



Pyramid Scam

Dear Dr. Per Cap:

My uncle recently lost money in a pyramid scam. What exactly is a pyramid scam and how can I avoid one?

Signed, Never Been to Egypt

Dear Never Been

Very sorry to hear your uncle was a victim of fraud. Hopefully he didn't lose too much money and reported the crime.

A pyramid scam is a type of investment fraud that's been around a long time. Sometimes pyramid scams are referred to as Ponzi schemes, named after Charles Ponzi who ran a very large pyramid scam in the 1920's.

The scam works like this. A con artist will convince a group of people that they can earn a fabulous return off a relatively small investment. There's usually some backstory like shares of stock in an unknown company with an amazing new product.

Initial investors buy in and what makes the scam grow is they actually receive the promised return. The only catch is that the investment isn't actually paying off like explained. Instead the scammer cons new investors and uses their money to pay off the earlier investors - like the old saying robbing Peter to pay Paul. The scam works in levels and the more people that buy in at later levels are used to pay off the people in the earlier levels. At the very top sits the scammer - hence the name pyramid scam.

It all works as agreed until the scammer runs out of new investors to support the pyramid. In fact pyramid scams grow so quickly it doesn't take too many levels before it is mathematically impossible to find enough new investors to keep it going. At that point the whole thing collapses, the scammer splits in a hurry, and most of the investors lose their money - ouch!

Unfortunately, Indian Country is not immune to pyramid scams. Anywhere there is interaction among a large group of people, such as workplaces and churches, you have the potential for a pyramid or related scam. A number of years ago there was a pyramid scam at a tribal casino in New Mexico. Employees,

mostly, bought into what was billed as a “gifting club” but the FBI determined was nothing more than a pyramid scam.

You can avoid falling victim to pyramid scams by being cautious with any offer or opportunity that sounds too good to be true. You should also check if the person or company is licensed to sell the type of investment they’re pitching. A good way to do this is at www.finrabrokercheck.org.

Lastly, pyramid scams and other types of frauds should always be reported. The Federal Trade Commission recently launched www.ReportFraud.ftc.gov, a new website that makes it easy for people to report fraud, scams, and bad business practices. Please keep your guard up and help spread the word.

Ask Dr. Per Cap is a program funded by First Nations Development Institute with assistance from the FINRA Investor Education Foundation. For more information, visit www.firstnations.org. To send a question to Dr. Per Cap, email askdrpercap@firstnations.org.