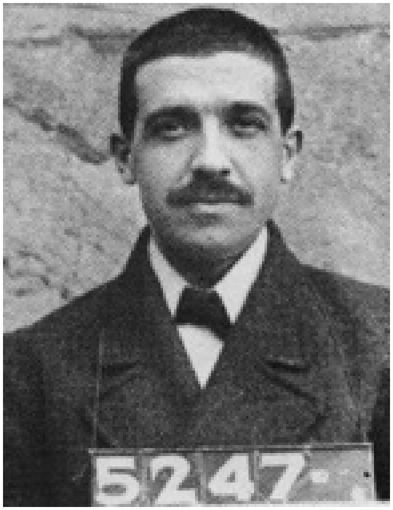
on the markets for the foreseeable future."

Ponzi Schemes

In the light of current news Ponzi schemes are back in the news.



The question you may be wondering is what actually a Ponzi scheme is and who was Charles Ponzi?

A Ponzi scheme is a technique used by fraudsters where the operator of the scheme promises high return to investors in short-periods but makes no actual investments at all. Instead, the operator will use money from future investors to show previous investors that a profit has been made, paying out sums that actually have not been earned. The scheme is completely reliant upon money coming in from new investors to continue to pay out the returns to existing investors. Effectively the investors who withdraw their funds are actually defrauding the new investors. If the flow of money from new investors ceases, so does that Ponzi scheme.

The scheme is named after Charles Ponzi who in 1919 conducted a scheme involving the buying and selling of international mail coupons. He promised investors a forty percent return in just ninety days. The prospect of high returns within a relatively short period of time is all a part of the attraction that comes with Ponzi schemes. Ponzi was able to take in $1 million within just a three-hour period in 1921. It emerged that he had only in fact purchased $30 worth of mail coupons.

A Ponzi scheme is different to a Pyramid scheme in two significant ways.

Firstly, a Pyramid involves payments being made to an investor on the next level up. In a Ponzi scheme, money is paid directly to the operator of the scheme. Furthermore, the latter can only be sustained by current investors continuously recruiting new investors. A Ponzi scheme does not require new investors necessarily, provided that the operator of it can persuade an existing investor to reinvest his 'profits'. It is only when the investor withdraws funds that the scheme actually fails.

So the question is how can you identify a potential Ponzi scheme? In the typical scheme returns are higher than the market and normally higher than could be realistically expected from the nature of the activity being conducted. The seller of the investment vehicle is highly credible and normally well connected, such that the regulatory structure either does not apply or loosely applies to the fund.

Finally always remember that if something looks too good to be true then it normally is too good to be true!