# Avoid Ponzi Schemes

*The Ponzi scheme is a house-of-cards swindle in which high returns are paid to initial investors out of the funds of later investors, who end up losing all or most of their money to the promoter. With the help of your state securities regulator, you can protect yourself from these types of scams.*

**Beware promises of high, guaranteed profits with low-to-no risk.** This is perhaps the easiest way to spot a Ponzi scam. Any legitimate investment involves a degree of risk that makes it impossible to flatly promise profits, much less astronomical returns.

**Avoid promoters who fail to provide clear and detailed explanations.** Don't listen to promoters who tell you that it is impossible to explain their deal in layman's terms. You should understand how an investment works before you sign on.

**Get information from your state securities regulator.** Anyone selling a security must have a license. If the promoter says he or she is exempt, follow-up with your regulator to confirm the claim. Since most Ponzi schemes involve investment contracts, they should be registered as securities offerings with your state securities division.

**Ask for detailed information in writing.** You are well within your rights to ask for information on the company, its officers and financial track record. If a product is involved in the deal, ask for documentation on its cost, fair market value and existing and potential markets.

**Verify the promoter's claims.** Be particularly leery of claims that all banking transactions and book-keeping are handled in remote cities or other countries. Searching the internet is another way to verify the investment deal.

**Resist pressure to reinvest without seeing your "profits."** Ponzi schemes often are kept going for substantial periods of time by promoters who convince even initial investors to roll-over their "profits" for even greater returns. Be suspicious of promoters who are reluctant to let you cash in.

**Look for unbusiness-like conduct or disruption of services.** Reluctant to have their schemes exposed, Ponzi operators may answer the phone and open all the mail themselves. And when the Ponzi bubble is about to burst, promoters typically become extremely difficult to reach.

***In the early 1920s, Charles Ponzi solicited funds with the promise that investors would get a 40 percent return in just 90 days. His con game fleeced uncounted numbers of Boston, Massachusetts, investors of $10 million — a staggering sum in those days.***

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