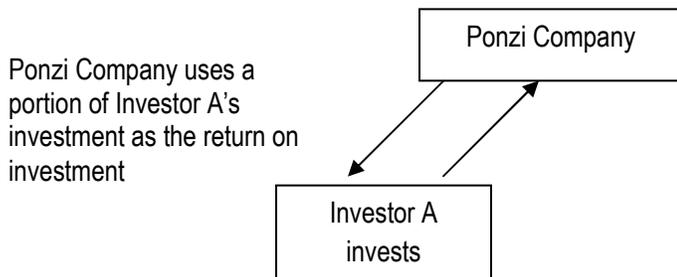


# PONZI SCHEMES

Promoters offer high rates of return on the various impressive-sounding investments. However, instead of using the money as promised, new investors' money is used to pay the monthly "interest" or "return" to earlier investors. These "satisfied investors" then report the high returns to their friends, who in turn invest in hopes of achieving the same above-average returns. In a Ponzi scheme, investors are not, in fact, investing in an underlying business, even though they believe they are. Early investors are simply being paid with the funds received from later investors. The scheme only continues as long as new investors provide additional funds. When the scheme collapses—as it always does—current investors lose their money and the promoters walk away rich.

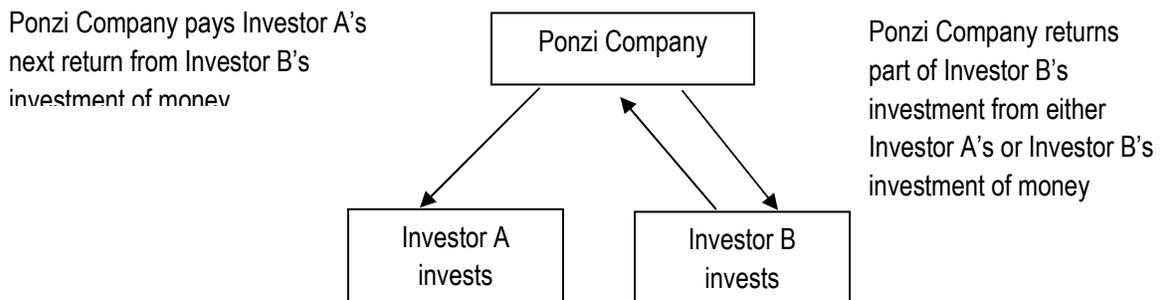
## Ponzi Scheme

**Chart 1**



Other investors start investing after Investor A gets a return on investment.

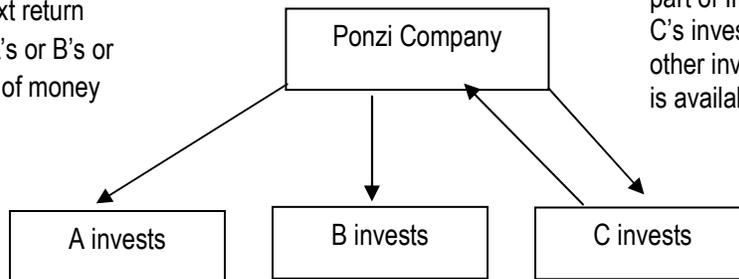
**Chart 2**



Additional investors invest based on the returns that prior investors receive which demonstrates that it's a safe and profitable investment.

**Chart 3**

Ponzi Company pays  
Investor A's next return  
from Investor A's or B's or  
C's investment of money



Ponzi Company returns  
part of Investor A's or B's or  
C's investment from any  
other investors money that  
is available

And the beat goes on and on until all the money is depleted and  
there are no new investors willing to invest

### **Pyramid Scheme**

Pyramid promotions focus on the quick profits to be earned from recruiting other investors, who then will recruit others, and so on. Little mention or emphasis is placed on the product or service to be sold. The fraud derives from the ever-decreasing number of potential investors in a given area. The common elements of a pyramid scheme involve the following:

1. An invitation from a friend, neighbor, or coworker to attend an "opportunity meeting" to learn how to earn lots of money;
2. At the meeting, a well-rehearsed presentation that downplays the traditional methods of acquiring money and will offer instead an exciting shortcut to wealth and adventure; and
3. Payment of large fees for products, courses, etc., and/or the right to recruit others and profit from their participation.

The emphasis is to get others to invest. True pyramid schemes are illegal in most states, but are difficult to prosecute. Victims' money is often filtered up through the pyramid and lost. Sooner or later, all pyramid schemes collapse of their own weight (taking many investors down with them, of course).

<b><u>Stage</u></b>	<b><u>Participants</u></b>
<b>Level 1</b>	<b>8</b>
<b>Level 2</b>	<b>64</b>
<b>Level 3</b>	<b>512</b>
<b>Level 4</b>	<b>4,096</b>
<b>Level 5</b>	<b>32,768</b>
<b>Level 6</b>	<b>262,144</b>
<b>Level 7</b>	<b>2,097,152</b>
<b>Level 8</b>	<b>16,777,216</b>
<b>Level 9</b>	<b>134,217,728</b>
<b>Level 10</b>	<b>1,073,741,824</b>
<b>Level 11</b>	<b>8,589,934,592</b>