

Ponzi schemes

Ponzi schemes are investment scams that pay existing investors with funds collected from new investors. There is no real investment.

How Ponzi schemes work

Ponzi scheme promoters convince people to invest money by promising high returns. The funds are not actually invested. Instead, the money deposited by early investors is used to pay the first 'dividend' or return.

Investors think they're getting the promised return and don't suspect anything's wrong. They feel comfortable and may decide to invest more.

With this positive experience, investors often encourage their family, friends and work colleagues to invest too. Ponzi scheme promoters can target community groups and can have hundreds of victims.

Eventually all Ponzi schemes fall apart. They collapse when the promoter spends the money too quickly or the pool of new investors dries up.

Warning signs of a Ponzi scheme

- **The rate of return is suspiciously high.** The return may be as high as 10% per month, with a claim of little or no risk.
- **Investment returns are consistently high.** Returns on legitimate investments tend to go up and down over time. Be wary of an investment that promises to pay regular (very) positive returns.
- **Someone you trust tries to recruit you.** It could be a neighbour you know or someone in a community group.
- **The recruiter has already invested in the scheme** and received great dividends.
- **The investment strategy is secretive or very complex.** If you don't understand how the investment works, do not invest. Consider [professional financial advice](#).



Tip: Get Support

If you're the victim of a scam and you need support, contact Lifeline on **13 11 14**. For free and confidential help with money issues, contact the National Debt Helpline on **1800 007 007**.

What to do if you have invested in a Ponzi scheme

1. Don't invest any more money.
2. Check if the company is on our list of [companies you should not deal with](#).
3. Check the company's licence number on [ASIC Connect's Professional Registers](#).
4. [Report the scam](#) to ASIC (search 'complain to ASIC') or your local police.
5. Warn your family and friends not to invest.

Case study:

Tiana and Simon fall for a Ponzi scheme

In January, a Ponzi scheme promoter convinces Tiana to invest \$100,000. The promoter promises a 10% return each month. He pays Tiana \$10,000 each month using Tiana's own money.

Tiana receives \$10,000 each month as promised. She doesn't suspect anything is wrong. Tiana encourages friends and colleagues to invest too. After three months, Tiana's friend Simon invests \$100,000 after hearing about Tiana's great returns.

The returns continue to come in until April. In May, Tiana and Simon hear nothing from the promoter. They try to contact him but his number has been disconnected.

The promoter has taken off with the money. Tiana loses \$70,000 and Simon loses \$90,000. The promoter takes \$160,000 of their money from the scheme.