Ponzi Scheme and Bernie Madoff

What is a Ponzi scheme?

A Ponzi scheme is an investment fraud that involves the payment of purported returns to existing investors from funds contributed by new investors. Ponzi scheme organizers often solicit new investors by promising to invest funds in opportunities claimed to generate high returns with little or no risk. In many Ponzi schemes, the fraudsters focus on attracting new money to make promised payments to earlier-stage investors and to use for personal expenses, instead of engaging in any legitimate investment activity.

Why do Ponzi schemes collapse?

With little or no legitimate earnings, the schemes require a consistent flow of money from new investors to continue. Ponzi schemes tend to collapse when it becomes difficult to recruit new investors or when a large number of investors ask to cash out.

How did Ponzi schemes get their name?

The schemes are named after Charles Ponzi, who duped thousands of New England residents into investing in a postage stamp speculation scheme back in the 1920s. At a time when the annual interest rate for bank accounts was five percent, Ponzi promised investors that he could provide a 50% return in just 90 days. Ponzi initially bought a small number of international mail coupons in support of his scheme, but quickly switched to using incoming funds to pay off earlier investors.

Does the SEC investigate Ponzi schemes?

The SEC investigates and prosecutes many Ponzi scheme cases each year both to prevent new victims from being harmed and to maximize the recovery of assets to investors. The majority of such cases are brought as emergency actions, which often seek a temporary restraining order and an asset freeze.

During FY 2010, the SEC filed 47 enforcement actions involving Ponzi schemes or Ponzi-like payments.

Who is Bernie Madoff?

Bernard L. Madoff, who is currently serving a 150-year sentence in federal prison, orchestrated a multi-billion dollar Ponzi scheme that swindled money from thousands of investors. Unlike the promoters of many Ponzi schemes, Madoff did not promise spectacular short-term investment returns. Instead, his investors' phony account statements showed moderate, but consistently positive returns — even during turbulent market conditions.

In December 2008, the SEC charged Bernard Madoff and his investment firm, Bernard L. Madoff Investment Securities LLC, with securities fraud for the multi-billion dollar Ponzi scheme he perpetrated on advisory clients of his firm for many years. The SEC filed emergency motions to freeze assets and appoint a receiver, and worked to return as much money as possible to harmed investors.

Madoff had been a prominent member of the securities industry throughout his career. He served as vice chairman of the NASD, a member of its board of governors, and chairman of its New York region. He was also a member of NASDAQ Stock Market's board of governors and its executive committee and served as chairman of its trading committee. Madoff founded his investment advisory firm in 1960.

Conclusion

Getting something for nothing is not from God and if it is too good to be true it is generally too good to be true. Be aware!

The best truth is the gift of Salvation.

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