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FEATURE

Protecting Your Finances: Beware of Ponzi and Investment Schemes

Introduction

In today's world of financial opportunities and uncertainties, the allure of quick profits can sometimes cloud our judgment. Unfortunately, this has led to a rise in Ponzi and investment schemes that promise incredible returns but often result in financial ruin for unsuspecting investors. The Consumer Council of Fiji is committed to safeguarding the interests of consumers and promoting financial literacy. In this article, we will delve into the workings of Ponzi and investment schemes, highlighting their pitfalls and urging readers to steer clear of these risky endeavours.

Understanding Ponzi Schemes

Named after Charles Ponzi, who orchestrated one of the most infamous schemes in the early 20th century, Ponzi schemes are fraudulent investment schemes that promise high returns to investors while relying on the continuous influx of new investors' funds to pay earlier investors. The returns paid to early investors are not generated from legitimate profits or investments, but rather from the contributions of subsequent investors. This creates a house of cards that inevitably collapses once the flow of new investors dries up.

Red Flags of Ponzi Schemes

1. **Unrealistic Returns:** One of the most glaring signs of a Ponzi scheme is the promise of consistently high returns, often exceeding market norms. Remember, if an investment seems too good to be true, it probably is.
2. **Lack of Transparency:** Ponzi operators often provide vague or evasive explanations about how the returns are generated. Legitimate investments are built on transparency and should be able to explain their strategies clearly. For instance, an entity in Fiji is luring people to invest with them (terming it is 'working deposit') claiming that they process orders of Ebay. However, the Council has received confirmation from Ebay that they have no affiliation with the entity based in Fiji.
3. **Pressure to Recruit:** Ponzi schemes often encourage investors to bring in new recruits to expand the scheme. This recruitment-based model sustains the illusion of profitability for a while but is ultimately unsustainable. The scheme currently being run in Fiji, which claims to be processing orders of international e-commerce platforms, is terming this recruitment as 'sending invites' to other people. However, this is just a smokescreen for recruitment.



The Dangers of Investment Schemes

While not all investment schemes are Ponzi schemes, there are plenty of dubious investment opportunities that can lead to substantial losses. These schemes typically promise significant returns without adequately explaining how those returns will be generated. They prey on the desire for quick wealth and exploit the lack of financial knowledge among investors.

Why You Should Never Invest in Ponzi Schemes: Protecting Your Financial Future

While the allure of quick and impressive returns might make Ponzi schemes seem tempting, they are a grave danger to your financial well-being. The devastating consequences that follow investing in Ponzi schemes should serve as a stern warning against engaging in such fraudulent activities. Here's why you should never invest in Ponzi schemes and how to identify them.

1. **Inevitable Financial Losses:** Ponzi schemes are destined to collapse under their own weight. As the operator relies on recruiting new investors to pay returns to earlier participants, the scheme can only continue as long as new funds flow in. Once the recruitment slows down, the entire structure collapses, leaving the majority of investors with substantial financial losses.
2. **Legal Consequences:** Participating in a Ponzi scheme, even unknowingly, can have severe legal repercussions. Protecting your financial future means avoiding any involvement in schemes that could lead to legal trouble.
3. **Destruction of Trust:** Investors who fall prey to Ponzi schemes often experience not just financial loss, but also a deep betrayal of trust. Friends, family members, and colleagues can be drawn into these schemes due to personal recommendations, causing relationships to fracture as the scheme unravels.
4. **Reinforces Unethical Behavior:** Supporting Ponzi schemes inadvertently perpetuates unethical behavior and encourages fraudsters to continue preying on unsuspecting individuals. By refusing to invest in such schemes, you contribute to a safer financial environment for yourself and others.

Protecting Yourself

In today's digitalized world, consumers must take proactive action to protect themselves and their financial wellbeing. Consumers can do this via following actions:

1. **Educate Yourself:** The first line of defence against falling victim to Ponzi or investment schemes is education. Take the time to understand the investment opportunity thoroughly. If you don't understand it, don't invest.
2. **Research and Verify:** Always research the company or individual offering the investment. Check if they are registered with relevant regulatory bodies (note that if a business is simply registered, does not mean that their investment scheme is not a scam) and have a history of legitimate financial activities.



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3. **Seek Professional Advice:** Consult with a qualified financial advisor before making any investment decisions. A professional can provide objective insights and help you navigate potential pitfalls. Or better yet, contact the Council on toll-free number 155 and let us do the due diligence for you.
4. **Avoid Pressure:** Be wary of high-pressure sales tactics or promises of limited-time offers. Legitimate investments allow you to take your time before making a decision.

The Consumer Council of Fiji strongly advises consumers to be vigilant when approached with investment opportunities that promise extraordinary returns. Ponzi and investment schemes prey on our desire for financial security and prosperity, but the risks far outweigh the potential rewards. By educating ourselves, conducting thorough research, seeking professional advice, and trusting our instincts, we can protect ourselves and our hard-earned money from falling into the traps of these deceitful schemes. Remember, a sound investment is built on transparency, informed decision-making, and a realistic assessment of risks and rewards.