping

When developers quickly sell their tokens to drive down the price of it, this leaves investors with worthless tokens. This usually happens after heavy social media promotions. The scam can also be known as a Pump-and-Dump Scheme.



DETECTING RUG PULLS

Liquidity has no time lock

To build trust, teams will put a time lock on liquid funds, usually at 95%-100%, to make sure they don't run off with investors' funds. If there's no time lock, that's a red flag.

Crazy ROIs

Claims of high rewards for the low risk should be a trigger that something is wrong. If it sounds too good to be true, it is.

Fake Founders

Any team should be visible to the investor if they're asking for funds. Without proof of who they are or if there are fake profiles, then it's a scam.

Unaudited

Smart contracts should be audited. Scammers may put a fake timeline with intent to complete the audit to invoke confidence. Doing an audit can be expensive but there are 3rd party websites available who already are tracking new coins.



DETECTING RUG PULLS

Minimal Effort

Very little effort is placed on the appearance of the website or white paper, since it's only a temporary endeavor for the scammer. Too little information or it looks exactly like another project, it's most likely a scam.

Concentrated Funds

Only a few are holding the funds is a clear sign those are the scammers' wallets disguised as regular investors. They can then manipulate the pricing as they see fit. Scammers don't even need to pull all funds for it to be a rug pull. Generally, wallets shouldn't hold more than 5% of funds, unless locked, otherwise this is scammer activity.

Stealth Mints

When an NFT is kept hidden for as long as possible until minting just to create a feeling of FOMO, it makes it even easier for a scammer to pull the rug.





FINAL NOTES

TRACKING IT EARLY ON

Staying vigilant and following the wallet address trails as soon as possible during the investigation will help to locate and retrieve funds.

This type of scam is harder to detect early on, due to the FOMO nature it creates to try and get investors who want to get in on a new coin as soon as possible for the best returns, and difficult to track since scammers like to keep the scam short and sweet.



WANT TO TRACK DOWN CRYPTO SCAMMERS?



**Using a powerful tool can help track down the
wallet address trail to catch the scammers.**

**TO LEARN MORE ABOUT CRYPTOCURRENCY
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