

EFGH

postmortem

dilution-risk

sec-filings

EFGH Postmortem: How a 424B5 Filing Turned a 40% Runner Into a Trap

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SUMMARY

EFGH ran 40% in the first hour yesterday. By close, it was red. Here's what the filing told you at 7 AM that most people didn't read until it was too late.

DATA BOX

Price	\$1.87
Change	-12.3%
Volume	8.1M
Float	22M
Mkt cap	\$95M

The Setup

EFGH opened at \$2.14 yesterday morning, already up 22% from the prior close of \$1.75. By 9:45 AM, it hit \$2.45 — a full 40% move on 3.8M shares in 45 minutes. Chat rooms were buzzing. Scanner alerts were firing. Everyone saw a runner.

By 4 PM, **EFGH** closed at \$1.87. Red on the day. 8.1M total shares traded. A lot of people got hurt.

Here's what went wrong, and more importantly, how you spot it next time.

What's a 424B5?

A 424B5 is a prospectus supplement filed with the SEC. It's the document a company files when they're *actually executing* a stock offering under an existing shelf registration. Think of the S-3 as the permit to build. The 424B5 is the construction crew showing up at your door.

EFGH filed their 424B5 at 7:02 AM — before the market opened. The filing disclosed a direct offering of 5.3M shares at \$1.80 per share. Simple math: 5.3M new shares into a 22M float is a 24% increase in supply. At \$1.80, the offering was priced at a 2.8% *premium* to the prior close, which sounds fine until you realize the stock was already trading at \$2.10+ in pre-market.

The offering was effectively priced 14% below where most people were buying.

The Anatomy of the Trap

Here's how dilution traps work mechanically, because understanding the mechanics is the whole point.

Phase 1 — The Run. News, momentum, or just float rotation pushes the stock up. Volume spikes. Retail piles in. The stock looks strong on every technical indicator.

Phase 2 — The Filing. The company seizes the opportunity. Stock's up 40%? Perfect time to raise capital. The 424B5 drops, often before market open or right after. Most retail traders don't check SEC filings in real-time. They're watching charts.

Phase 3 — The Unwind. Institutional buyers who got shares at \$1.80 don't need to wait for higher prices. They can sell immediately at \$2.20 and lock in a 22% gain. That selling pressure meets retail buyers who don't know the offering exists yet. Price collapses.

EFGH followed this playbook almost perfectly. The offering closed by noon. New shares hit the market. Selling accelerated into the afternoon.

What the Filing Actually Said

"We have entered into a securities purchase agreement with certain institutional investors for the sale of 5,300,000 shares of common stock at a purchase price of \$1.80 per share, for aggregate gross proceeds of approximately \$9.54 million."

Two details matter here. First, "institutional investors" — not a public offering, not an ATM. These are hedge funds and family offices who negotiate discounted prices and flip fast. Second, "aggregate gross proceeds of \$9.54 million" — which after underwriter fees nets the company roughly \$8.9M. That cash hits the balance sheet, sure. But the dilution hits your portfolio first.

How to Protect Yourself

Check SEC EDGAR before you buy any stock showing unusual pre-market activity. Takes 30 seconds. Search the ticker, filter by filing date, look for 424B5, S-1, or S-3 filings from the prior 24 hours.

EFGH had an active S-3 shelf on file since January. That alone should've been a yellow flag. Any stock with an active shelf can drop a 424B5 at any time. When a stock with an active shelf suddenly spikes 20%+, the probability of an offering goes through the roof. Companies need money. That's why the shelf exists.

22M float. 5.3M new shares. The dilution math was available at 7:02 AM. The stock didn't peak until 9:45 AM. That's a two-hour-and-forty-three-minute window where the information was public and free.

Read the filings. Always.

This is not financial advice. Do your own due diligence before making any investment decisions.

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