

What is a "Ponzi" Scheme?

A Ponzi scheme is essentially an investment fraud wherein the operator promises high financial returns or dividends that are not available through traditional investments. Instead of investing victims' funds, the operator pays "dividends" to initial investors using the principle amounts "invested" by subsequent investors. The scheme generally falls apart when the operator flees with all of the proceeds, or when a sufficient number of new investors cannot be found to allow the continued payment of "dividends."

This type of scheme is named after Charles Ponzi of Boston, Massachusetts, who operated an extremely attractive investment scheme in which he guaranteed investors a 50 percent return on their investment in postal coupons. Although he was able to pay his initial investors, the scheme dissolved when he was unable to pay investors who entered the scheme later.

Some Tips to Avoid Ponzi Schemes:

- As with all investments, exercise due diligence in selecting investments and the people with whom you invest.
- Make sure you fully understand the investment before you invest your money.