Investment Schemes

AGA Winter Professional Development Conference
December 8, 2011

Presented by:

Gil A. Miller, CPA, CFE

Rocky Mountain ADVISORY RMA

Types of Investment Schemes

1. Ponzi Schemes
2. Multi-level Marketing Schemes

Ponzi Schemes Three Common Characteristics:

1. The business activity is dependent on outside investor money.
2. The investor money is not used according to the stated purpose. Some of the investor money is used to pay the promised returns of earlier investors.
3. The business enterprise lacks profits sufficient to provide the promised return, and, therefore, is dependent on an ever increasing supply of investor money.

Rocky Mountain ADVISORY RMA

Basic Flaw in the Ponzi Promoter Psyche:

- Investment capital is viewed as "earnings" to be spent—not as equity to serve as a foundation to generate revenue and profits.

Three Types of Ponzi Schemes:

1. Pure schemes (no income producing activity)
2. Doomed for failure (good business sense would suggest these are doomed for failure from the start)
3. Otherwise legitimate enterprise experiences unforeseen failures

How To Investigate a Ponzi Scheme

1. The business activity is dependent on outside investor money.

- *Determine that outside investor money represents a primary source of capital to fund the business.*

How To Investigate a Ponzi Scheme

2. The investor money is not used according to the stated purpose. Some of the investor money is used to pay the promised returns of earlier investors.

- *Prepare a cash flow analysis which traces the disposition of funds received from investors.*
- *Co-mingling will complicate this task, and may require an analysis of total sources and uses of cash by type.*

How to investigate a Ponzi scheme

3. The business enterprise lacks profits sufficient to provide the promised return, and, therefore, is dependent on an ever increasing supply of investor money.

- *Determine the amount and source of genuine revenue, and if it is enough to service debt to investors.*

Characteristics of Multi-level Marketing Schemes

1. The primary motivation of the scheme is ***recruitment***.
2. The scheme is dependent on ***growth rates*** that are sure to lead to saturation of available (and interested) participants.
3. The scheme is typically associated with a product whose ***value*** in the scheme is greater than its FMV in the open market.