Ponzi Schemes

A Ponzi scheme is an investment fraud that pays existing investors with funds collected from new investors. Ponzi schemes are named after Charles Ponzi. In the 1920s, Ponzi promised investors a 50% return within a few months for what he claimed was an investment in international mail coupons. Ponzi used funds from new investors to pay fake "returns" to earlier investors.

Ponzi scheme organizers often promise high returns with little or no risk. Instead, they use money from new investors to pay earlier investors and may steal some of the money for themselves.

With little or no legitimate earnings, Ponzi schemes require a constant flow of new money to survive. When it becomes hard to recruit new investors, or when large numbers of existing investors cash out, these schemes tend to collapse.

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