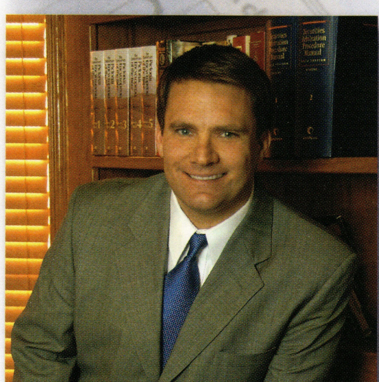
PREVENTING INVESTMENT FRAUD

The Swindle, the Swindler, & the Swindlee

Investment scams arrive unawares in all shapes and sizes. Promoters present soon-to-be-victims with fictitious opportunities through a myriad of financial investment opportunities. Of course not all promoters are charlatans, but how can one separate the "*sheep from the goats*"?

Describing the numerous and diverse investment scams would require an exhaustive publication. Therefore, this short article shall briefly examine the most famous investment "*swindle*" of all time followed by a list of key questions to ask before investing to prevent some charming "*swindler*" from turning you into a "*swindlee*".

At the turn of the last century, Charles Ponzi immigrated to Boston before moving to Canada. After serving a short prison term for forgery in Canada, Ponzi returned to the United States but was immediately arrested on federal charges and pleaded guilty for smuggling aliens. After being released from an Atlanta federal prison, Ponzi ultimately found his way back to Boston.



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The year now was 1920 and Charles Ponzi was thirty-eight years old. The energetic, well dressed, five-foot-two, 130 pound entrepreneur began raising money from investors. Ponzi vaguely described his strategy whereby he invested in "International Postal Reply Coupons" which allowed him to profit from imbalances in currency exchange rates after the effects of World War I. Ponzi would issue notes to investors on his newly christened company, the "Securities Exchange Company" (this was before the real SEC came into being). His advertising campaign was simple, "DOUBLES THE MONEY WITHIN THREE MONTHS". Later that year, Ponzi began receiving more than a million dollars a week in investor funds in which he would exchange for "Ponzi Notes".

Of course there was no real underlying investment in Ponzi's scheme. New investment dollars given to Ponzi from unsuspecting investors were used to pay off older investor notes as they matured (in 1920 this was called a "Robbing Peter to Pay Paul Scheme"). Ponzi then siphoned off the rest of the proceeds to buy stock in a Boston bank (Ponzi thought he could take control of the bank and eventually make his business legitimate) as well as support his recently acquired lavish lifestyle. After a brief comedy-laden regulatory showdown with the authorities, Ponzi had defrauded some 20,000 investors out of an estimated $8 million dollars or more in less than eight months.