Ponzi schemes: Avoiding investment disaster

By Don Wiggins
Jacksonville Business Journal
Guest column, pg. 21
September 25-October 1, 2009

We've recently seen story after story of investors getting ripped off by Ponzi schemes. Bernie Madoff has by far been the most visible, but there are many other crooks who try to strike it rich by convincing other people that they can help them strike it rich.

During tough economic times, they come out of the woodwork, but there are always telltale signs. They frequently promise investments with high returns and low risk, a clear red flag. They are secretive about the specifics of their strategy and rely on charisma and charm to persuade their marks and avoid questions. If anyone does seriously question them, they kick them out of the group.

Madoff was famous for giving inquisitive investors back their money and exorcising them from his investment programs. That strategy served the double purpose of appearing that anyone could get their money back, while protecting him from inquiring minds. Many experienced businesspeople were duped.

It may appear that Ponzi schemes are becoming more frequent, but according to the Securities and Exchange Commission, that's not true. They are just getting bigger.

Texas businessman Allen Stanford is accused of perpetuating a $7 billion investment fraud. A South Florida group orchestrated a $1 billion fraud and was indicted last January. A Tampa-based group, Greater Ministries International, defrauded 20,000 people, primarily church members, of $500 million. The list goes on.

The basics of avoiding Ponzi schemes are the same as developing a personal investment program.

▪ Get a good personal financial adviser. Do your homework and interview several. From the acceptable candidates, pick the one with whom you have the best chemistry.

▪ If an investment proposal is unusual, raise your antennae. Consult your adviser before you do anything. It's cliché, but if it sounds too good to be true, it almost certainly is.

▪ Ask questions. If you don't get good answers or don't understand the investment, don't do it. Ask for independent references, and ask for you and your adviser to be able to review documents such as audits from reputable accounting firms.

▪ Don't get caught up in the hype. Scammers are called con artists because they are good at gaining people's confidence. Never make spur-of-the-moment investment decisions under pressure.

If it's a legitimate opportunity, it will probably be there tomorrow. Once in a great while, you may miss an opportunity, but more likely, you will avoid a disaster.

Avoiding the pitfalls is not rocket science: be methodical, get objective advice, take your time and use common sense.

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Since 1989, Business Valuation, Inc. has performed thousands of valuations for professional service, as well as wholesale, retail and consumer product companies in a variety of industries including healthcare, transportation, logistics and distribution, manufacturing, technology and business services.

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