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Here's to Your Wealth

Discussions for financial health and well-being

Pardon my French, but "plus ça change, plus c'est la même chose." Written in 1849 by French writer Jean-Baptiste Alphonse Karr, the phrase approximately translates to, "The more things change, the more they stay the same." Because this newsletter deals with financial wellness, we will examine this dichotomy as it applies to financial scams.

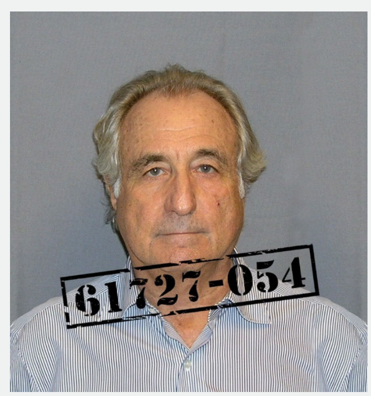
THE MORE THINGS CHANGE…

According to Beattie (2022), the first recorded financial scam occurred in 300 B.C. Fast forward a couple of thousand years and countless financial scams later, and we come upon a gentleman by the name of Charles Ponzi. Having arrived to the U.S. from Italy in 1903, with almost no money, Charles soon moved to Canada and found himself working at a bank. It was here that he first witnessed the scheme soon to bear his name. Following a number of bad real estate loans, the bank's owner tried to satisfy interest payments by using deposits of newly opened accounts. The bank ultimately failed, and Charles eventually found himself in jail, once for attempting to forge a check, and another time for smuggling Italian immigrants across the border.

If anything, Mr. Ponzi was persistent. Unfortunately, his persistence was with financial scams. His namesake scheme involved buying international reply coupons (IRC). These coupons "allowed a sender to pre-purchase postage and include it in the letter being sent. The recipient in another country could then exchange the IRC at a local post office for airmail postage stamps that could be used for sending the reply correspondence," (International Banker, 2021). He found that a profit could be made because the coupons were worth more in some countries due to currency exchange rates. We know this as arbitrage, and if that is all he did, you probably

Charles Ponzi

Bernie Madoff



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never would have heard of him. Instead, he set up a business and told investors they would receive 50% interest within 90 days. Instead of buying IRCs, he kept some money for himself and used the money of newer investors to pay off the older investors. Eventually, media pressure got regulators involved, and his office was raided. He had only $61 of IRCs and served over 12 years in jail. Charles Ponzi died in poverty in 1949. It is estimated that he stole over $220 million in today's dollars from his investors.

THE MORE THEY STAY THE SAME…

Some 70 years after Mr. Ponzi's scheme, a new player emerged. Born in 1938, Bernie Madoff rose from humble beginnings to eventually earn over $100 million a year in the 1980s and chaired the Nasdaq in 1990, 1991 and 1993. Early in his career, Madoff felt excluded by major Wall Street players, and that motivated him to make a name for himself. (Hayes, 2023).

Originally, Madoff ran a small firm that made markets in smaller trade orders that the "big" firms did not want to bother with. He and his brother developed improved technology to attract larger order flows and larger firms began to take notice. Soon, Madoff was part of the Wall Street crowd that had formerly excluded him. However, for some reason known only to Madoff, that was not good enough. He opened a money management firm and marketed a legitimate strategy called split-strike conversion. His claim was that he earned a steady 10%-20% annualized, regardless of how the markets performed. As assets flowed in, he "cultivated an image of exclusivity, often initially turning clients away," (Hayes, 2023).

The problem is Madoff never invested any of his clients' money. Rather, funds were deposited into a bank account that was used to fund his lavish lifestyle. He needed to always attract new investors to ensure that there would be sufficient funds to pay redemption requests from other investors. His firm developed an intricate scheme of creating fake statements and trade transactions.

Madoff's Ponzi scheme came crashing down in 2008 when the stock market's rapid sell-off caused panicked clients to pull money out of his fund faster than he could cover with new money. Madoff was eventually sentenced to 150 years in prison and was forced to forfeit $170 billion.

While the fraudsters and the victims change, the story stays relatively the same. There will never be a shortage of scammers skilled at manipulating the emotions of victims and exploiting their greed, ignorance or desperation. The scammers are very good at building trust and credibility, at luring in friends and relatives, and using elaborate tactics to create an illusion of a legitimate business.

The best defense against scams like this, is not to get caught up in one in the first place. I'm sure you have heard the old adage, "If it sounds too good to be true, it probably is." Promises of consistent, outsized returns or rapid increases in wealth can lure you into something you do not understand, and might well be a scam.

If you think you, or someone you know, is involved in a Ponzi scheme or other financial scam, here are some steps you should consider:

1. Stop investing. Do not contribute further funds until you determine the legitimacy of the operation.
2. Notify your financial intuitions. Tell them you suspect fraud, and ask them to stop transfers.
3. Gather evidence. Start organizing any written material, documentation, communication and other notes you may have. This material will be helpful if legal action is taken.
4. Seek legal advice. An attorney that specializes in securities law can help guide you through the process.
5. Report the scheme. Contact the police, the Securities and Exchange Commission, FINRA (Financial Industry Regulatory Authority) or other appropriate agency. The sooner you do this, the sooner you may recover some or all of your funds.

Unfortunately, there is no guarantee that charges will be brought forward or that anything will be recovered. However, your chances improve if you act quickly. As always, we are here to assist you, should you have further questions or concerns.

Wishing you good health and good wealth.

References

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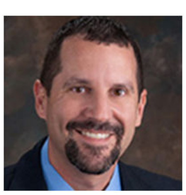

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