

Ask The Expert

If It Sounds Too Good To Be True... it likely is!

You have likely heard that phrase many times in life. Surprisingly, individuals continue to get lured into investments and other "opportunities" that end up being nothing more than Ponzi schemes. Otherwise known as a pyramid scheme, investors are paid a return, usually a much higher return than they could find elsewhere, from their own money or from funds received from subsequent investors. The individuals selling the scheme will always have explanations readily available as to how the returns outperform everything else available. Credibility is critical to the successful growth of the scheme. Often perpetrators seek early investors who are identifiable individuals, adding to the credibility for future investors. As long as new investors are continuously added, and earlier investors do not demand the return of their investment at the same time, the scheme can be perpetuated for years. In Madoff's case, too many investors demanded their funds, and their requests exceeded the actual balance within the funds.

While on the subject of investments, don't become complacent by relying solely on fancy investment summaries and reports prepared by your investment or portfolio manager. Require original investment statements be sent directly to you, and compare the transactions, amounts and performance per the statements to the summaries and reports prepared for you. "Trust with verification" will help ensure your funds remain where they are supposed to be.

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