

What is a Pyramid Scheme?

Pyramid schemes, also referred to as franchise fraud, or chain referral schemes, are marketing and investment frauds in which an individual is offered a distributorship or franchise to market a particular product. The real profit is earned, not by the sale of the product, but by the sale of new distributorships. Emphasis on selling franchises rather than the product eventually leads to a point where the supply of potential investors is exhausted and the pyramid collapses. At the heart of each pyramid scheme there is typically a representation that new participants can recoup their original investments by inducing two or more prospects to make the same investment. Promoters fail to tell prospective participants that this is mathematically impossible for everyone to do, since some participants drop out, while others recoup their original investments and then drop out.

Some Tips to Avoid Pyramid Schemes:

- Be wary of "opportunities" to invest your money in franchises or investments that require you to bring in subsequent investors to increase your profit or recoup your initial investment.
- Independently verify the legitimacy of any franchise or investment before you invest.