

Be Smart – Don't be a scam victim!

Beware of get-rich-quick scams: Do not fall for Ponzi & Pyramid schemes

The appeal of quick money and attractive incentives - such as expensive freebies like luxury holidays almost never fail to attract people, who fall into these traps, only to realize later that they have been conned. When we talk about quick money, we also have people being deceived by so-called investments promising quick, high and guaranteed returns.

Ponzi and Pyramid schemes are two of such get-rich quick scams that have been on the increase in recent years. Both schemes use revenue generated by new 'investors' to pay earlier 'investors' rather than generating profits from legitimate investments or business activities. While they do have some similar characteristics, there are some basic differences in the way the two schemes operate.

Typically, Pyramid schemes require members to make a payment to join. It relies on members to recruit and introduce new people to the structure, as there needs to be an endless supply of new member, in order for everyone to make a 'profit'. You may have heard about a pyramid scheme from friends, colleagues, or family. Pyramid schemes also recruit members through other means, including over the phone, by email, post or social media.

Ponzi schemes on the other hand, the person in charge of running such fraudulent operations get investors to contribute money promising them high returns. Money contributed by latter investors are used to pay the earlier ones. The Ponzi scheme is therefore basically a transfer of funds from one client to another.

Both Ponzi and Pyramid schemes collapse when the funds dry up, and most often the one promoting the scheme becomes unavailable.

Tips to spot a Ponzi Scheme:

- It is not a product offered by an authorised financial services provider.
- Claims to be an opportunity of a lifetime, promising high returns within a short period.
- High returns are often paid initially; investors are then lured into investing more money.
- Usually quite secretive and you cannot understand the actual business model.

Tips to spot a Pyramid Scheme:

- A fee or initial investment is required to participate in the scheme.
- Returns are dependent on you recruiting more investors and scheme has multiple level of members.
- Promises high returns over a short period, and encourages you to reinvest returns.
- No details of how the funds will be invested are made available.
- Operate on trust, hence invitation to invest can come from someone close to you.



How to prevent yourself from falling victim to such get-rich-quick scams:

- Be sceptical of investments promising high profits with little or no financial risk.
- Be suspicious of unsolicited offers to invest.
- Do your research about both the investment opportunities and the people with whom you invest.
- Never commit your hard earned money or savings into an investment you do not fully understand.

Always remember: If it sounds too good to be true, it probably is!

