



Don't become a Ponzi victim

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Ponzi schemes and pyramid schemes are investment scams where naive individuals get tricked by false investors who promise them exceptionally tantalizing returns in exchange for their money. However, unlike a normal investment, this kind of schemes can offer constant profits just so long as the number of investors keeps increasing. Once that number dwindles, so does the money.

Ponzi vs Pyramid Scheme

In the case of Ponzi schemes, investors are lured in with promises of crazy returns. But when they actually gain their returns, they are paid from capital

derived from new investors because their money was never invested anywhere in the first place. On the other hand, in a pyramid scheme, people seeking to 'invest' are asked to recruit other investors who will, in turn, recruit other investors, and so on. From Ponzi schemes, fraudsters profit by either charging fees from investors or simply fleeing with the money. Pyramid schemes often appear to be legitimate businesses but here, the 'investors' are aware that they are gaining money by bringing in new investors into the scheme and hence, become a part of it as well.

The victims

More often than not, people who get duped into pyramid schemes are small-scale investors without basic knowledge of finance or investment. Sohrawardy Noor from PwC Bangladesh said, "Even in our stock market, very few investors go through the annual reports, industry reports or even the publicly available equity research reports. They instead rely more on the Facebook groups and posts with impossible deals without any logic."

Amidst the pandemic, a lot of small investors who have lost their jobs are relying on their savings. For valid reasons, they are worried about losing their investments' value and

getting into Ponzi schemes in desperate attempts.

How they lure you in

Illustrating how people are fooled, Sohrawardy shared what happened with some of his friends – "I remember when I was in class ten or so, some of my friends did not come to play one day. Later I knew that they are 'earning money online' and had registered as freelancers in a company called Dolancer. So you put in 100 dollars and then start earning by clicking advertisements and bringing more people for registrations. After 1 or 2 months, they sat to work and found that both the Dolancer site and the office were gone. They worked for months and couldn't even earn back their registration fees. Dolancer went away with crores, including my friends' savings."

In most cases, the deals from such scams are too good to be true. Rahma Mirza from EDGE Asset Management said, "Whether it's an e-commerce site with crazy deals or an investment opportunity, being part of a cautious group will always help to keep you grounded, no matter how tantalizing the offer is." In the context of the current pandemic, Sohrawardy Noor opined that policy interventions are a necessity to prevent such schemes during these volatile times.



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