



[Introduction to Investing](#)

[Financial Tools & Calculators](#)

[Protect Your Investments](#)

[Additional Resources](#)

[HOME](#) > [Protect Your Investments](#) > [Types of Fraud](#)

Types of Fraud	▼
Affinity Fraud	
Advance Fee Fraud	
Binary Options Fraud	
High-Yield Investment Programs	
Impersonation Schemes	
Internet and Social Media Fraud	
Microcap Fraud	
Ponzi Scheme	
Pre-IPO Investment Scams	
Pyramid Schemes	
"Prime Bank" Investments	
Promissory Notes	
Pump and Dump Schemes	
How to Avoid Fraud	▶
Resources for Victims	

Pyramid Schemes

In the classic "pyramid" scheme, participants attempt to make money solely by recruiting new participants, usually where:

- The promoter promises a high return in a short period of time;
- No genuine product or service is actually sold; and
- The primary emphasis is on recruiting new participants.

All pyramid schemes eventually collapse, and most investors lose their money.

Fraudsters frequently promote pyramid schemes through social media, Internet advertising, company websites, group presentations, conference calls, YouTube videos, and other means. Pyramid scheme promoters may go to great lengths to make the program look like a business, such as a legitimate multi-level marketing (MLM) program. But the fraudsters use money paid by new recruits to pay off earlier stage investors (usually recruits as well). At some point, the schemes get too big, the promoter cannot raise enough money from new investors to pay earlier investors, and people lose their money.

These are some of the hallmarks of a pyramid scheme:

- **Emphasis on recruiting.** If a program focuses solely on recruiting others to join the program for a fee, it is likely a pyramid scheme. Be skeptical if you will receive more compensation for recruiting others than for product sales.
- **No genuine product or service is sold.** Exercise caution if what is being sold as part of the business is hard to value, like so-called "tech" services or products such as mass-licensed e-books or online advertising on little-used websites. Some fraudsters choose fancy-sounding "products" to make it harder to prove the company is a bogus pyramid scheme.
- **Promises of high returns in a short time period.** Be skeptical of promises of fast cash – it could mean that commissions are being paid out of money from new recruits rather than revenue generated by product sales.
- **Easy money or passive income.** There is no such thing as a free lunch. If you are offered compensation in exchange for doing little work such as making payments, recruiting others, or placing online advertisements on obscure websites, you may be part of an illegal pyramid scheme.
- **No demonstrated revenue from retail sales.** Ask to see documents, such as financial statements audited by a certified public accountant (CPA), showing that the company generates revenue from selling its products or services to people outside the program. As a general rule, legitimate MLM companies derive revenue primarily from selling products, not from recruiting members.
- **Complex commission structure.** Be concerned unless commissions are based on products or services that you or your recruits sell to people outside the program. If you do not understand how you will be compensated, be cautious.

All Pyramid Schemes Collapse

When fraudsters attempt to make money solely by recruiting new participants into a program, that is a pyramid scheme, and there is only one possible mathematical result – collapse. Imagine if one participant must find six other participants, who, in turn, must find six new recruits each. In only 11 layers of the "downline," you would need more participants than the entire population of the United States to maintain the scheme. This infographic shows how all pyramid schemes are destined to collapse.

Additional Information

[FTC Blog: This "game" is a chain letter scam](#)

[Investor Alert: Beware of Pyramid Schemes Posing as Multi-Level Marketing Programs.](#)

[Investor Alert: Social Media and Investing – Avoiding Fraud.](#)

[FTC Multi-level Marketing Businesses and Pyramid Schemes](#)

Watch this video featuring actor Michael Douglas: [FBI Financial Fraud Public Service Announcement](#)

Featured Content

Celebrate World Investor Week 2024!

Learn about the initiative, get saving & investing tips, and attend events.

Finfluencers, Celebrities, Social Media: Should You Listen To Them?

Read our most recent Director's Take article to learn why making investment decisions based solely on social media kinds of sources may not be a great idea.

World Investor Week Investing Quiz

Check your knowledge about choosing information sources wisely, protecting yourself from relationship investment scams, and more!

Technology And Digital Finance – World Investor Week 2024

Emerging technologies and digital platforms are increasingly influencing how people invest. Learn how to navigate this environment by reading our joint Investor Bulletin.

Sign up for Investor Updates

Enter Email Address

Follow Us

