



Madoff, Dreier and Ponzi Schemes: How to Protect Yourself as Scams Go Global

Bernie Madoff's guilty plea to a decades-long \$50 billion-plus Ponzi scheme pretty much guarantees the 70-year-old will have his likeness immortalized on the Mt. Rushmore of scammers.

The former NASDAQ chairman's December 2008 arrest – with collapsing U.S. and overseas stock markets as a backdrop – kicked up a firestorm that has forced investors to take a much-closer look at who was managing their investments. Scores of investors have lost their life savings, retirees found their nest eggs gone and countless charities discovered that they were essentially out of business; the cash that they once handed out to worthy causes had disappeared.

The scandal whipped up a flurry of investigations, and within three months, more than half a dozen other accused scammers found themselves in handcuffs, as guests of the state.

Among the other scammers arrested in the months following the Madoff case was Marc Dreier. The New York lawyer sold over \$700 million in fictitious promissory notes – bilking investors for over \$400 million. While not in the same league as Madoff, the Dreier case was notable for its sheer brazenness – his clients included 13 of the nations most prominent asset managers, any one of whom could have blown Dreier's scheme wide open if they'd just bothered to check into the company that was allegedly issuing the promissory notes.

The lawyer has been sentenced to 20 years in federal prison for his crimes.

Through it all, the victims of Madoff and these other schemers have repeatedly come to one realization: This didn't have to happen – not even to the scores of individual investors who were among the hardest-hit victims.

The best way to combat financial scams is to understand how the scammers think and to be aware of the schemes taking place.

Table of Contents:

- [Scams Go Global](#)
- [The Most Prominent Scams Out There](#)
- [Protecting Yourself from Scams](#)
- [From the SEC and IRS](#)
- [From the Better Business Bureau](#)

So let's take a look.

Scams Go Global

Scammers typically prey on the greedy, desperate and gullible. And right now, as job losses mount, retirement funds drain and the stock market falls to levels not seen in 12 years, many consumers truly are desperate right now, making them perfect targets for financial scams.

Claire Rosenzweig, president and CEO of the Better Business Bureau of Metropolitan New York told *Money Morning* that her NYC metro office received 60,000 complaints last year alone – many of them involving mail-order schemes or check-cashing scams.

Scams were already a worldwide problem, but have proliferated as the global financial crisis has spread, says Peter Kell, chairman of the Australasian Consumer Fraud Taskforce and deputy chairman of the Australian Competition and Consumer Commission (ACCC). In fact, the first week of this month was named “National Consumer Fraud Week” in Australia.

“One in 20 Australians will fall victim to a scam this year, costing the community a total of more than a billion dollars,” Kell said. “Over 12 months, the ACCC has seen an alarming 60% increase in the number of complaints and inquires about scams, with a 67% increase in people reporting money lost.”

Globalization has caused the number of financial scams from overseas to multiply at a stunning rate, the U.S. State Department said in a 2007 report. And the financial gambits have literally run the gamut, ranging from Internet dating to “overpayments” for purchased products – and including such long-running standbys as inheritances from long-lost relatives, bogus fees for work permits and even money-laundering schemes.

Advances in technology – especially the Internet, and such developments as online auctions – have enabled new types of scams. Money lost in Internet crimes topped \$240 million in 2007 – a \$40 million

2009 Scammers Hall of Shame

The revelation that Bernard Madoff duped thousands of in a massive Ponzi scheme has led to a crack down on corporate fraud and penny ante financial scams. These eight perpetrators have already made this year's Hall of Shame:

Bernard Madoff operated the largest Ponzi scheme the world has ever seen. On March 12, Madoff pled guilty to an 11-count criminal complaint admitting to defrauding nearly 5,000 investors of about \$65 billion.

James Nicholson, manager of an unregistered hedge fund, was also arrested by the FBI on Feb. 25 under suspicion that he has sapped as much as \$900 million from clients since 2004. The SEC filed a complaint that said Nicholson told investors his hedge fund's assets were valued between \$600 million and \$900 billion, when such was not the case. The complaint also said that Nicholson set up a fake accounting firm to conceal his company's true financial health.

David Copeland Reed was arrested on Feb. 24 and charged with wire fraud and money-laundering violations. In 2001, his Internet bank, OSGold, promised a 30% compounded, three-month return with a 45% annualized return. Some 66,000 accounts were started in 12 months, and then Reed disappeared with along with the \$12.8 million in the bank.

Robert Allen Stanford and two of his associates were arrested on Feb. 26 for an alleged \$8 billion fraud. According to the complaint, Stanford Financial Group sold about \$8 billion in CDs to investors, saying the CDs high rates were possible because of the firm's 15-year history of making investments with double-digit returns.

The Commodity Futures Trading Commission last month charged **Paul Greenwood** and **Stephen Walsh** with fraud, misappropriating about \$553 million in investor funds – from charities to retirees – and using it for lavish personal items. Also linked to the fraud was **Mark Bloom**, who was charged with taking \$13.5 million from institutional investors and sinking it into a fraudulent hedge fund, as well as using the money to enrich himself.

Marc Dreier was sentenced to 20 years in federal prison on July 13, 2009 for his involvement in a massive scheme to sell \$700 million in fictitious promissory notes.

Source: *Money Morning Staff Research*

increase over 2006, and a new high – the FBI and the National White Collar Crime Center reported, citing the most recent figures available.

The Most Prominent Scams Out There

By far, the No. 1 type of investor scam is the Ponzi scheme, Rosenzweig said. But scammers are running a plethora of scams out there right now. In fact, the Better Business Bureau has compiled a comprehensive list of common scams consumers need to watch out for, including:

- **Ponzi or Pyramid Schemes:** A promoter usually makes an unrealistic promise of future returns to get investors on board. Using their money, the promoter pays off earlier investors. The illusion continues so long as the promoter can keep bringing new investors on board.
» **The lesson: If it sounds too good to be true, it probably is.**
- **Boiler Rooms:** Scammers call from telephone banks (“boiler rooms”) to pitch worthless investments such as penny stocks, which are cheap to buy and that can be manipulated using the cash flows the boiler-room players are able to raise from their victims.
» **The Lesson: Beware of cold callers.**
- **“Pump-and-Dump” Penny Stocks:** The scammer buys up a mass of penny stocks, and then launches an all-out promoting campaign, pitching the stock to investors over the phone, Internet, and e-mail. As investors pour in and the stock price moves up, the scammer dumps his shares and collects his profit. Those sales deflate the share price, often leaving the victims with shares in a worthless shell company.
» **The Lesson: See Boiler Rooms.**
- **Promissory Notes:** Promissory notes are investments that offer above-market, fixed returns. Some are legitimate, and some are fraudulent and worthless.
» **The Lesson: Do your homework before you buy.**
- **Fraudulent Bank or Currency Investments:** Investors are promised very high returns – typically well above the prevailing market returns – for investing in fraudulent bank or currency-related investments. The BBB notes that scammers used to call this a “prime bank” investment and often mentioned foreign banks that actually might not even exist. But recently, banks aren’t mentioned as often; scammers instead float the term “risk-free guaranteed high yield investment” or some variation.
» **The Lesson: Don’t invest in something you don’t understand.**
- **Fake Promises of Initial Public Offerings (IPOs):** With the economy sinking, IPOs are very rare. So if the chance to invest in one is offered, even the smallest bit of research will help verify if the company in question actually exists and, if it does, whether there are really plans for it to go public. » **The Lesson: A little “due diligence” goes a long way.**
- **“IRA-Approved or IRS-Approved” Investments:** Bottom line, there is no such thing as IRA-approved or Internal Revenue Service (IRS)-approved investments, so avoid any and all.
» **The Lesson: Make the phone call. If an investment is supposedly “IRS-Approved,” it**

would take but one phone call to the IRS to discover that this is a product that doesn't really exist.

- **Investments in Fraudulent Businesses:** The BBB notes these offers often involve work-at-home businesses, or the sale of vending machines, pay phones, or ATMs.

Protecting Yourself From Scams

The most at danger are new investors and seniors. Inexperienced investors are usually the most eager and open to taking risks, and scammers use that to their advantage. Many of their older counterparts have seen their life savings eviscerated and are desperately searching for an investment that will help recoup their losses.

While there are many different scams out there, nearly all can be avoided by following Rosenzweig's advice: "If it seems too good to be true, it could be a scam."

That's the guiding principal of many of the following tips from the Securities and Exchange Commission (SEC), the Better Business Bureau (BBB) and the Internal Revenue Service (IRS) to avoid being the victim of an investment scam.

From the SEC and IRS:

- **Use the SEC's EDGAR Database:** The SEC's EDGAR Database is a free service where anyone can access and download audited financial statements from all U.S. companies with more than 500 investors and \$10 million in net assets.
- **Get Background on the Seller:** The Financial Industry Regulatory Authority (FINRA) set up a hotline (1-800-289-9999) to check the disciplinary history of a broker or firm.

From the Better Business Bureau:

- **Buy only from licensed or credentialed financial professionals.** Avoid buying investments from people who aren't licensed to sell stocks, bonds and mutual funds.
- **Review your account statements:** Make sure the name of the company cashing your check matches the name on your statements. If something seems incorrect, ask questions immediately. If questions aren't answered and complaints aren't addressed, notify authorities.
- **Make sure you are buying registered investment products:** Most legitimate products have to be registered with the SEC and with the state in which they are sold. Check these both out before you buy.
- **Ignore spam e-mail:** E-mail filters are already sending many of these spurious "investment opportunities" to your junk/spam folder. But that doesn't mean the ones that reach your inbox are legit. It's best to just avoid all of these, as many link to fake Web sites and blogs set up specifically to provide false information – and to separate you from your hard-earned savings.

- **Never make an investment payable to the salesperson:** Always make your payment to the investment company.

Rosenzweig, the Metro New York BBB president, says “I don’t care what age you are, educate yourself about investments,” says the BBB’s Rosenzweig. “Don’t be afraid of it. I won’t say it’s easy, but there’s enough info out there that’s written for you and me – easy to digest and puts you in the position of control. Why not make good decisions?”

Editor’s Note: Millions of Americans could suffer another 41% hit to their portfolios in the coming months – and most don’t even know it. Yet there’s one way to ensure that never happens to you. In one step you can avoid the pitfall, collect guaranteed cash payments, and pocket a 43% rate of return on your money – enough to get an easy double in less two years. [Click here to get the full report.](#)

Money Morning is a global investing news service that shows investors how following global trends can help them make extreme gains. Our mission is to uncover these global trends, show readers how to stay ahead of them, and provide opportunities for profiting ahead of the crowd.

News and Related Story Links:

Fortune: [More brazen than Madoff?](#)

MarketWatch: [This time, a ‘golden’ opportunity](#)

Bank Investment Consultant: [SEC Charges Robert Allen Stanford with Fraud](#)

Palm Beach Daily News: [FBI arrests hedge fund manager James M. Nicholson](#)

Better Business Bureau: [Common investment scams](#)

SEC: [Internet Fraud: How to Avoid Internet Investment Scams.](#)

The U.S. State Department: [International Financial Scams – Internet Dating, Inheritance, Work Permits, Overpayment, and Money-Laundering.](#)

CBS Evening News: [Money Lost In Internet Scams Hits New High.](#)



Copyright 2009–present, Money Map Press, LLC 105 W. Monument St., Baltimore, MD 21201

All rights reserved. No part of this report may be reproduced or placed on any electronic medium without written permission from the publisher. Information contained herein is obtained from sources believed to be reliable, but its accuracy cannot be guaranteed.

Money Map Press Disclaimer: Nothing published by Money Map Press should be considered personalized investment advice. Although our employees may answer your general customer service questions, they are not licensed under securities laws to address your particular investment situation. No communication by our employees to you should be deemed as personalized investment advice. We expressly forbid our writers from having a financial interest in any security recommended to our readers. All of our employees and agents must wait 24 hours after on-line publication or 72 hours after the mailing of printed-only publication prior to following an initial recommendation. Any investments recommended by Money Map Press should be made only after consulting with your investment advisor and only after reviewing the prospectus or financial statements of the company.