



HOW PONZI SCHEMES WORK



NEW INVESTORS

- The hub promises new investors high financial returns unavailable through traditional investments.



PONZI HUB OPERATOR

- Then, the hub collects money from additional new investors.



EARLIER INVESTORS

- Rather than investing the money, the hub pays a portion of new money as “returns” to earlier investors.

The fraud perpetuates itself until it runs out of new investors and collapses.

How to Avoid Investment Scams

Investment scams take many forms—and fraudsters can adapt quickly to develop persuasive new pitches for the latest scam. But while the hook might change, the most common securities frauds tend to take one of the following forms:

➤ **PONZI SCHEMES:** A central fraudster or “hub” collects money from new investors and uses some of it to pay bogus “returns” to earlier-stage investors rather than investing or managing the money as promised. Ponzi schemes require a steady stream of incoming cash to stay afloat.

➤ **RELATIONSHIP INVESTMENT SCAMS:** These scams begin with unexpected contact via text, email or social media. The fraudster attempts to [establish a relationship](#) and build your trust over time, sometimes weeks or months, before eventually bringing up finances and encouraging you to invest—and keep investing—in a fraudulent opportunity. These schemes usually involve [pump-and-dump](#) or [fake trading platform](#) scams.

➤ **PUMP-AND-DUMP SCAMS:** A fraudster buys enough of a small, thinly traded stock to control its movement. They then spread false information to create interest in the stock, leading to an increased share price. The fraudster [dumps their shares](#) at the higher price and vanishes, causing the share price to plummet and leaving investors with illiquid shares of little value.

➤ **FAKE TRADING PLATFORM SCAMS:** Often after encouraging you to join an encrypted chat, the fraudster sends you a link to a fake trading platform—likely controlled by them or their associates—supposedly for trading crypto assets. They might give you access to a fake dashboard to show off your “profits” but, in reality, your money is already gone. If you try to make a withdrawal, you might be told you need to pay additional fees or taxes before you can access your money.

➤ **IMPERSONATION SCAMS:** A fraudster [pretends to be someone](#) else with authority, such as a representative of a government agency or well-known [financial institution](#). Depending on the context, they might warn you about a nonexistent problem with your benefits, say one of your online accounts has been compromised, or pitch an “exclusive” investment opportunity. The goal is to convince you to send them funds or gain access to your personal information or financial accounts.

Protect Yourself

CHECK OUT INVESTMENT PROFESSIONALS—Always ask whether the promoter is registered and/or licensed to sell you the investment, and independently verify the answers.

- **FOR A BROKER OR BROKERAGE FIRM:**
FINRA BrokerCheck
www.finra.org/brokercheck | (800) 289-9999
- **FOR AN INVESTMENT ADVISER:**
SEC's Investment Adviser Public Disclosure
www.adviserinfo.sec.gov | (800) SEC-0330
- **FOR AN INSURANCE AGENT:**
Check with your state insurance department.
National Association of Insurance Commissioners (NAIC)
www.naic.org | (866) 470-NAIC
- **FOR ALL SELLERS:**
Call your state securities regulator. Find your regulator through
North American Securities Administrators Association (NASAA)
www.nasaa.org | (202) 737-0900

CHECK OUT INVESTMENTS—Unregistered investments magnify risk because often they offer little or no publicly available information. To check if a product is registered, use the SEC's EDGAR database or contact your state securities regulator. Visit www.sec.gov/edgar/search.

Additional Resources

- **FINRA Investor Information:**
You'll find investor-focused tools and educational information on FINRA's website.
www.finra.org/investors
- **FINRA Securities Helpline for Seniors – HELPS®:**
Call to get assistance from FINRA or raise concerns about issues with brokerage accounts and investments.
www.finra.org/seniorhelpline | TOLL-FREE: (844) 57-HELPS or (844) 574-3577

WHO IS FINRA?

FINRA is a not-for-profit organization dedicated to investor protection and market integrity. FINRA regulates one critical part of the securities industry—member brokerage firms doing business in the U.S. FINRA, overseen by the SEC, writes rules, examines for and enforces compliance with FINRA rules and federal securities laws, registers broker-dealer personnel and offers them education and training, and informs the investing public. For more information, visit www.finra.org.

RED FLAGS OF INVESTMENT FRAUD

BE ON GUARD FOR THESE WARNING SIGNS:

1. **Guarantees:** Be suspect of anyone who guarantees a specific performance or says an investment is risk-free.
2. **Unsolicited offers:** Don't respond to unsolicited cold calls, text messages, chats, emails or social media posts about investments.
3. **Secrecy:** If a promoter instructs you not to tell anyone else about an investment, do the opposite. One of your best defenses against scams is talking to someone else you trust.
4. **Unregistered products:** Investment fraud often involves unregistered products. Be wary if the investment has no prospectus, offering circular or ticker symbol.
5. **Unlicensed sellers:** Many investment scams involve unregistered individuals operating outside industry regulations. Always research the seller of an investment to ensure they're properly registered.
6. **Overly consistent returns:** Investments that only go up—or provide remarkably steady returns regardless of market conditions—should raise suspicions.
7. **Complex strategies:** Avoid anyone who credits a highly complex investing technique for unusual success.
8. **Account discrepancies:** Keep an eye on your account statements to make sure activity is consistent with your instructions, and be sure you know who holds your assets.
9. **Sense of urgency:** No reputable investment professional should push you to make an immediate decision about an investment or tell you that you must "act now."