THE MARQUET REPORT ON PONZI SCHEMES

A WHITE COLLAR FRAUD
STUDY OF MAJOR PONZI-TYPE INVESTMENT FRAUD
CASES REVEALED FROM 2002 – 2011

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INTRODUCTION

It has been 2½ years since the largeset Ponzi scheme in history came to light with the collapse of Bernard L. Madoff Investment Securities, LLC in late November 2008, now estimated to be about $20 billion. Since that time, there have been numerous other major Ponzi schemes and investment fraud schemes revealed, including infamous Madoff runners up:

- 2nd R. Allen Stanford and his Stanford Group entities ($7.2 billion);
- 3rd Thomas J. "Tom" Petters and his Petters Worldwide Group ($3.65 billion);
- 4th Paul Greenwood and his Westridge Capital Management ($1.3 billion);
- 5th Joel Steinger and his Mutual Benefits Corp. ($1.25 billion);
- 6th Scott W. Rothstein and his Rothstein Rosenfeldt Adler ($1.2 billion); and,
- 7th Nevin K. Shapiro and his Capitol Investments, USA ($880 million).

The net result of these massive frauds has been to shake investor confidence around the globe. Calls for stricter oversight and regulation abound and special criticism of the Securities & Exchange Commission mounted to a withering level for its apparent failure stop these frauds. Although effective enforcement and prosecution will always be necessary, these are reactionary actions. Individual investor skepticism is critical to avoidance, mitigation of loss and any subsequent enforcement action.

Further, we believe that greater investor awareness, due diligence efforts and increased enforcement actions, already underway, should help prevent future schemes from getting so out of hand as well as create a level of discouragement for future fraudsters. Sadly, however, this will not entirely stop newly minted con-artists from cropping up to perpetuate future investment fraud schemes.

While it appears that Ponzi schemes have proliferated in recent years – and the numbers seem to support this theory, get-rich-quick investment fraud schemes have always been around. Indeed, these schemes will continue to germinate with the allure of fast money and riches, lavish, celebrity lifestyles and the accoutrements that come with it all. The question is, can these frauds be squelched before they do too much damage?

Inevitably, all Ponzi schemes and many other investment frauds such as pyramid schemes, collapse under their own weight. It is simply impossible to deliver the higher-than-market rates of return – generally promised in Ponzi schemes – by using investors' funds while continuing to attract additional investors. This is especially true in down markets. The collapse or revelation is only a matter of time. Unfortunately for those investors burned by the schemes, they will typically only see pennies on the dollar recovered. Claw-backs may also take back earlier returns derived from fraudulent schemes.

We decided to examine the Ponzi scheme phenomenon in light of the recent spate of massive cases. Our hope with *The Marquet Report on Ponzi Schemes* is to shed some light on this type of fraud and to provide some useful analysis as well as a better overall understanding of Ponzi schemes and their perpetrators. Finally, we wanted to offer some helpful avoidance advice.

ABOUT THE REPORT

The Marquet Report on Ponzi Schemes includes a detailed analysis of 329 distinct major Ponzi-type investment fraud cases originating in the United States which have come to light since 2002. Our goal with *The Marquet Report on Ponzi Schemes* is to identify key trends and correlations in the characteristics of major recent Ponzi cases and to draw some conclusions based upon the analysis. By definition, those cases included in *The Marquet Report on Ponzi Schemes* involve "major" schemes – that is, those Ponzi schemes that succeeded in inducing investors to entrust at least $1 million or more with the perpetrator(s) of a given scheme.

The 329 cases included in this study were identified through US Securities & Exchange Commission ("SEC") and US Department of Justice ("DOJ") actions, as well as other public records, such as court filings and media reports. To the extent available for each case included in the study, we compiled and reviewed objective data originating from the public domain, including pleadings from litigation proceedings, regulatory actions, corporate records, media accounts, and other public records.

It should be noted that some of the cases analyzed and included in this report are currently active in legal proceedings wherein the accused perpetrators have not yet been the subject of a final adjudication. *The Marquet Report on Ponzi Schemes* includes data from those cases in which we have a high degree of confidence in the accuracy of the information.

The Marquet Report on Ponzi Schemes includes a detailed analysis of characteristics in several broad categories related to this white collar fraud phenomenon:

- Characteristics of Ponzi Schemes
- Characteristics of Ponzi Perpetrators
- Judicial Consequences for Ponzi Schemers

We also include in the report a section on Ponzi Scheme avoidance strategies and an historical perspective with an overview of the namesake Charles Ponzi case the Bernard L. Madoff case.

Under the category of *Characteristics of the Ponzi Schemes*, we conducted an analysis of the magnitude of the schemes, the duration of the schemes, the types of fraudulent investments utilized in the schemes, the promised rates of return and whether a given scheme was accomplished by a sole perpetrator or by a cabal in a conspiracy. We also looked at whether there was a particular target or affinity group involved and identified which groups were most frequently targeted.

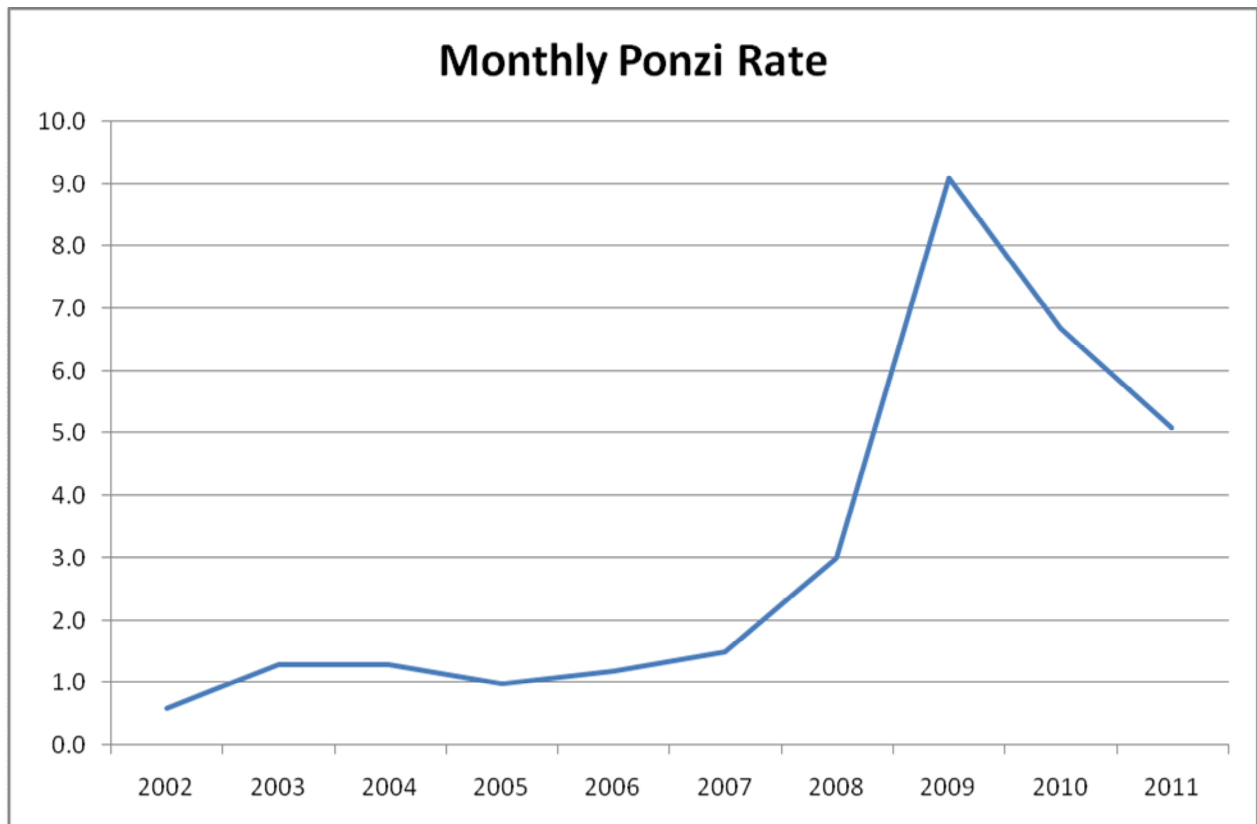
As for the *Characteristics of the Ponzi Perpetrators*, we analyzed their age, gender, any prior fraudulent history, lifestyle and geographic base of the schemers.

We also analyzed the *Judicial Consequences* for the primary perpetrators of each Ponzi scheme in the study, focused on sentence durations, if known. We compared the durations of the sentences and the magnitude of the fraud.

SUMMARY OF FINDINGS

The Marquet Report on Ponzi Schemes analyzed 329 major Ponzi schemes in the United States revealed since 2002. While we have attempted to include every Ponzi-type fraud scheme of $1 million or more revealed during these years, the study may not be wholly exhaustive.

Nevertheless, based upon our data, there was a sharp increase in both the gross number and monthly rate of Ponzi schemes revealed in the past several years – since 2007. Whereas the number of major Ponzi schemes revealed per month stayed relatively constant (between 0.6 and 1.5) for the years 2002 – 2007, it soared to a rate of 9 per month in 2009 before dropping off to a current rate of about 5 per month in 2011.



We believe this increase to be the result of several factors: 1) the downturn in the economy in late 2008; 2) increased enforcement post Madoff; and 3) increased due diligence leading to increased enforcement, post Madoff. We would expect that the economic downturn would cause an increase in Ponzi scheme implosions since investors tend to seek greater liquidity, thereby crimping the necessary influx of cash to sustain the scheme. The Madoff case brought extraordinary attention to investment fraud and helped spark greater investor education, awareness, and due diligence. Nevertheless, more is needed.

Highlights of the Study

The following statistics are highlights from *The Marquet Report on Ponzi Schemes*:

- 6 Ponzi schemes revealed in the past three years exceeded $1 billion (prior to 2008, no scheme revealed to that point had exceeded $1 billion);
- The median size Ponzi scheme in the study was a $20 million fraud (the average scheme was $150 million, skewed upward by Madoff);
- The average Ponzi scheme spanned a 5.3 year duration;
- The most common Ponzi scheme involved fraudulent hedge fund investments;
- The other most common schemes included real estate investment frauds, fraudulent promissory notes and fraudulent foreign exchange trading programs, respectively;
- The median annual rate of return promised by Ponzi schemers was 38%; the average was 282.2%
- On average, Ponzi schemes that offered lower rates of return lasted longer than those that offered higher returns;
- Ponzi schemes perpetrated by conspiracies were responsible for more than 80% of the fraud losses;
- Nearly 40 percent of the Ponzi schemes were perpetrated by a conspiracy of individuals;
- Nearly 1 in 4 Ponzi schemes involve the use the affinity group targets to build the fraud and increase the schemes "credibility";
- By far the three most common affinity groups targeted by Ponzi schemers were 1) the Elderly or Retired; 2) Religious groups; and 3) Ethnic groups, respectively. These three target groups accounted for 85% of all the affinity group cases in our study;
- Both the average and the median age of major Ponzi scheme perpetuators was 51 years at the time of revelation;
- The average adjusted age of major Ponzi scheme perpetuators was nearly 45.7 years (the average age at which the schemer began their fraud, on average);
- More than 1 in 5 Ponzi schemes in the study were perpetrated by senior citizens who were over 60 at the time the fraud was exposed;
- The oldest Ponzi perpetrator included in the study was 85 years old at the time of exposure and the youngest was 21;
- Over 90 percent of major Ponzi schemes are perpetrated by men;
- More than 1 in 8 Ponzi scheme perpetrators has a prior history of fraud;
- The states with the highest number of Ponzi schemes are California, Florida, New York and Illinois, respectively;
- Utah has a disproportionately high number of Ponzi schemes and losses from Ponzi schemes relative to its population;
- The average prison sentence for major Ponzi schemers was 18 years; the greater the fraud the greater the prison sentence; and,
- Ponzi schemes can generally be avoided with the proper level of due diligence and a healthy skepticism of investment opportunities

INTRODUCTION & HISTORICAL PERSEPCTIVE

The aftermath of the massive and unprecedented magnitude of the Bernie Madoff investment fraud scheme, revealed in December 2008, sparked a great deal of interest and attention focused on Ponzi schemes and similar types of white collar investment frauds. Indeed, the Obama Administration announced in November 2009, the formation of the federal interagency ***Financial Fraud Enforcement Task Force***, consisting of the Department of Justice ("DOJ"), Department of the Treasury ("Treasury"), Department of Housing & Urban Development ("HUD"), and the Securities & Exchange Commission ("SEC"). Prosecutions and enforcement actions against investment fraud perpetrators and Ponzi scheme purveyors are up significantly in the past two and a half years since Madoff.

The size and speed with which financial transactions are made today, as well as the advent of the Internet in the past two decades, have helped spur a relative proliferation of investment fraud schemes thereby making would-be investors easy prey for such financial fraud predators. Some historical perspective is warranted for the context of this report. As such, we outline both the case of Charles Ponzi and Bernie Madoff as approximately bookends to the investment fraud phenomenon.

The Namesake Case: Charles Ponzi

Charles Ponzi Canadian mug shot circa 1910

Charles Ponzi, born Carlo Pietro Giovanni Guglielmo Tebaldo Ponzi in 1882 in Lugo, Italy, whose namesake will forever be associated with white collar investment fraud crimes, was an immigrated to the US in 1903. Ponzi, who used a number of aliases during the course of his scheming years, including Charles Ponei and Charles P. Bianchi, ultimately settled in the Boston area. He was involved in a series of petty crime and fraudulent activities in the US and Canada, including a forgery incarceration in Montreal.

After returning to Boston, in the summer of 1919, Ponzi created an investment scheme operating under the business name ***The Securities Exchange Company*** which involved pre-paid postal coupons, whereby he promised investors that he could double their money in 90 days. Paying earlier investors off with later investor proceeds, Ponzi gave the impression that he could actually deliver on his "too good to be true" promise of such unheard-of returns.

Ponzi, who at one time could barely afford subway fare and had wandered from city to city since he came to the US in 1903, ultimately settled into a six bedroom manse in Lexington, Massachusetts, the upscale historical Boston suburb, while being chauffeured around in a luxury automobile. The scheme was so successful, would-be investors were mortgaging their homes and throwing cash at Ponzi in spite of inklings of suspicion that had appear in the press and with regulatory agencies. At its height, Ponzi was reportedly bringing in an incredible $250,000 per day ($2.7 million in present dollars). When the scheme finally unraveled in the late summer of 1920, he owed more than $28 million to investors ($350 million in present dollars).

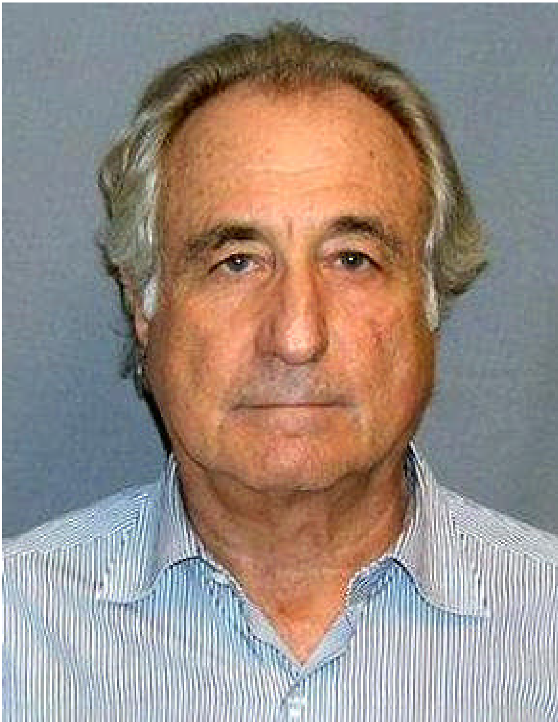
Ponzi was charged with 86 counts of federal mail fraud, but pleaded guilty on November 1, 1920 to one count and was ultimately sentenced to 5 years in prison. He served 3 ½ years of the sentence and was immediately indicted on 22 counts of larceny by the Commonwealth of Massachusetts upon his release. Ponzi was sentenced to 7-9 years in prison for his state conviction for larceny but jumped bail before his Massachusetts sentence began.

Ponzi resurfaced in Florida in September 1925 under an alias peddling another pyramid scheme called ***Charpon Land Syndicate***, selling worthless land he had subdivided into micro parcels which he sold as acres. Under this scheme, Ponzi offered 200 percent returns in 60 days. Ponzi was indicted in February 1926 on Florida state securities fraud charges and, found guilty in a jury trial, was sentenced to 1 year in prison. However, he jumped bail yet again and attempted to flee the country in disguise.

Ponzi was caught again in New Orleans on a merchant ship bound for Italy and was sent back to Boston to complete his State sentence, serving an additional 7 years. He was deported to Italy in 1934 (he had never gained his US citizenship and had been in the country illegally) after his release and ultimately made his way to Brazil.

On January 18, 1949, Ponzi passed away in a Rio de Janeiro hospital charity ward.

The Madoff Case


Bernard L. Madoff, DOJ mug shot, December 2008

Born and raised in Queens, New York, ***Bernard Lawrence "Bernie" Madoff*** founded ***Bernard L. Madoff Investment Securities LLC*** right out of college in 1960, as a penny stock exchange. The firm did very well; its innovative use and development of computer information technology was eventually replicated to create the NASDAQ, of which Madoff eventually became chairman.

In 1999, financial analyst Harry Markopolos informed the US Securities and Exchange Commission that he believed the gains Madoff claimed were mathematically impossible. But both the Boston and New York branches of the SEC either ignored or dropped the ball on Markopolos' several attempts at whistle-blowing. Indeed, the SEC's Inspector General, David Kotz, in a report post scandal, asserted that there had been six botched investigations of Madoff and his operations since 1992.

Nevertheless, on December 10th, 2008, Madoff confessed to his two sons, Mark and Andrew Madoff, that his business was "one giant Ponzi scheme." Upon hearing the details, the sons were supposedly so horrified that they reported their father in to federal authorities. The next morning, Madoff was arrested in his Manhattan apartment, where he confessed again, this time to the FBI agents. "There is no innocent explanation," he reportedly told them.

Madoff was charged with securities fraud. In February 2009, Madoff came to an agreement with the SEC, and was permanently banned from the securities industry. He pleaded guilty to 11 federal felony offenses, including securities fraud, wire fraud, perjury, money laundering, mail fraud, theft from an employee benefit plan, making false filings with the SEC, and making false

statements. On June 26th, 2009, Federal Judge Denny Chin ordered Madoff to forfeit $170 billion in assets. On June 29th, 2009, Madoff was sentenced to 150 years in federal prison without parole. He is currently incarcerated at the Butner Medium Federal Correctional Institution in North Carolina.

There are still a number of unsolved mysteries swirling about this case, however. Madoff claimed he began his Ponzi scheme in 1991, but Judge Chin stated he believes it actually begin in the 1980's. Original complaints stated Madoff defrauded clients of $65 billion, but analysts continue to debate the true figure and have admitted that while the exact amount will never be known, it is likely to be no more than $20 billion. Madoff also insisted he was the sole perpetrator of the fraud. However, Madoff's right hand man, Frank DiPascali, and Madoff's accountant, David Friehling, have each plead guilty to securities fraud and a number of other federal offenses. In addition, both of Madoff's sons, his brother Peter, and niece Shana, have all been accused of fraud and are currently being sued for negligence and breach of fiduciary duty.

It is believed by many observers that these family members must have known about the fraud, given its longevity, their positions within the company, including roles as corporate and compliance officers, and their personal investments in the scheme. Madoff's wife, Ruth, was also accused of withdrawing $15 million from company-related accounts just before Madoff confessed. She has settled with federal prosecutors by forfeiting her claim to $85 million in assets.

Madoff has apologized to his victims, saying he has left a "legacy of shame" on his family and grandchildren. Judge Chin stated his crimes were not only "extraordinarily evil," but "off the charts," as federal sentencing guidelines for fraud only go up to $400 million. The shame was apparently too great for his son Mark, who committed suicide two years to the day after his father's arrest, on December 11, 2010.

If he maintains "good behavior" in prison, Bernie Madoff, believed to have perpetrated the largest Ponzi scheme in world history, will be released early from Butner Medium FCI on November 14th, 2139.

* * *

Today, Ponzi schemes and other investment frauds seem to abound. Part of this phenomenon may be due to the apparent increase in enforcement actions. Another is clearly due to the down economy as many schemes of this sort simply cannot withstand down markets. Yet another is the increased opportunity presented by technological advances and globalization of markets as alluded to earlier. Whatever the reason, a careful examination of investment fraud is in order.

CHARACTERISTICS OF PONZI SCHEMES

Magnitude

The Marquet Report on Ponzi Schemes includes 329 major investment fraud cases of at least $1 million, with total reported losses of nearly $50 billion. We used the size of the actual fraud, not necessarily the amount ultimately lost by investors – that is, how much money the Ponzi schemers were able to convince their victims to invest in the scheme. The largest was, of course, the Bernie Madoff scam, which we include in the report at $20 billion (the initial estimate of $65 billion has been shown to be greatly exaggerated, according to the court appointed liquidator, Irving H. Picard).

The average size scheme in the study was approximately $150 million with the median size scheme of $20 million. The average is skewed upward because of the outsized magnitude of the Madoff case. The median number is probably a more accurate sense of the magnitude of the typical modern Ponzi scheme.

The ten largest investment fraud cases in *The Marquet Report on Ponzi Schemes* are the following:

Principal Perpetrator	Size ($mill)	Type of Fraudulent Investment	Year
Bernard L. Madoff/Madoff Investment Sec.	$ 20,000	Hedge fund/Securities trading	2008
R. Allen Stanford/Stanford International	$ 7,200	Certificates of deposit	2009
Thomas J. Petters/Petters Group WW	$ 3,650	Consumer electronics	2008
Paul Greenwood/Westridge Capital	$ 1,300	Securities investments	2009
Joel Steinger/Mutual Benefits Corp.	$ 1,250	Viatical and life settlements	2009
Scott Rothstein/Rothstein Rosenfeldt Adler	$ 1,200	Lawsuit settlements	2009
Nevin K. Shapiro/Capitol Investments, USA	$ 880	"Grocery diversion"	2010
Marc S. Dreier/Dreier LP	$ 380	Promissory notes	2008
Nicholas Cosmo/Agape World	$ 370	Commercial bridge loans	2009
Arthur G. Nadel/Scoop Management	$ 360	Hedge fund/money mgmt	2009

We note that every one of these schemes was principally perpetrated by a male with an average age of 56 when discovered. Only one of these had a known prior fraud history (Steinger) and more than half involved conspiracies. The average duration of these schemes was 9.2 years. Fully 80 percent of these largest cases were perpetrated from either New York or Florida.

Duration

The approximate duration of the scheme was determined in 320 of the 329 cases in the study. Based upon those cases, we developed the following analysis:

Average duration: 5.3 years
Median duration: 4.0 years
Longest duration: 31 years

We note also that the average Ponzi scheme perpetrator included in *The Marquet Report on Ponzi Schemes* defrauded investors an average of $2.35 million per month (the average fraud divided by the average duration, in months).

Fully eleven (11) of the cases spanned 20 years or more. Two Ponzi schemes spanned at least 30 years (Philip Barry/The Leverage Group and Roberto Heckscher/Irving Bookkeeping – revealed in 2010 and 2009, respectively).

In the Irving Bookkeeping case, 55-year-old ***Roberto Heckscher***, based in the San Francisco Bay Area, convinced his clients to entrust some $50 million with him purportedly to be invested in personal and commercial loans with a promised annual return of as much as 13 percent. Instead, in classic Ponzi form, Heckscher paid earlier investor interest payments with later investor funds and spent other investor funds suppoting a lavish lifestyle including major gambling activities at casinos in Las Vegas. Authorities believe at least 292 investors lost a total of $33 million in the scheme. In a plea agreement in October 2009, Heckscher pleaded guilty to one count of mail fraud and was later sentenced to 20 years in prison.

Heckscher's former office in San Francisco

Additional analysis reveals that there is a correlation between the duration of the scheme and the promised rate of return (see Promised Rate of Return section below).

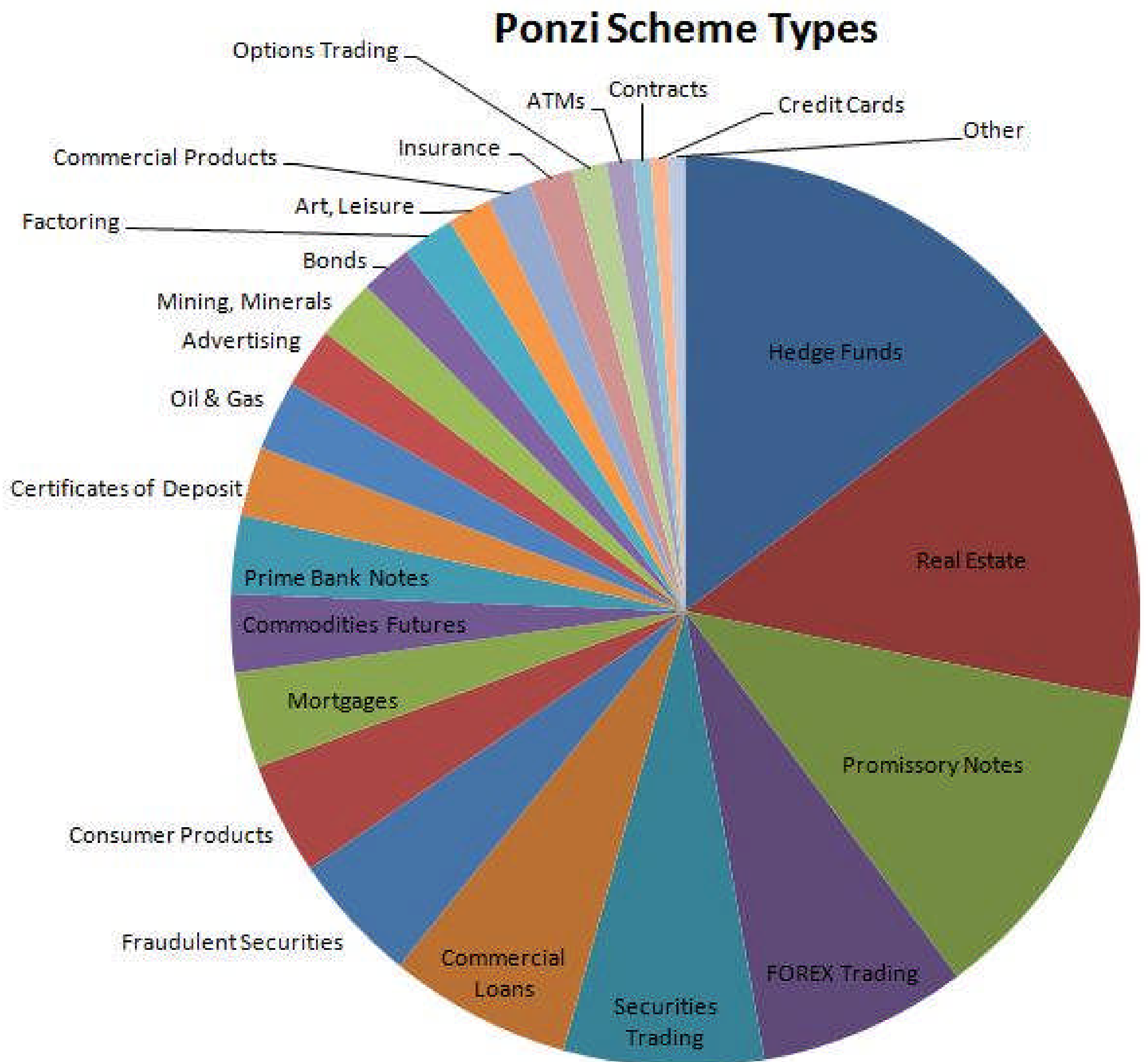
Fraudulent Investment Types

The Marquet Report on Ponzi Schemes analyzed the different principal fraudulent types of investment employed by the perpetrator(s). To do so, we placed the fraudulent investment types into 25 general categories. It should be noted that in a number of cases, more than one fraudulent investment instrument was employed and we picked what we believed was the primary type for the study. The categories we identified include the following:

- **Advertising** – fraudulent investment schemes involving advertising revenues, often online schemes
- **Art, Leisure & Collectibles** – fraudulent investment schemes related to art, leisure activities, including such things as concert promotions and movie productions
- **ATMs** – fraudulent investment schemes such as "cashless ATMs" and other HYIPs involving ATM fees
- **Bonds** – fraudulent investment schemes involving corporate, municipal, construction, and fictitious bonds, including "zero coupon bonds"
- **Business Contracts** – fraudulent investment schemes based upon revenues from existing contracts to buy & sell goods or services
- **Certificates of Deposit** – fraudulent investment schemes based upon returns from CDs, often "guaranteed" returns
- **Commercial Loans** – fraudulent investments schemes based upon returns from commercial loans
- **Commercial Products** – fraudulent investment schemes involving commercial products, such as construction or manufacturing equipment or other products used by businesses
- **Commodities Futures Trading** –investment schemes involving fraudulent commodities and futures trading, including "proprietary programs"
- **Consumer Products** – fraudulent investment schemes involving commercial products, such as electronics, food products, and other products
- **Credit Cards** – fraudulent investment schemes involving credit card fees or revenues
- **FOREX Trading** –investment schemes involving foreign exchange trading, including fraudulent "proprietary programs"
- **Factoring** – fraudulent investment schemes involving fees, revenues or collections from accounts receivable collection programs
- **Fraudulent Securities** – fraudulent offering of unregistered or fake securities
- **Hedge Fund** – investments in phony or fraudulent hedge funds
- **Insurance Instruments** – investments in phony or fraudulent insurance-related instruments such as "secure" annuities, viatical and life settlements.
- **Mining, Minerals & Gemstones** – fraudulent investments in precious metals, mining operations, gemstones or other such ventures
- **Mortgages** – investments in various mortgage schemes
- **Oil & Gas Ventures** – investments in fictitious or fraudulent oil & gas ventures
- **Options Trading** – investment schemes involving non-existent or fraudulent options trading
- **Prime Bank Notes** – investments in these fraudulent instruments

- **Promissory Notes** – investments in phony, non-existent or otherwise fraudulent promissory notes
- **Real Estate** – fraudulent investments schemes involving real estate transactions or securitization
- Securities Trading
- **Other** – unclassified schemes

Our overall results are depicted in the following pie chart:



Based upon our analysis of the 324 cases with clearly identified categories in *The Marquet Report on Ponzi Schemes*, the most common investment schemes are the following, in descending order of frequency:

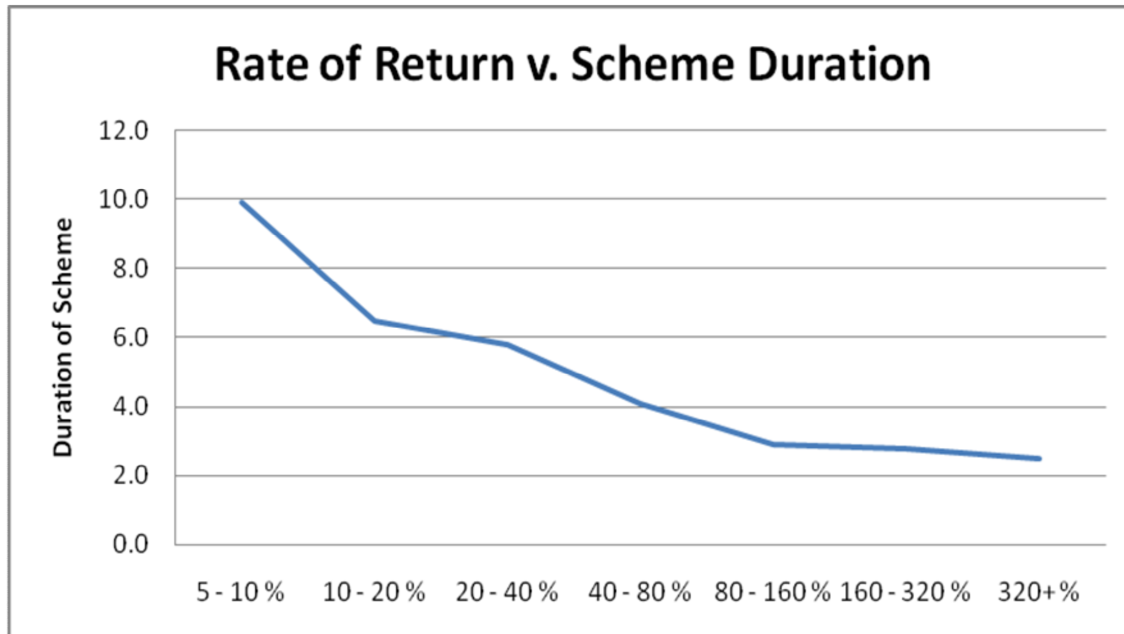
Types of Schemes	Number	Percent
Hedge Fund	47	14.51%
Real Estate	44	13.58%
Promissory Notes	38	11.73%
FOREX Trading	24	7.41%
Securities Trading	23	7.10%
Commercial Loans	21	6.48%
Fraudulent Securities	15	4.63%
Consumer Products	13	4.01%
Mortgages	11	3.40%
Commodities Futures	9	2.78%
Prime Bank Notes	9	2.78%
Certificates of Deposit	8	2.47%
Oil & Gas	8	2.47%
All others	54	16.65%

As is evident, fraudulent hedge funds have been the most popular method of inducement, followed by fraudulent investments in real estate-related transactions, promissory notes, foreign exchange trading programs and securities trading.

Promised Rate of Return

Ponzi schemes typically induce investors with promises or suggestions of higher-than-market rates of return – sometimes incredibly higher. In many of these cases, the Ponzi scheme perpetrator makes claims that the returns are "guaranteed" or that the investment is "risk free" or "locked in" or similar claims. We were able to determine the highest annual rates of return claimed in 222 of the 329 cases in the study. This rate encompassed a range of a modest 6 percent to a high of 20,800 percent, with an average of 282.2 percent. The median annual rate of return promised was 38 percent. We also analyzed the rate of return promised versus the average duration of the fraud (in years) to see if there was a correlation. Indeed there is, as depicted in the charts below:

Return Range	Ave. Duration
5 - 10 %	9.9
10 - 20 %	6.5
20 - 40 %	5.8
40 - 80 %	4.1
80 - 160 %	2.9
160 - 320 %	2.8
320+ %	2.5



As we would expect, the duration of a given Ponzi scheme attenuates as the rate of return promised to investors increases. Clearly it is more difficult to sustain this type of investment fraud for extended periods of time with extremely high rates of return. All Ponzi schemes eventually implode on themselves as they are simply not sustainable, especially in down markets, when they tend to be revealed more frequently. Madoff probably survived for so long (24 years or more) because he was offering a relatively low rate of return, as Ponzi schemes go.

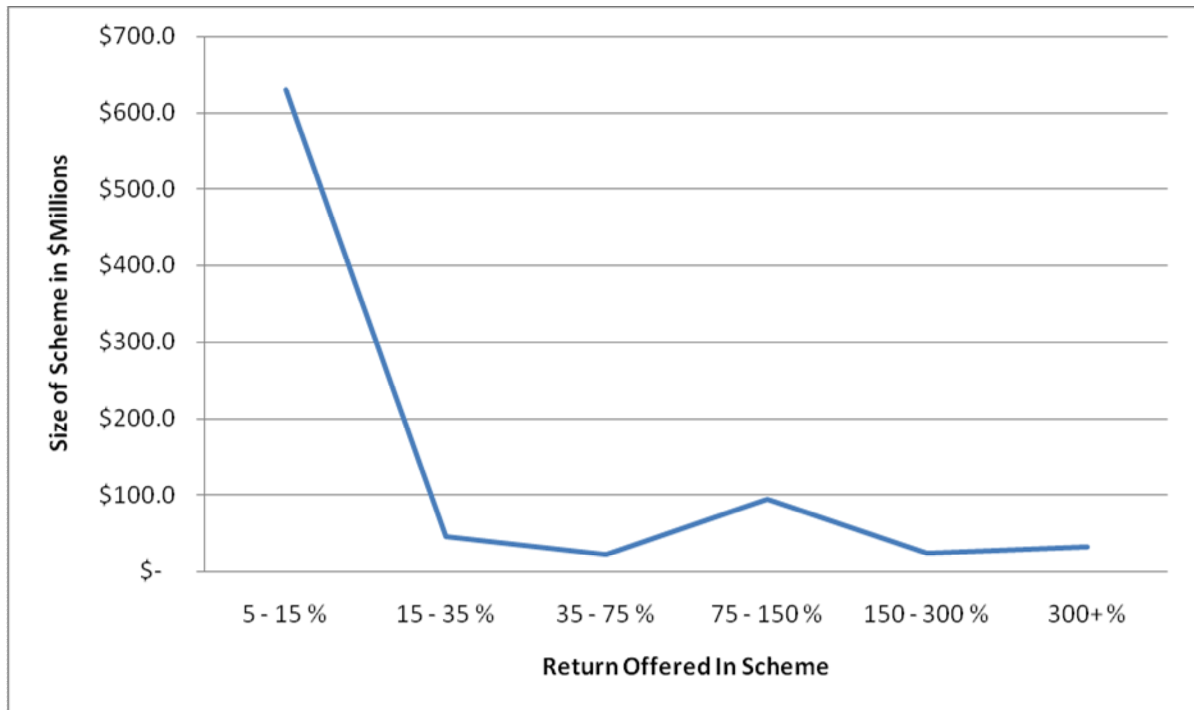
On the other hand, ***Randall T. Treadwell, Ricky D. Sluder*** and ***Larry C. Saturday***, who operated fraudulent entities known as ***Learn Waterhouse, Inc., Wealth Builders Club, Inc***., and ***Qwest International, Inc***., offered effective annual returns as high as 3,000% with a Prime Bank Note scheme. These "gentlemen" scammed investors out of $50 million before the scheme was exposed in 2004 after operating for about a year or so. Treadwell, who appears to have been the Ponzi kingpin in the conspiracy, was sentenced to 25 years in jail.

We also analyzed the data to determine whether there exists any correlation between the rate of return and the overall size of the fraud.

Range	Ave. Fraud*
5 - 15 %	$ 629.7
15 - 35 %	$ 45.5
35 - 75 %	$ 22.5
75 - 150 %	$ 94.8
150 - 300 %	$ 23.9
300+ %	$ 32.4

* in $millions

The chart below illustrates the results of this data. Two of the largest Ponzi schemes, Bernie Madoff and Allen Stanford, fell in the lowest range, clearly skewing that range upward. Otherwise, there does not appear to be a strong correlation in the upper ranges.



A few comments on this: Everyone has heard the saying, "If it sounds too good to be true, it probably is not true" which is completely valid when it comes to Ponzi schemes. Further, no money manager can "guarantee" returns, even with a wink and a nod. These should have been significant warning signs to any potential investor.

Was the scheme the act of a sole perpetrator or a conspiracy of individuals?

The table below illustrates the relative breakdown between solo and conspiracy cases and compares the relative losses for each category:

	Conspiracy	Solo	Totals
Number in sample	126	203	329
Percentage of sample	38.3%	61.7%	100.0%
Gross fraud	$40,878,400,000	$8,862,600,000	$49,741,000,000
Percentage of sample	82.2%	17.8%	100.0%

What this clearly shows is that investment frauds perpetrated by a conspiracy are much more successful in bilking investors than sole perpetrator Ponzi schemes. This is no doubt due to the fact, in part at least, that the additional conspirators often give the appearance of "credibility" to the scheme. We were nevertheless a little surprised at the high percentage of conspiracy cases –

nearly 40 percent. This is compared to our findings in the embezzlement arena which is less than 15 percent of the cases we have examined (see ***The 2010 Marquet Report On Embezzlement***).

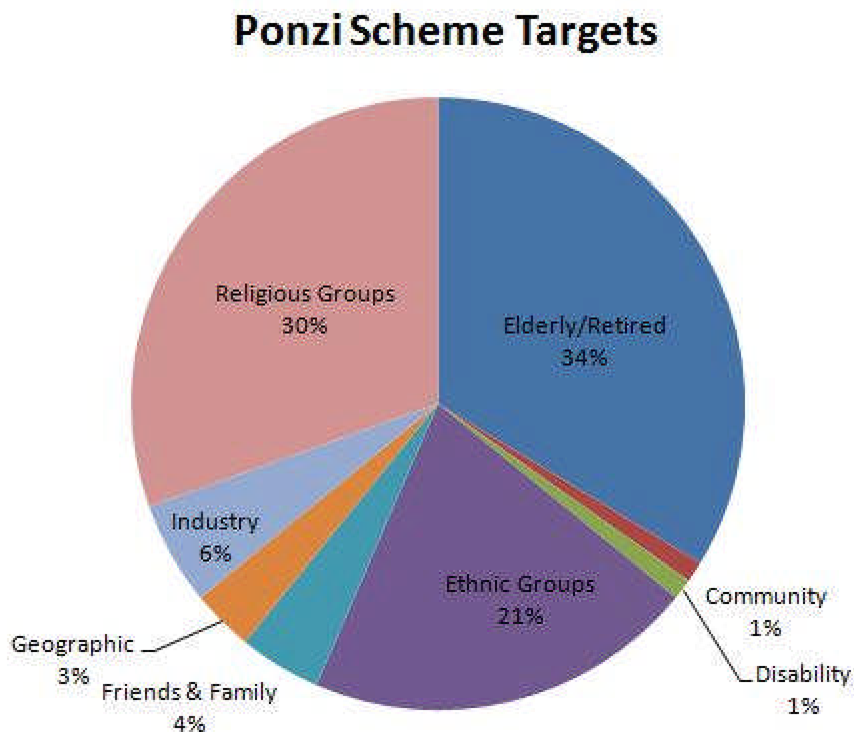
Affinity or Target Group

In nearly one quarter of all the cases in this study, a specific affinity group was targeted for victimhood by the Ponzi schemers. In a number of these cases, more than one affinity group target was employed. Gaining the trust of the target affinity group was key to the success of those Ponzi schemes.

We broke down the target groups into the following general categories:

- Community Groups
- Disability
- Elderly or Retired
- Ethnic Segments
- Friends & Family
- Geographic Locale
- Industry Segments
- Religious Sects

The results are graphically illustrated by the following pie chart:



As is evident, the most popular group targeted by Ponzi scheme artists is the elderly or retired individuals. Our findings are supported by various prior investment fraud warnings made by the SEC and DOJ. In some cases the elderly victims were also members of one of the other target groups, such as a religious faction or ethnic group. Religious affinity groups were targeted nearly as much as the elderly, followed by various ethnic groups. Every major religion and many ethnicities were targeted in cases included in our study. The Elderly, Religious and Ethnic groups accounted for 85 percent of the total cases in the study with an identifiable affinity group.

California-based ***Robert Jennings, Henry Jones,*** and ***Arthur Simburg***, operating fraudulent entities known as ***Tri Energy Inc., H&J Energy Company, Inc.,*** and ***Marina Investors Group, Inc.***, enticed mostly Mormon and born-again Christian investors to invest $50 million in bogus gold and coal mining operations before the scheme collapsed after about a three year period in 2005. Jennings, a pastor, was convicted and sentenced to 12 years in prison. Jones, a Nigerian national and purported movie producer, was sentenced to 20 years in prison.

Henry Jones, Tri Energy principal

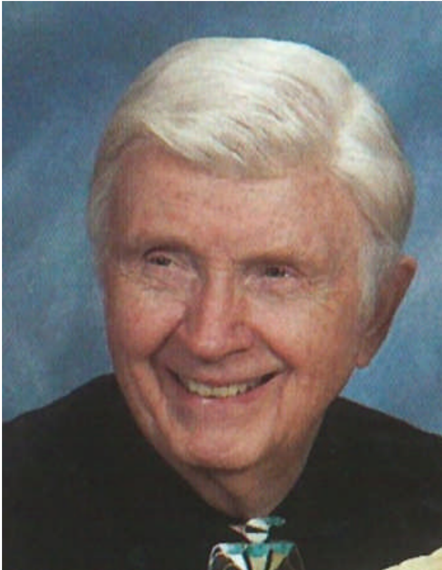
CHARACTERISTICS OF THE PERPETRATORS

Age of the perpetrator

The age of the perpetrator was known with reasonable accuracy in 328 of the 329 cases in our survey. Based on the available data, the average age of the perpetrators was 51.0 years. The median age was also 51 years. The average adjusted age, which is the average age minus the average duration, was 45.7 years. This is presumably the average age at which a typical Ponzi schemer would start their fraud.

The oldest alleged Ponzi scheme perpetrator in the study was Washington State-based ***Stephen J. Klos***, who was 84 years old when he was charged earlier this year with 28 counts of securities fraud after enticing his victims to invest as much as $3.5 million in fraudulent real estate investments that purported to earn up to 24% per year. Klos' scheme allegedly spanned a period of about 3 years and targeted fellow elderly parishioners of the ***Mercer Island Covenant Church***, according to prosecutors. Klos has a prior fraud history having been the subject of a

consent decree in 1992 with the SEC enjoining him and co-defendants from offering unregistered securities and agreeing not to violate the antifraud provisions of the Securities Act of 1933. It should be noted that Klos' case is pending and he has not yet been convicted or pleaded guilty.



Stephen J. Klos, Mercer Island Covenant Church photo. Klos is the oldest alleged Ponzi perpetrator included in our study and used an affinity scheme to bilk $3.5 million from investors in an allegedly fraudulent real estate scheme

The youngest Ponzi schemer included in this study was Athens, Georgia-based ***Jonathan W. Mikula***, who was only 21 years old when he and a co-conspirator, ***Gabriel J. Frankewich*** (29 years old), were charged with defrauding investors out of as much as $42 million. Mikula's alleged investment scheme involved a fraudulent online autosurf HYIP program known as ***PhoenixSurf*** that offered effective annual returns of 912%. It should be noted that Mikula's case appears to be pending and he has not yet been convicted or plead guilty, as far as we know.

Jonathan W. Mikula

An analysis of the data results in the following chart outlining the specific age group breakdown:

Age groups	20 - 29	30 - 39	40 - 49	50 - 59	60 - 69	70 - 79	80 +	Totals
Cases	6	63	84	102	49	20	4	328
% Sample	1.8	19.2	25.6	31.1	14.9	6.1	1.2	100.0
$ Fraud*	304.4	2,440.8	5,864.7	16,501.1	3,145.0	21,447.9	27.8	49,731.70
% Sample	0.6	4.9	11.8	33.2	6.3	43.1	0.1	100.0
Av. $Loss*	50.7	38.7	69.8	161.8	64.2	1,072.4	7.0	151.6

* in millions of dollars

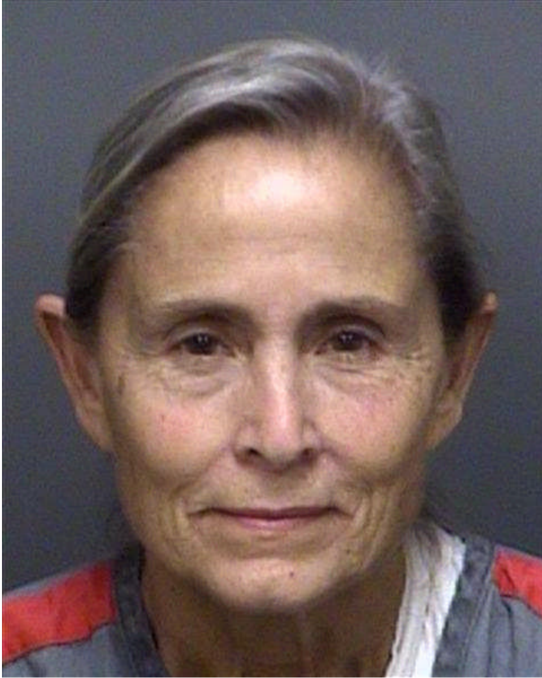
As the chart demonstrates, the 50 – 59 age group accounted for greatest number of Ponzi scheme cases. However, the 70 – 79 age group accounted for the greatest total fraud and the highest average Ponzi scheme. This fact is clearly due to the inclusion of the Madoff case, which skews everything higher in the 70s age group. One thing we were a little surprised by was the high number of elderly Ponzi scheme perpetrators – 22.2 percent of the total were 60 or over when their schemes were exposed and/or collapsed.

Gender of the perpetrator

Only 24 in the overall sample of 329 investment fraud cases in *The Marquet Report on Ponzi Schemes* involved perpetrators who were female. Specifically, just 7.3 percent were female and 92.7 percent were male. Whereas the typical embezzler is increasingly female*****, the Ponzi scheme world is dominated almost exclusively by males. Further, investment frauds perpetrated by males in our study accounted for 98.8 percent of the total dollars bilked from investors.

The largest alleged Ponzi scheme perpetrated by a female involves 66-year-old St. Augustine, Florida-based ***Lydia I. Cladek***, who convinced at least 1,000 apparent victims to invest more than $113 million in fraudulent promissory notes by offering a "guaranteed" return of as much as 20%. The investment notes, offered through her "secondary finance" and financial advisory firm, ***Lydia Cladek, Inc***., were purportedly to be invested into a subprime auto loan program. Cladek's scheme allegedly spanned about a five year period until shortly before she was indicted on 14 felony counts including wire fraud, mail fraud and conspiracy to commit wire fraud and mail fraud, in November 2010. Prosecutors alleged that Cladek used the investment funds to pay earnings to investors and to support a lavish lifestyle. Cladek's case is also pending and she has not been convicted or plead guilty. As of this writing, Cladek is out on $5 million bail and faces up to 20 years in prison on each count, if convicted.

* more than 60 percent based upon our exhaustive studies of more than 1,000 major embezzlement cases in the past three years. See The 2010 Marquet Report On Embezzlement, which can be found here: http://www.marquetinternational.com/pdf/the_2010_marquet_report_on_embezzlement.pdf.


Lydia I. Cladek, US Marshal's mugshot Dec. 2010

Ponzi Scheme Perpetrator Lifestyles

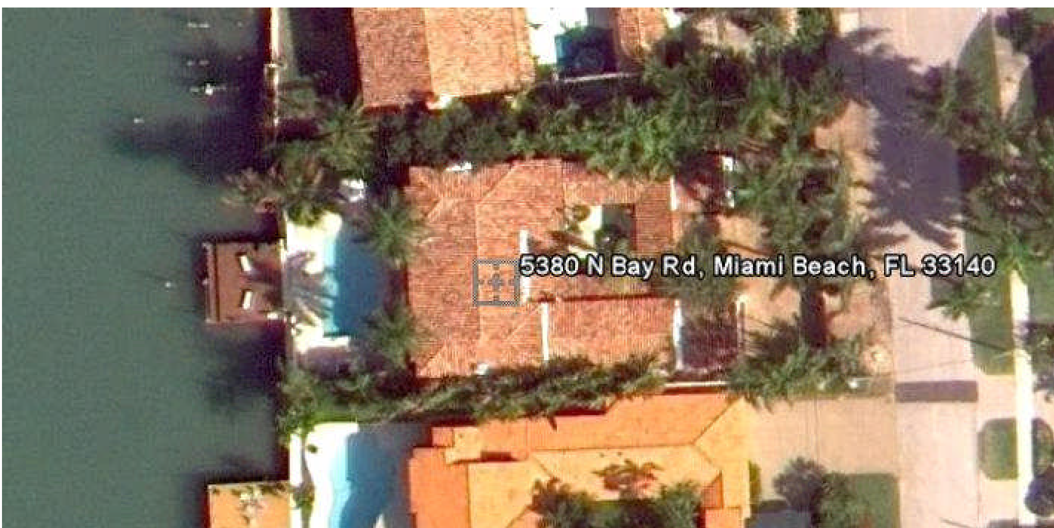
In the vast majority of Ponzi scheme cases included in *The Marquet Report on Ponzi Schemes*, the alleged perpetrators not only paid earlier investors phony "returns" with investor monies, but also used the fraudulently induced investment funds to establish and perpetuate an overly opulent and lavish lifestyle, sometimes extravagantly so. Such a lifestyle is all well and good for their purposes until the scheme inevitably collapses and they end up facing criminal charges, resulting in their ultimate incarceration, usually serving a significant prison sentence.

Nevin K. Shapiro, 41, of South Miami Beach, Florida, was arrested in April 2010 and pleaded guilty on September 15, 2010 to one felony count each of securities fraud and money laundering in connection with an $880 million Ponzi scheme he ran over a nearly 5 year period, until November 2009. Through his company, ***Capital Investments USA, Inc***., Shapiro's scheme involved fraudulent investments in a purported "grocery diversion" program which supposedly involved the purchase of lower priced foodstuffs in one region of the US and reselling them for a higher price in another, making a significant profit on the arbitrage. Shapiro offered investors returns of as much as 26% annually on this supposedly "risk free" investment.

In classic Ponzi scheme fashion, Shapiro's "grocery diversion" investment was virtually non-existent. Instead, he paid earlier investors returns with funds from later investors and used investment funds to support an incredibly lavish and decadent lifestyle. Shapiro spent investor monies on all kinds of extravagancies, such as a $6 million waterfront manse in Miami Beach, several luxury cars, a $1.5 million Riviera yacht, expensive clothes, multi-million gambling debts, season tickets to premium sporting events and other entertainment, according to his

indictment. He also reportedly spent lavishly on expensive jewelry, frequently went night-clubbing and supported a "harem" of girlfriends with gifts and cash. He ran up massive credit card bills for all kinds of personal expenses and luxury items. Shapiro was also a big philanthropist – all with investor monies – as he was a huge supporter of the University of Miami athletics program and gave $150,000 to get the student-athlete lounge named after him (now since removed). Shapiro reportedly hosted raucous parties with local celebrities and NFL and NBA stars. Shapiro also took investor funds to support his personal businesses, including an unrelated grocery business.

Poolside view of Nevin Shapiro's luxury Miami Beach home at 5380 N. Bay Road

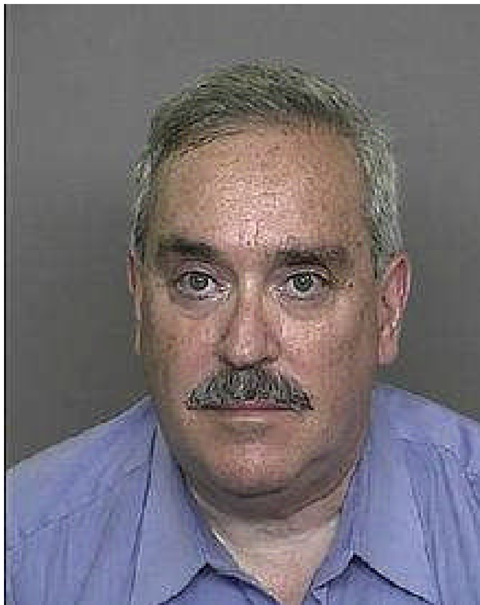


Google Earth satellite view of Shapiro's waterfront home at 5380 N. Bay Road, Miami Beach, Florida

How often do Ponzi schemers have a prior history of fraudulent activity?

We were able to determine that at least 42 out of the sample of 329 cases in *The Marquet Report on Ponzi Schemes* involved perpetrators with a prior history of fraudulent activity. That is, in at least 12.7 percent of the cases (or more than 1 in 8), the principal Ponzi scheme perpetrator had been previously censured, sued, sanctioned or convicted of or for fraud. We believe this to be a somewhat undercounted statistic as we were unable to conclusively check the public record for each and every case. Nevertheless, it is still a significant finding – affirming the need for proper due diligence in advance of an significant investment.

Some of the 42 prior-history-of-fraud perpetrators were multiple offenders, such as Colorado-based ***Fredric "Rick" Dryer*** who was indicted in 2006 on 67 felony charges and plead guilty in July 2008 to operating a fraudulent real estate Ponzi scheme operation under the name ***Mile High Capital Group LLC***. The scheme bilked at least 882 investors out of some $44 million before it was revealed. Dryer was sentenced in February 2009 to 132 years in prison on state charges of securities fraud, theft and violations of Colorado's organized crime statutes. It turns out that Dryer was previously convicted of bank robbery in 1971 and had two prior securities fraud violations during the 1980s.



Convicted bank robber and serial fraudster, Fredric "Rick" Dryer. Mugshot, circa 2006, after arrest for operating a $44 million Ponzi scheme

We also derived the following additional statistics from our analysis:

- 55% of prior fraudsters were solo embezzlers
- Only 2% of prior fraudsters were female
- Prior fraudsters bilked investors an average of $67.8 million
- Schemes of prior fraudsters spanned an average of 4.6 years
- The most common scheme employed by prior fraudsters involved real estate investment scams of one kind or another (16.7%), followed by fraudulent hedge funds (11.9%) and then fraudulent securities trading (9.5%).

Geographic Epicenter of the Ponzi scheme

As part of our analysis, we identified the states from which the investment frauds included in the study were primarily based – typically the state where the principal Ponzi scheme perpetrator resided. The 10 states with the highest number of major Ponzi schemes are as follows:

State	Number	Percent
CA	66	20.0%
FL	36	10.9%
NY	26	7.9%
IL	23	7.0%
NJ	14	4.2%
TX	13	3.9%
CO	12	3.6%
MI	12	3.6%
PA	12	3.6%
UT	11	3.3%
GA	10	3.0%

Large states by population dominate the list as expected. However, Colorado and Utah are noteworthy for their presence on this list since they rank 22nd and 35th in population, respectively, of all US states and territories. Conversely, conspicuously absent are North Carolina or Virginia, ranking 10th and 12th in US population, respectively, but only 25th and 27th in our overall list. We also note that Florida appears to have a disproportionately high number of cases, relative to its population. We believe this is in part due to the high population of senior citizens and retirees in that state – the most common affinity group target for Ponzi schemers, as we have determined.

Looking at this data from the standpoint of aggregate fraud size and relative percentage of the total, we generate the following table:

State	Size*	Percent
NY	23,519.9	47.31%
TX	7,813.0	15.71%
FL	4,894.1	9.84%
MN	3,931.0	7.91%
CA	2,321.2	4.67%
NJ	863.9	1.74%
MI	785.4	1.58%
IL	704.2	1.42%
UT	645.7	1.30%
WA	578.6	1.16%

* in $ millions

Once again, we see the prevalence of large states, absent Pennsylvania and Georgia this time, and still missing North Carolina and Virginia. However, included in this list is Minnesota, skewed heavily upward due to the ***Tom Petters/Petters Worldwide Group*** case, and Washington State, which had 8 significant Ponzi schemes that fell into the "major" category and included in this analysis. Minnesota is ranked 21st and Washington is ranked 13th in US population. Still included is Utah, confirming our belief that that state has a higher propensity for Ponzi scheme operations than most. We note that New York, at the top of the list, is skewed upwards due to the Madoff case and Texas is skewed upward due to the R. Allen Stanford case.

Looking at this data in yet a third manner, we can compare the percentage of Ponzi fraud per state with their relative percentage of overall GDP. We will call this ration the Ponzi Propensity Ratio. As such, any state with a ratio greater than one (1.0) we would consider to have a higher than expected Ponzi propensity. Calculating Ponzi Propensity Ratio for the ten states with the highest ratios, we get the following:

State	PPR*
NY	6.16
MN	4.30
TX	1.98
FL	1.89
UT	1.60
MI	0.61
ID	0.55
OR	0.53
NJ	0.51
CT	0.49
WA	0.48

* Ponzi Propensity Ratio = % Ponzi fraud per state to aggregate Ponzi fraud divided by the percent state GDP to total US GDP

We see here that New York, Minnesota, Texas and Florida all have disproportionately high ratios, as expected with all of their mega Ponzi schemes and based upon all of the other factors previously mentioned. The only other state with a greater than one ratio, is Utah. Given that this state did not have any of the mega Ponzi schemes in the study (its largest fraud ranked 28th overall), but rather had a series of 11 steady solid frauds, we yet again affirm that Utah seems to have been a breeding ground for Ponzi schemes in the past decade.

Utah's largest Ponzi scheme was the $180 million fraud perpetrated by ***Val E. Southwick*** and his ***VesCor Capital*** group of companies. Southwick induced at least 180 investors to put money into a labyrinthine group of real estate development companies he controlled, promising annual returns of 24%. Southwick used an affinity group target – members of the LDS Church, to perpetrate his fraud which collapsed in 2007 after a 17 year run. The 63-year-old Southwick plead guilty to 9 counts of securities fraud in March 2008 and subsequently sentenced to a minimum 9 years in prison in June 2008.

Val E. Southwick, Utah State Prison mug shot

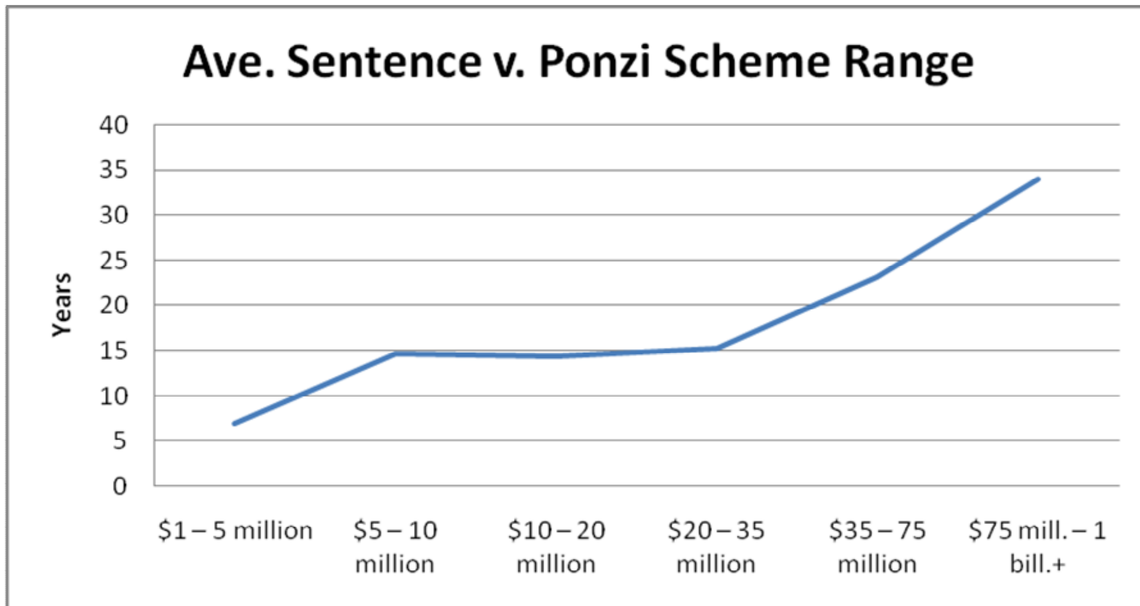
JUDICIAL CONSEQUENCES

Sentencing Analysis

We researched the prison terms for perpetrators who had been sentenced for operating major Ponzi schemes, in an effort to determine whether any valid conclusions could be drawn, relative to some of the other variables in our analysis. In *The Marquet Report on Ponzi Schemes*, we made no distinction between federal and state sentences, although the vast majority of prosecutions were made on the federal level, usually stemming from SEC enforcement actions.

We were able to determine the prison sentences in 130 of the 329 cases analyzed in *The Marquet Report on Ponzi Schemes*. The prison terms ranged from 21 months to 150 years. The average prison sentence for those known was 18.1 years. Bernard Madoff recently received 150 years – the highest in the study. We broke down the average sentences for various theft levels, as outlined in the charts below:

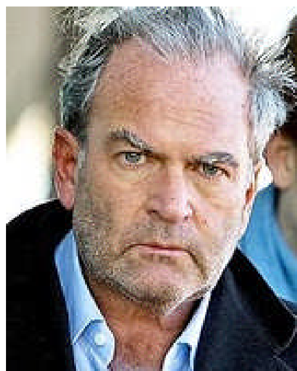
Ponzi Scheme Range	Ave. Sentence (in years)
$1 – 5 million	6.96
$5 – 10 million	14.62
$10 – 20 million	14.35
$20 – 35 million	15.29
$35 – 75 million	23.17
$75 mill. – 1 bill.+	33.95

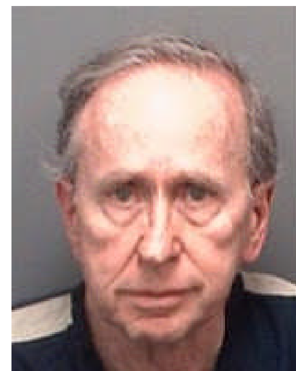


These charts demonstrate that the average prison sentence increases with the magnitude of the theft, plateauing from $5 to $35 million, at about 15 years and then continuing an upward slope to the billion dollar-plus range. Some of the mega Ponzi perpetrators received sentences as follows:

Ponzi schemer	Fraud (in $mill)	Sentence (yrs)
Bernard Madoff	$20,000	150
Tom Petters	$ 3,650	50
Scott Rothstein	$ 1,200	50
Marc Dreier	$ 380	20
Arthur Nadel	$ 360	14

Tom Petters


Marc Dreier


Arthur Nadel

The good news is that investment fraudsters are almost always caught and prosecuted, receiving healthy prison sentences commensurate with their crime. The bad news is that new schemes seem to continue to crop up in spite of the additional enforcement, awareness, and due diligence, albeit, at a somewhat reduced rate as previously determined.

12 Steps To Avoid Ponzi Schemes & Investment Fraud

We have catalogued some practical strategies and tactical actions for investors to help them avoid investment frauds and Ponzi schemes, which include, but are not limited to, the following:

1. **Do your due diligence** – thoroughly check out prospective investment advisors, money managers, hedge fund operators, private equity funds and any other individual or entity to be entrusted with your hard earned investment funds. As *The Marquet Report on Ponzi Schemes* has demonstrated, a significant percentage of Ponzi scheme operators (at least 1 in 8, according to our research) have a prior criminal action, fraud accusation or regulatory censure in their histories. Some are not even registered with the appropriate regulatory bodies and nearly 5% of the investment frauds we reviewed in this report involved the sale of completely phony securities. Make sure the outside auditors are reputable. In some cases, audit reports provided by Ponzi schemers proved to be completely phony from non-existent auditors.

    - *Regulatory & professional checks* - The SEC requires investment adviser representatives and investment advisor firms to register by filing an "Independent Adviser Public Disclosure" called an "ADV Form". These can be searched directly on the SEC's web site here. The SEC site can also be searched for regulatory actions, litigation notices, enforcement actions and other sanctions. The Financial Industry Regulatory Authority ("FINRA") maintains a searchable disclosure called "BrokerCheck" which includes files on registered brokers, including affiliations, qualifications and regulatory actions (see here). Each state has a securities regulating body that can be contacted. A useful listing can be obtained at the North American Securities Administrators Association, here. Other professional associations can be checked as well, including The Financial Planning Association, The National Association of Personal Finance Advisors, and the Certified Financial Planner Board of Standards.

    - *Background checks* – for deep digging, conduct a thorough background check on the individual(s) to be entrusted with any significant investment. This would include a thorough vetting of credentials, employment history, educational background, as well as independent civil and criminal checks, searches for liens, judgments and bankruptcies and the aforementioned regulatory bodies. Media coverage, business affiliations and online Internet profiles should all be checked. Identify "non references" – individuals who have had dealings with the subject in the past, but may not be listed as a client reference. Such individuals may be former business partners, former employees, current or former clients, industry analysts and others. Finally, a "lifestyle check" can also be conducted. As we have seen, most Ponzi schemers live a fairly opulent and lavish lifestyle at investor expense. While not a conclusive indicator of fraud, it is certainly a common theme. Independent investigatory firms like Marquet International and other reputable outfits provide this kind of service.

- *Talk to people* – it is not good enough to just "ask around" or talk to references provided. No one gives out bad references. Some fraudsters actually manufacture fraudulent references. Speak to actual longtime clients. Speak to "non" references. This latter category can be identified by asking any actual references for others to speak to as well as identified through the background investigation outlined above.

2. **If it sounds too good to be true, it probably is** – as we have seen Ponzi schemers induce prospective investors with the promise of higher-than-market returns – often sky high or extraordinary returns. *The Marquet Report on Ponzi Schemes* analysis shows that the higher the promised returns the shorter the lifespan of the Ponzi scheme. Still, that is cold comfort for those who get burned. Any investment program that purports to deliver significantly higher-than-market rates of return should be an immediate yellow, orange or even red flag, depending upon how incredible they are. That, in fact, is the proper word for it – incredible – meaning "so extraordinary as to seem impossible," "not credible," "hard to believe," "unbelievable," "farfetched," "astonishing," and "preposterous," according to dictionary definitions.

3. **Be skeptical of exotic financial products** – if you cannot understand what the investment is and how it works, you probably should not be investing in it. Ponzi scheme perpetrators do not like to have to explain their programs with too much specificity and therefore often make the scheme appear highly complex or simply describe their trading program as "proprietary" or an "exclusive" program.

4. **Be skeptical of "once in a lifetime claims"** – as in the case of typical pyramid schemes, prospective investors are given a "once in a lifetime" opportunity to "get in on the ground floor" of an investment. This is not a good sign.

5. **Be highly skeptical of "guaranteed" returns or "risk-free" investments** – as previously noted, no legitimate investment advisor can or will guarantee returns and no investments are risk-free. Since all investment involves risk, higher returns necessarily means higher risk. Therefore it is not credible that a high-return investment be risk-free. Also avoid investments described as "sure things" or require "special" or "exclusive" access.

6. **Be skeptical of investment programs targeted at specific "affinity" groups** – as *The Marquet Report on Ponzi Schemes* determined, elderly or retired individuals are the most common affinity group targeted by Ponzi schemers. The other two most common affinity groups include Religious sects and Ethic groups. Gaining the trust of the target affinity group is a key success factor for these Ponzi schemes. Ponzi scheme perpetrators sometimes attempt to create an exclusivity mystique about their investment

"opportunity." Be concerned if your investment advisor claims you are now a member of an "exclusive" club.

7. **Be skeptical of flimsy disclosures and statements** – Many Ponzi schemers provide little disclosure information (naturally) upfront and provide fraudulent or completely fabricated statements to investors. Examine the statements, be sure they are detailed and regular, ie. monthly. Statements should come from the custodian of funds, not the investment advisor. As noted in the due diligence section above, be sure the auditors are real and legitimate.

8. **Be wary of too regular returns, especially in a volatile market** – it is impossible for actual securities investments to make overly consistent and exact returns, month after month, year after year. This was Madoff's hook (and tell), by providing stability of returns. Likewise, if promised returns or dividend payments are not forthcoming, investigate. Be sure your liquidation options are open.

9. **Be skeptical of new or unknown investment firms/advisors** – It is much less risky to work with a well-established reputable outfit than someone new or unknown. Again, see due diligence section, above.

10. **Be skeptical if your investment advisor is also the custodian of your investment** – the adjunct is also valid: be wary if the custodian is an affiliate of the investment advisor. The custodian has direct access to your investment funds and may be able to move them as they please.

11. **Avoid high pressure sales tactics and Blind Internet solicitations** – you can be sure than many of these are not legitimate as reputable firms would not have to resort to such tactics.

12. **Diversify your investments** – Many investors lost their life's savings in the recent spate of Ponzi schemes. That is because they put all of their eggs in one basket. If one basket rots through, a diversified investor will at least have other baskets protecting their remaining eggs.

DEFINITIONS

Some definitions are in order for certain terms, fraudulent investment instruments and schemes referred to in this report:

Ponzi Schemes – the Securities & Exchange Commission ("SEC") defines a Ponzi scheme in the following manner:

> Named after the 1920's financial swindler, Charles Ponzi, a Ponzi scheme is an investment fraud that involves the payment of purported returns to existing investors from funds contributed by new investors. Ponzi scheme organizers often solicit new investors by promising to invest funds in opportunities claimed to generate high returns with little or no risk. In many Ponzi schemes, the fraudsters focus on attracting new money to make promised payments to earlier-stage investors and to use for personal expenses, instead of engaging in any legitimate investment activity.

Pyramid Schemes – the SEC defines a pyramid scheme as follows:

> In the classic "pyramid" scheme, participants attempt to make money solely by recruiting new participants into the program. The hallmark of these schemes is the promise of sky-high returns in a short period of time for doing nothing other than handing over your money and getting others to do the same. The fraudsters behind a pyramid scheme may go to great lengths to make the program look like a legitimate multi-level marketing program. But despite their claims to have legitimate products or services to sell, these fraudsters simply use money coming in from new recruits to pay off early stage investors. But eventually the pyramid will collapse. At some point the schemes get too big, the promoter cannot raise enough money from new investors to pay earlier investors, and many people lose their money.
>
> *Note: Pyramid schemes are not covered in this report.*

Certificates of Deposit (CD) – yet another legitimate instrument sometimes used by Ponzi schemers as cover for their frauds. American Heritage Dictionary defines CDs as follows:

> A certificate from a bank stating that the named party has a specified sum on deposit, usually for a given period of time at a fixed rate of interest.

Factoring – another legitimate business transaction sometimes used by investment fraudsters which involves the purchase of accounts receivables at a discount and making a profit by successfully collecting more than the discounted price.

High Yield Investment Program (HYIP) – Investopedia defines HYIPs in the following manner:

> A fraudulent investment scheme that purports to deliver extraordinarily high returns on investment. High-yield investment schemes often advertise yields of more than 100% per

year in order to lure in victims. In reality, these high-yield investment programs are Ponzi schemes, and the organizers aim to steal the money invested.

Note: HYIPs are typically a subset of Ponzi schemes

Pooled Investment Portfolios/Partnerships (PIPs) – a legitimate concept for the pooling of assets for investment purposes, sometimes used as a cover by Ponzi schemers to entice investors.

Prime Bank Notes – for a time, so-called Prime Bank Notes were an investment fraudster favorite. These phony instruments are described by the Federal Bureau of Investigation ("FBI") as follows:

> International fraud artists have invented an investment scheme that supposedly offers extremely high yields in a relatively short period of time. In this scheme, they claim to have access to "bank guarantees" that they can buy at a discount and sell at a premium. By reselling the "bank guarantees" several times, they claim to be able to produce exceptional returns on investment. To make their schemes more enticing, con artists often refer to the "guarantees" as being issued by the world's "prime banks," hence the term "prime bank guarantees." Other official sounding terms are also used, such as "prime bank notes" and "prime bank debentures."

Private Investment in Public Equity (PIPEs) – a legitimate concept sometimes used by Ponzi schemers to entice investors, defined by Investopedia as follows:

> A private investment firm's, mutual fund's or other qualified investor's purchase of stock in a company at a discount to the current market value per share for the purpose of raising capital. There are two main types of PIPEs - traditional and structured. A traditional PIPE is one in which stock, either common or preferred, is issued at a set price to raise capital for the issuer. A structured PIPE, on the other hand, issues convertible debt (common or preferred shares).

Promissory Notes – a legitimate instrument often used by Ponzi schemers as cover for their frauds. Investopedia defines these instruments as follows:

> A written, dated and signed two-party instrument containing an unconditional promise by the maker to pay a definite sum of money to a payee on demand or at a specified future date.

Viatical Settlements – The purchase of life insurance policies for a certain percentage of the policy's face value. This transaction typically involves terminally-ill policy holders for the purpose of obtaining cash prior to death. One of the largest Ponzi schemes in recent history (Joel Steinger/Mutual Benefits Corp), included in the report, used this concept as cover for his fraud.

* * * *

About Marquet International, Ltd.

Marquet International, Ltd. is a boutique investigative, litigation support and due diligence firm based in Boston, Massachusetts. Led by longtime industry expert Christopher T. Marquet, the firm is routinely engaged by corporations and their counsel to assist with internal investigations, corporate fraud and allegations of employee misconduct. Marquet International is also regularly retained to conduct thorough due diligence inquiries on key individuals in business entities and corporate transactions. Our interest in embezzlement cases was piqued after the launch of our *Fraud Talk* blog, wherein we regularly document active cases of employee misconduct and white collar fraud cases, including major embezzlements of more than $100,000. We hope this series of reports provides insight into this type of corporate fraud. If you have questions or comments, we welcome feedback at info@marquetinternational.com.

About the Author

Christopher T. Marquet started his career in the investigative, security consulting and litigation support industry in the summer of 1983 when he joined Kroll Associates after graduating from Dartmouth College. He spent nearly 19 years at Kroll in a variety of staff, consulting and executive positions, culminating as the head of Kroll's office in Boston. In 2002, he co-founded Citigate Global Intelligence and subsequently Marquet International, Ltd., at the beginning of 2006.

During his lengthy career, Mr. Marquet has been involved in thousands of private investigations, business intelligence and security consulting projects around the world. These matters have been diverse and include, but are not limited to, the following: due diligence; litigation support; intellectual property theft investigations; environmental disputes; fraud investigations; workplace violence; employee misconduct; hostile takeovers, proxy battles; competitive intelligence; corporate security; executive protection; crisis management; and insurance disputes.

Mr. Marquet has authored numerous articles and white papers, including the annual *Marquet Report on Embezzlement; Avoiding the Pitfalls of the FCPA, Combating the Higher Education Embezzlement Epidemic; Investigating Employee Misconduct*; *Resume Fraud: The Top 10 Lies*; *Small Businesses Face Greatest Risk for Fraud & Embezzlement; Green Energy Investment Scams: Do Your Due Diligence; Ethics in Investigations*; *Ponzi Schemers, Embezzlers and Fraudsters, Oh My!*; *Integrity Hotlines: Getting the Inside Word on Fraud, Waste & Abuse; Managing Global Security Concerns: Practical Considerations; Anticipating Workplace Violence Can Reduce the Threat; Do You Know Who You Are Hiring?; Post 9/11 & Enron Due Diligence Must Dig Deeper; and Executive Air Travel Security Guidelines.* Mr. Marquet also lectures regularly on many of these and other topics as well.

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