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Ponzi Schemes and the Awareness of South Carolina Students to Financial Fraud

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Table of Contents:

Thesis Summary:

It is our belief that many college students are entering the workforce unprepared and unable to detect the unfortunate reality of financial fraud. Specifically, for the scope of this paper, we focus on Ponzi schemes, their history and warning signs, and how best to avoid them. To support our initial belief, we conducted a survey of 217 University of South Carolina Students, or approximately 1% of the undergraduate population. This survey included questions on basic financial literacy, securities and fixed income risks, average market returns, and specific Ponzi scheme topics. In addition to this data, we used already established research on the methodology and history of Ponzi schemes, as well as their growth over the years. We compare these schemes with past and current legislation, in order to attempt to pinpoint exactly why educated investors continue to fall victim.

Abstract:

Ponzi schemes have continued to grow since the 1920s when Charles Ponzi conducted the first successful Ponzi scheme. Since then, technology has advanced which can help fraudulent investors obtain money easier, but legislation has also improved in order to try to find these investors and stop them before they take large amounts of money from innocent individuals. Since Ponzi schemes have been around for almost 100 years now, there is a lot of research available to explain to investors what Ponzi schemes are and how to spot one before you invest in it. However, even though all of this research has been conducted, more and more people continue falling prey to these schemes. The purpose of this research is to investigate motives of Ponzi schemes, as well as how people become involved in them. Further, we conducted a survey of college students in order to understand how much knowledge people actually have about Ponzi schemes as they prepare to enter the point in their lives where they may begin to start investing their earnings. Financial literacy was the main topic of our survey, and we then used those results to draw conclusions as to precautions that people should take prior to distributing their hard earned money to an investment opportunity.

Introduction:

Beginning in 1920, the first Ponzi scheme was started by its namesake, Charles Ponzi. From there, they have become one of the most devastating and widespread forms of financial fraud. Even in the technological, "knowledge era," we live in, online Ponzi schemes see investments of approximately $6,000,000 each day (Moore et al.). The dictionary formally defines a Ponzi scheme as "a form of fraud in which belief in the success of a nonexistent enterprise is fostered by the payment of quick returns to the first investors from money invested by later investors." Furthermore, fraud is defined as "the use of dishonesty, deception, or false representation in order to gain a material advantage or to injure the interests of others" ("Fraud"). Ponzi schemes thrive on the ignorance of non-financial professionals, and so one might expect that information available on the internet would decrease these risks. On the contrary, however, Ponzi schemes have continued for almost 100 years after Charles Ponzi began, the most famous of which was run by Bernie Madoff and ended in 2008. In a story closer to the University of South Carolina, the scheme run by Al Parish affected hundreds in the Charleston area from 1986 to 2007. These crimes do not seem to stop or even decrease as the major criminals are caught, though. From 2008 to 2013, over 500 Ponzi schemes were discovered with total investments of over $50 billion (Maglich, "A Ponzi Pandemic…"). We seek to study how these schemes continue to run at such large victim rates, despite the increase of available information and education.

We conducted a survey regarding general financial literacy that received 217 responses from University of South Carolina students of all majors. The survey consisted of 10 questions, and the goal was to test general financial literacy among University students. The questions hit the specific topics of (1) knowledge of current financial markets and return rates, (2)

differentiating between stocks and bonds, and (3) recognizing the warning signs of fraud and Ponzi schemes.

Elements of a Ponzi Scheme:

Although fraud has remained prevalent in the financial sector, Ponzi schemes have a unique set of qualifications to make them successful. The African Business Magazine consolidated the elements of a Ponzi scheme into five main categories, or "buckets": the benefit, the setup, initial credibility, initial investors paid off, and communicated successes ("Who Was Charles Ponzi?").

"The benefit" is the initial draw into the scheme. It is usually the *guaranteed* proceeds of 20% or higher within a short period of time. "The setup" explains these unusually high return rates, usually in the form of an opportunity not known to the public. Frequently, those committing Ponzi schemes will speak in lofty or academic terms that they know the average investor will not understand. The most successful runners of the scheme will not just use faux-academic language, but will actually use the verbiage of real investors. This is to give the air of intelligence but as we will see, there are some telltale signs that an investor is not truly as credible as they would like you to believe. "Initial credibility" involves the scammer's credibility and trustworthiness. Many popular Ponzi scheme perpetrators have been well known in their communities and industries. Bernie Madoff, for example worked with many large charities and was known for his business acumen. The technology he invented to trade penny stocks was instrumental in the formation of the NASDAQ stock market, so much so that they invited him to sit as the chairman for the NASDAQ in the early 1990s (DeLegge, "Madoff vs. Ponzi…"). Al Parish was not a financial protegee like Madoff, but he pulled his credibility from being a beloved community member. Both of these men used the credibility portion of the Ponzi scheme setup to swindle thousands and thousands of investors out of their money. "Initial investors paid off" involves the most critical part of a Ponzi scheme to its success. In order to create the

appearance of financial success, scheme perpetrators use new investment money to pay out returns on initial investments, all while skimming the remainder off the top. Ponzi schemes can only operate as they gather more investors, so it is extremely difficult to maintain. If original investors are not paid off, though, then the scheme will not gain popularity. Finally, “communicated successes” involves the investors talking about the trustworthiness of the investment to others. This further provides credibility to the scheme (“Who Was Charles Ponzi?”). While small-scale schemes go on all over the world, the three criminals that this paper will focus on are Charles Ponzi, Bernie Madoff, and Al Parish.

Charles Ponzi:

Charles Ponzi came to the United States from Italy in 1903, and then proceeded to move further up to Canada in 1908. After a series of arrests for forgery and smuggling of illegal aliens across borders, he ended up in Boston working as a busboy. In 1919, he discovered that International Reply Coupons could be purchased in a one country and resold in another for a net gain ("Who Was Charles Ponzi?"). However, as Marc Artzrouni points out in his study of Ponzi schemes, "Trading in these coupons was not realistic, but that did not prevent Ponzi from issuing bonds which offered a 100% profit if held for 90 days (0.25 years)" ("Mathematics of a Ponzi Scheme"). With what he thought was a foolproof plan, he began the Securities Exchange Company in late 1919 (not to be confused with the Securities Exchange Commission), offering the previously mentioned 100% return bonds. Investors lined up at his door to be a part of this too-good-to-be-true opportunity, and less than a year later he had gathered over fifteen million dollars from thousands of investors. Translating his profit into current rates reveals that in the short eight months he ran his scheme, he made the equivalent of $154 million. He lived lavishly during this time and purchased luxuries like gold-handled canes, expensive suits, and a twenty-room Boston mansion (Powell, 84).

His scheme collapsed in July of 1920 due to the unsustainable return rates he was promising. He was in and out of jail for the next ten years, continuing to run scams during his time out of prison. One of which included selling underwater swamp land to investors as land plots (Powell, 1999). He finally was deported from the United States and spent some time working for Benito Mussolini. He continued his scams there, and eventually fled to Brazil where he died a poor airline worker in 1949. The victims of his United States scheme were involved in a seven year litigation battle for their money, and still only received thirty-seven cents on each

dollar invested (Artzrouni, “Mathematics of a Ponzi Scheme”). Compared to most victims of Ponzi schemes, though, this was still a pretty decent return.

Bernie Madoff:

Contrary to popular belief, many perpetrators of financial fraud begin as successful business people. Bernie Madoff, for example was known in the "1990s on Wall Street as one of the key figures reshaping the American stock market through automation and computerization" (Henriques, "Examining Bernie Madoff..."). He began his company, Bernard L. Madoff Investment Securities, LLC, in 1960 at the young age of only 22. Sometime over the next 48 years, it ran one of the biggest financial scams in recorded history. Investigators never came to a conclusion over the exact date, but they estimate sometime around the early 1990s. Madoff used his charm, business savvy, and intelligence to defraud of around $65 billion. Despite multiple whistleblowers and investigations by the Securities Exchange Commission over the years, Madoff's scheme was not discovered until the financial downturn of 2008. Madoff continued to be extremely confident in his ability to fool investors, though, even after his plan collapsed. "An interview conducted after Bernard Madoff's imprisonment reported that Madoff believed that without the economic downturn his Ponzi scheme could have continued to operate for years (Williams, "A Timeline and Fraud Triangle...").

This seemingly endless confidence actually became one of the main selling points of his scheme. He merged the "setup" and "initial credibility" phases of the scheme and convinced everyone that they deserved steady, large returns, and that he was the man to give it to them. John Wasick from Forbes writes that, "[Madoff] not only convinced people that he could consistently beat the market, he suckered them by telling them they were exceptionally smart for believing his lies" ("Inside the Mind of Madoff").

Madoff was smarter than Charles Ponzi in the sense that he did not guarantee elaborate returns to the general public. He took only high-end investors, and promised them a moderate,

but consistent, 10%-11% per year (Applebaum et al.). The simplicity made him believable, even though he would tell current investors that the fund was closed yet kept accepting investments.

After his massive fraud of $65 billion was discovered (the next largest Ponzi scheme was a comparatively modest $614 million in 1996), the SEC knew that new legislation needed to be created to stop this from ever happening again. The outcry for change was met for swift legislation. “The pressure to act quickly, however, has resulted in proposed changes that are tailored to the specific characteristics of the Madoff fraud, and there does not appear to have been a comprehensive evaluation of the existing regulatory system” (Dimmock & Gerkin, “Finding Bernie Madoff…”). These gaps and more current legislation will be discussed in our “Legislation” section below.

Al Parish:

Al Parish studied mathematics and economics at the College of Charleston before receiving his doctorate in economics from the University of North Carolina at Chapel Hill. He created Parish Economics LLC when he started investing on behalf of others in 1986 (Kropf & Stock, “Economist accused of fraud”). According to statements provided to the SEC on December 31, 2006, Parish used four asset pools: hedged income, containing $19.8 million; stocks, containing $12.6 million; futures, containing $50.5 million; and hard assets, containing $51.3 million ("Parish's 'pools'"). Throughout its lifespan, Parish Economics LLC invested funds for over 650 people. Ulanji LLC is a company partially owned by Parish that contained statements of Parish Economics LLC on its servers. In these statements, the company is shown to have $523 million in its pools, much higher than the $134 million listed in the report to the SEC (Stock, “Ulanji...”). The statements compiled by Ulanji were the entirety of the statements sent to investors with how much their indivudual accounts were supposedly worth.

Along with running Parish Economics LLC, Al Parish taught at Charleston Southern University and gave speeches for the Charleston Metro Area Chamber of Commerce. He was well known in the community for his flamboyant suits and had a friendly and eccentric personality and commonly did economic segments on the local news channels including forecasting and reporting on current events. Al Parish did not call or hunt down new investors but instead people would inquire about his investment funds and would then allow them to invest. The majority of people that invested heard about the opportunity through friends and family, while the rest found themselves meeting Parish and discovering that he ran an investment firm that yielded fairly high, steady returns (Menchaca, “Investment-Cautious…”).

In an interview, Al Parish claimed that he used a mathematical formula to trade stocks and futures until around 2001, when it was not as profitable. At that point he stated that he moved the money into hard assets, private equity, and private companies to try to earn higher returns. Parish usually ended up paying large markups on the actual cost of the assets and they were not worth anywhere near what he expected them to be ("Al Parish Discusses the Collapse…"). This decision is what launched his Ponzi scheme.

Investors would direct Parish to invest their funds in something like bonds and instead the money was used to buy Swiss watches or other items believed to be worth much more than Parish was paying for them. The idea was that he could hold onto the items for a short time before selling them for a profit. Instead of recording the accounts at the value the items were worth, Parish recorded the amount he believed each piece could fetch upon resale. Year over year he posted around 32% returns on the investment statements sent to clients. These returns kept the investors interested and many got greedy and did not question how the returns were so high. Even those that were skeptical did not ask him where he was investing the money that it was earning as much as it was in returns (Stock, "It was easy…").

In late 2006, Charleston Southern University, which had invested over eight million dollars with Parish Economics LLC, requested $1.5 million from Parish. They only received a portion of this amount back over the course of a few months. In February of 2007, the SEC was examining records of Battery Wealth Management, an investment house that Parish had used to route roughly 10% of the investments through, during a routine audit and saw that some of the firm's clients were invested in four asset pools managed by Parish Economics LLC (Kropf, "Parish's Partner Draws Criticism"). A balance sheet provided to the SEC showed the four asset pools worth more than $134 million. On March 21, 2007, Parish provided the SEC with a

brokerage account statement from TD Ameritrade that TD Ameritrade told investigators was falsified ("Parish Timeline").

After being contacted by authorities regarding his investment funds Parish claimed to have dissociative amnesia, caused by extreme stress or a traumatic experience. The SEC found very little money actually in the investment accounts that were supposed to have millions in them. For example, two accounts that were supposed to contain a combined $29 million only held less than $100,000. On April 5, 2007, the SEC filed a lawsuit against Al Parish, Parish Economics LLC, and Summerville Hard Assets (Kropf & Stock, "Economist accused of fraud"). Parish was not registered as a financial advisor with the SEC, even though anyone handling over $25 million of others' money is required to be. He was also not registered to handle securities with the state of South Carolina or with the National Association of Securities Dealers (Kropf & Stock, "Investors frantic…").

On paper, Parish's investment pools were stated to have over $523 million. The reality was that he had spent the vast amount of investors' money on items like sketches by Pablo Picaso, animated film cels from Walt Disney, Swiss watches, rare coins, jewelry, and an ivory chess set (Menchaca, "Fine Art?..."). He claimed these were the hard assets that would be sold for a profit. Parish stated during an interview that the fraud he believes he committed was taking money from an investor who wanted it to be placed in one pool, such as bonds, and he would put it into the hard assets and report that it was in the bonds pool. Parish admitted he created the inflated investment statements sent to investors where the amounts were much lower than indicated. The values he sent out were ones he believed the assets or private company shares would eventually be worth, not their current value ("Al Parish Discusses the Collapse…").

Parish holds to the claim that it was all just bad investing and fraudulent reporting, but the lavish lifestyle he was living on his minimal salary reported with the IRS annually says otherwise.

In January of 2007 Parish wrote in a column for The Post and Courier, “Any investor needs to answer three questions before making an investment: Can I afford to make this investment? Can I afford not to make this investment? Can I sleep at night with my decision (Kropf & Stock, “Economist accused of fraud”)?" Al Parish defrauded over 500 people of $66 million, using his standing in the community, his job at a local university, and his platform with the Chamber of Commerce to lull investors into a sense of security. For his actions, Parish was sentenced to 24 years in prison.

How to Spot a Ponzi Scheme:

There are red flags that the Securities & Exchange Commission has published that people interested in investing should look into before placing their money in any type of investment. A promise of high investment returns, as well as being guaranteed a certain amount with little or no risk should cause concern since every investment will carry some form of risk. Although risk can be minimalized, it can never be fully eliminated. It is also questionable if an investment provides consistent returns over a long period of time, since market fluctuations will cause investment values to rise and fall. This is especially true with higher return investments, since those most frequently carry the highest volatility. In fact, the theory of market risk premium indicates that higher returns are provided as a form of compensation for higher risk ("Market Risk Premium"). Ponzi schemes normally involve unregistered investments, so checking for registration with either the SEC or state regulators can be a helpful safeguard against fraudulent investments. Investors should be extremely cautious about a lack of information provided about the company's management, products, services, or finances ("Ponzi Schemes").

Similarly, investment professionals are required by federal and state securities laws to be licensed or registered, and oftentimes the individual or the firm are unregistered when a Ponzi scheme is found. Concern should be raised if there are ever secretive and complex strategies involved in an investment, as well as any issues with paperwork prior to investing or difficulties receiving payments after your money is invested. Since Ponzi schemes only last as long as they continue receiving payments, often the schemer will encourage investors to roll over earnings rather than willingly letting the investor withdraw his money ("Ponzi Schemes"). Some of these factors might seem obvious, but oftentimes when potential investors are being pressured by advisors, they are prone to doubt themselves or get lost in the jargon of the financial sector.

As the SEC states, one of the red flags for investments is difficulty receiving payments, so we asked a question in our survey focused on an investor wanting to withdraw his money. We asked what the students' initial reaction should be if you approach your advisor about pulling money out of an investment and he suggests for you to keep it in, and tells you it would take a month for the money to clear through the system and transfer to your bank account. 73% of people chose the correct answer to question your advisor and ask him to see the documents involved in pulling your money out. If there is any skepticism while trying to get your money out of an investment, you should always ask questions and view documents and procedures to ensure that it is legitimate.

The last question in our survey provided three situations and it was asked which of the following would be considered a Ponzi scheme, to see if people would be able to notice a Ponzi scheme if faced with one. The first and third options provided instances of pyramid schemes, while only the second one, which states "You purchase $1,000 of James Company stock. Your financial advisor is secretly pocketing your money and using new investors to give you the illusion of returns on your investment" was a Ponzi scheme. Only 41% of surveyors chose that option, and over 12% of people chose the option "I'm not sure what a Ponzi scheme is."

How to Avoid A Ponzi Scheme- Importance of Financial Literacy

People often believe that students at a young age do not need to learn financial literacy because they are not working and do not have excess cash to be investing yet. This is a big myth, as there has been research done that points to many benefits that come along with youth learning financial literacy. If students begin taking classes focused on financial literacy in elementary schools up through high school, then by the time they enter college they will have a basic understanding and can continue taking classes that expand their financial knowledge to a new level before graduation. If the youth have a better financial understanding, it could help reduce the economic impact of recessions that hit the country, as more people will know how to recover from it and not feel as helpless. Also for students, having a grasp on financial literacy before entering the workforce can help reduce student loan default rates. Financial literacy could also come back to benefit the universities that offer these classes, as it could be an attractive feature that could be used to recruit students as well as improve graduation rates (Field, "Financial Literacy Students"). There are organizations, such as the National Financial Educators Council, that offer programs from as low as kindergarden up through college to educate youth about their finances, and they are trying to make financial literacy education mandatory in schools so that students can feel more prepared when they are looking for or get their first job.

Some of the questions we chose to ask focused on general financial literacy to see how much college kids knew about different types of investments. One of the basic questions asked was "What's the difference between a stock and bond?," and while 90% of the surveyors chose the correct response, 10% of students chose incorrectly. Another question asked was "Which of the following investments has the lowest amount of risk involved?" with the choices Large cap stocks, AA Corporate Bonds, and BBB Corporate Bonds, and only 62% of people chose the

correct answer of AA Corporate Bonds. The last financial literacy question we asked was "True or False- Buying a single company's stock usually provides a safer return than a stock mutual fund," as to which 17% of students responded incorrectly with True, while the other 83% chose the correct answer of False. Even though the majority of students that completed the survey got these questions right, there were still significant percentages of students who answered incorrectly. When you extrapolate this sample size to account for the total student body, suddenly the results come out to show that hundreds of students are about to go out in to the working world and have no idea about basic financial literacy concepts that everyone should know in order to properly understand where to put their money and how to properly invest their earnings in order to diversify.

Financial advisors have to make money somehow, and there are multiple different ways that they can go about doing that. Some of the common ways are a percentage of total net assets invested with them, a fixed processing fee to receive profits made by your investment, and/or a fixed yearly fee for maintaining investments. If they are charging a commission percentage on trades, that should raise a red flag to an investor to further look into the fee structure that is set up and see how legitimate it is. We asked surveyors which of those above choices should cause them to question the legitimacy of their financial advisor, and only 35% of students chose the correct answer of commission percentage. Knowledge about the pay structure individuals charge is extremely important, and should be discussed previous to ever agreeing to any terms.

Understanding of Economic Rates:

It is extremely important that people understand the world of investments before they decide that they want to invest money, regardless of what kind of investment they are looking into. The more risky an investment, the higher potential rate of return, but people need to understand what an acceptable rate of return is even for risky investments. The average annual return for the S&P 500 from 1928-2017 was 11.53% (Damodaran, "Annual Returns on Stock…"), and breaking it down between different size stocks we have large cap stock returns for the same time period at 9.5% and small cap at 12.2% (Nelson, "What's The Really Long-Term..."). When looking at a less risky investment, the 10 year T-Bond from 1928-2017 was only 5.15% (Damodaran, "Annual Returns on Stock…"). It is understood that these are just averages, so some years will produce much higher results and some years will see negative results, but that is also an important thing to look at because like the SEC explains, consistent year-over-year results, especially on high return/high risk investments is unlikely, and therefore should be further investigated.

Ponzi, Madoff, and Parish are all three big names in the world of Ponzi schemes, and yet when we look into their promised returns we see all different approaches, which is part of what makes identifying Ponzi schemes so tricky. Since Charles Ponzi was the first one to pull off this type of fraud, he was able to promise 50% return to investors in just a 90 day period even though annual interest rates for bank accounts at the time were only 5% ("Ponzi Schemes"). Ponzi created his own firm, the Securities Exchange Company, which he carried out his transactions through. By July 24, 1920, it was determined that the firm was bringing in $250,000 a day (Petsko, "Life Is a Ponzi Scheme"). The firm provided legitimacy and credibility to his actions,

and since nobody knew better at the time about fraudulent investors like Ponzi, nobody questioned how his returns were so high.

Bernie Madoff on the other hand promised investors a consistent 10-12% return. The consistency of his returns should have been concerning to investors and potential investors, but the thought of making such a high return blinded people from the reality of the fraud they were getting involved in.

Al Parish chose to take a different approach from both Ponzi and Madoff, and he did not promise a set return, but he continuously posted returns no lower than 30% and therefore this investment opportunity appeared extremely enticing to investors, and it bypassed the red flag of set returns so people were more likely to believe it to be legitimate.

One of the first questions that was asked on our survey was “Since 1950, what has been the average yearly return on the S&P 500 (adjusted for inflation)?” with the options of -7%, -2%, 0%, 2%, 7%, 12%, and 20%. Only 43% of surveyors chose the correct answer of 7%, while 27% people chose either 12% or 20%, all overshooting how much the S&P has returned on average. This is concerning that people think that the S&P is producing higher returns than it actually is, because then they are more likely to not realize how unrealistic the high returns that Ponzi schemers offer are. This also was shown in another survey question that asked if surveyors were approached with an investment opportunity that promised 28% return, what would their reaction be? 10% of people responded “Perfect! Sign me up!’ which again shows a lack of understanding when it comes to realistic returns on investments.

Legislation:

The Securities and Exchange Commission continues to struggle when it comes to establishing legislation that encompasses all Ponzi scheme incidents because of the diversity within each case. The SEC has an enforcement program that focuses a lot of their efforts on combating Ponzi schemes. It was created in 1972 in order to consolidate and further improve enforcement activities that were being handled by various operating divisions. The Division of Enforcement looks into violations of federal securities laws, which is the bucket that Ponzi schemes fall under ("About the Division"). Over the years, the SEC has been able to catch hundreds of Ponzi schemes; however, their efforts mostly focus on catching schemes that are going on rather than finding ways to prevent future ones. It is difficult to pick out certain factors that are present within almost all Ponzi schemes that the SEC could enforce legislation on that wouldn't also impact non-Ponzi scheme investments.

One of the most recent legislative acts that has been put into effect since Bernie Madoff's Ponzi scheme is the Ponzi Scheme Investor Protection Act of 2011, which provides amendments to the Securities Investor Protection Act of 1970. The Securities Investor Protection Act of 1970 marked a very important time for the protection of investors money, as it was the first legislation passed that gave the customer insurance against loss from his broker-dealer's financial mismanagement and insolvency (Sowards, 1271). The 2011 act sought to provide instruction to the trustee dealing with financial fraud but specifically to Ponzi schemes. It lays out how direct investors, those that manage the money themselves that is lost in the fraudulent scheme, of a Ponzi scheme should be approached to ensure proper payments. On top of that, it points out how to compensate indirect investors, people that invest through a retirement fund or similar account that someone else handles where the money is invested (Ackerman & Gary, "H.R.1987 - 112th Congress…"). This legislative act in 2011 was created with the hopes of further expanding on

the act from 1970 as legislators realized after Madoff's scheme that something else had to be done to protect people who find themselves in the middle of a fraudulent investment, otherwise it could lead to wary investors which could impact the financial stability of the economy as a whole.

Conclusion:

Ponzi schemes continue to pose a challenge in the financial world as the SEC continues to uncover fraudulent investors who are attempting to use investor's money for their own personal benefits. We chose to look at three different instances of Ponzi schemes in our research, and just through those examples it is apparent how different Ponzi schemes can be, which can lead to difficulties in spotting the fraud until it is too late and the money is gone. Even people that do not know much about finance recognize the name Bernie Madoff because of his infamous Ponzi scheme; however, what people do not realize is that in this same time frame that Madoff was stealing people's money, from 2008 to 2013, there were also over 500 other Ponzi schemes going on that in total collected over $50 billion of people's money. In these years, a Ponzi scheme was being busted ever four days (Maglich, "A Ponzi Pandemic…"). If people do not do the research, they will continue to live in a world where they are oblivious to how prevalent Ponzi schemes are, and how easy it is for their money to get in the hands of the wrong investor. Through this thesis, we hope to have opened up reader's eyes to the fact that Ponzi schemes are out there, they are real, and there are ways people can avoid them as long as they are cautious in their investments and do their research before they put their money in another person's hands.

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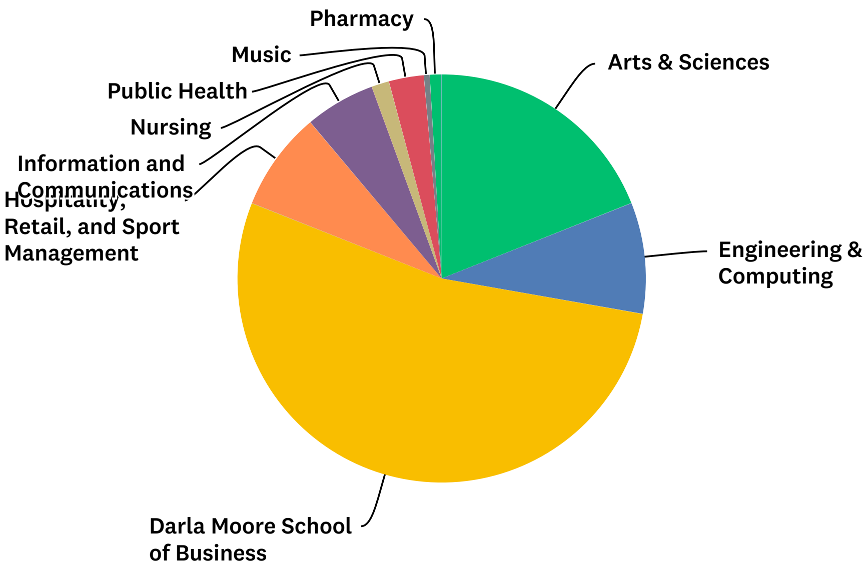
Appendix

Q1 Which college are you a part of?

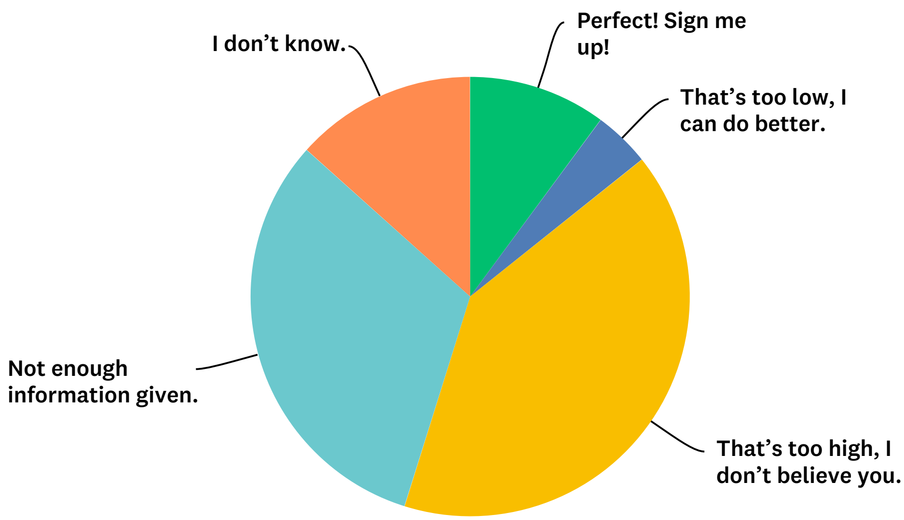
Answered: 216 Skipped: 1



ANSWER CHOICES	RESPONSES	
Arts & Sciences	18.98%	41
Engineering & Computing	8.80%	19
Darla Moore School of Business	53.24%	115
Education	0.00%	0
Hospitality, Retail, and Sport Management	7.87%	17
Information and Communications	5.56%	12
Law	0.00%	0
Nursing	1.39%	3
Public Health	2.78%	6
Music	0.46%	1
Pharmacy	0.93%	2
Social Work	0.00%	0
TOTAL		216

Q2 A financial advisor tells you he has found an amazing investment opportunity and can invest your money in the S&P 500 and guarantee you a 28% return on your investment. What should your reaction be?

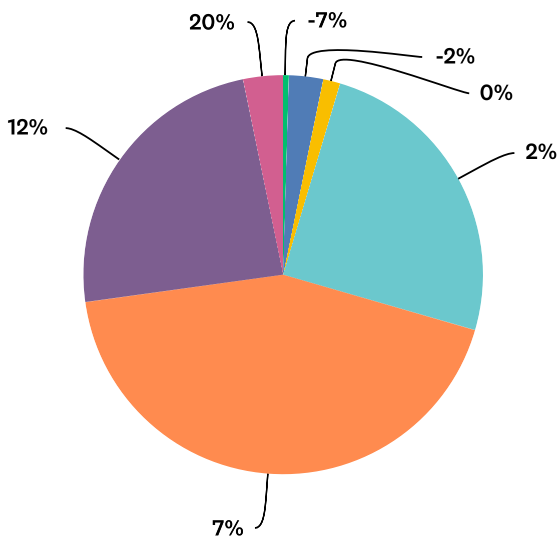
Answered: 217 Skipped: 0



ANSWER CHOICES	RESPONSES	
Perfect! Sign me up!	10.14%	22
That's too low, I can do better.	4.15%	9
That's too high, I don't believe you.	40.55%	88
Not enough information given.	31.80%	69
I don't know.	13.36%	29
TOTAL		217

Q3 Since 1950, what has been the average yearly return on the S&P 500 (adjusted for inflation)?

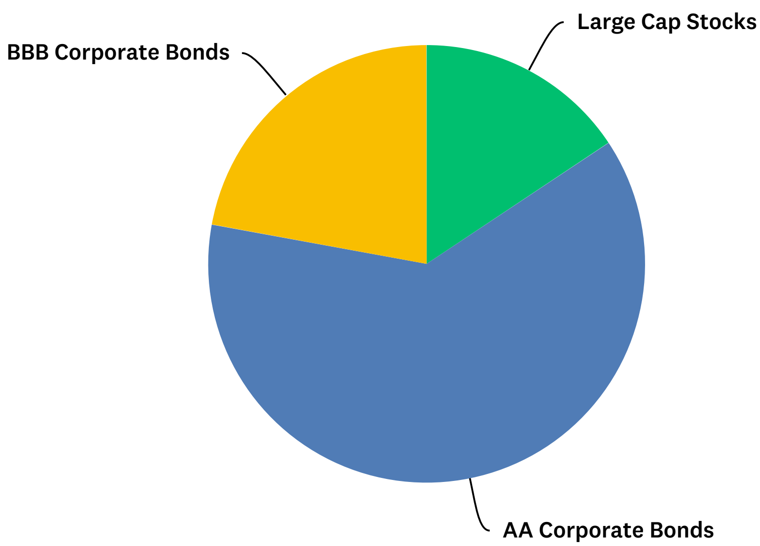
Answered: 217 Skipped: 0



ANSWER CHOICES	RESPONSES	
-7%	0.46%	1
-2%	2.76%	6
0%	1.38%	3
2%	24.88%	54
7%	43.32%	94
12%	23.96%	52
20%	3.23%	7
TOTAL		217

Q4 Which of the following investments has the lowest amount of risk involved: A. Large cap stocks B. AA Corporate Bonds C. BBB Corporate Bonds

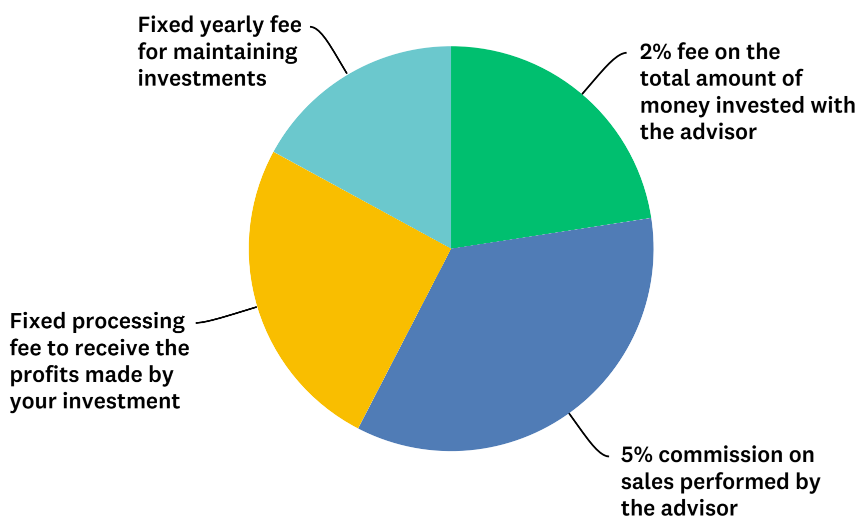
Answered: 217 Skipped: 0



ANSWER CHOICES	RESPONSES	
Large Cap Stocks	15.67%	34
AA Corporate Bonds	62.21%	135
BBB Corporate Bonds	22.12%	48
TOTAL		217

Q5 Which of the following fees should cause you to question the legitimacy of your financial advisor's investment choices?

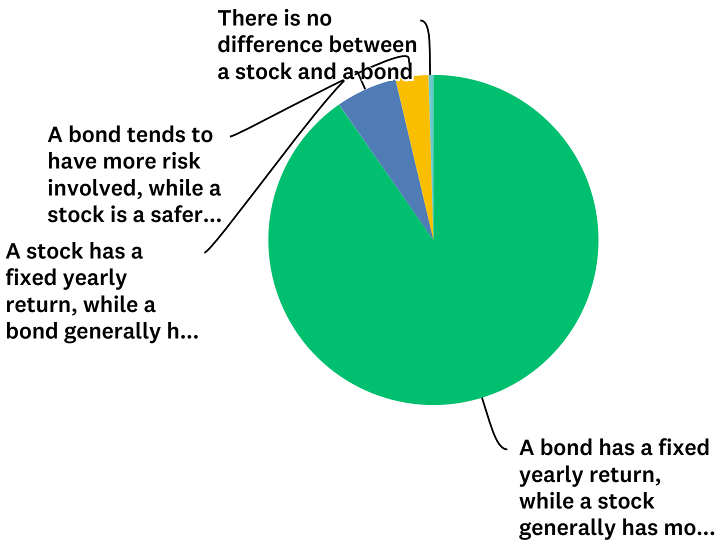
Answered: 217 Skipped: 0



ANSWER CHOICES	RESPONSES	
2% fee on the total amount of money invested with the advisor	22.58%	49
5% commission on sales performed by the advisor	35.02%	76
Fixed processing fee to receive the profits made by your investment	25.35%	55
Fixed yearly fee for maintaining investments	17.05%	37
TOTAL		217

Q6 What's the difference between a stock and a bond?

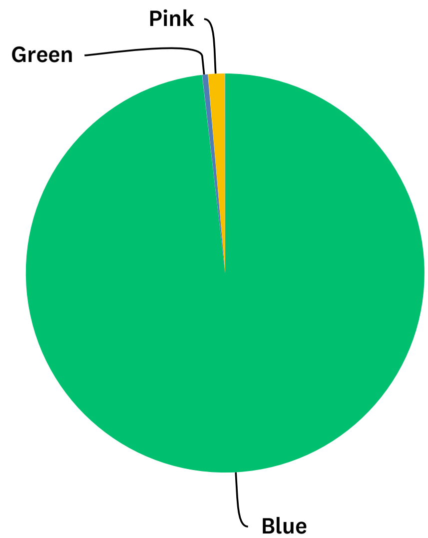
Answered: 217 Skipped: 0



ANSWER CHOICES	RESPONSES	
A bond has a fixed yearly return, while a stock generally has more sporadic returns	90.32%	196
A stock has a fixed yearly return, while a bond generally has more sporadic returns	5.99%	13
A bond tends to have more risk involved, while a stock is a safer investment	3.23%	7
There is no difference between a stock and a bond	0.46%	1
TOTAL		217

Q7 What color is the sky?

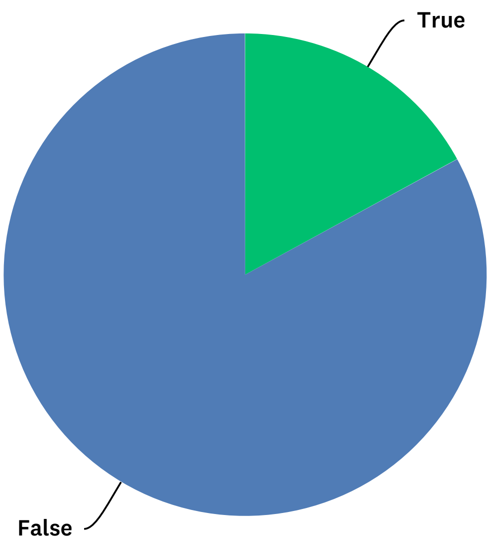
Answered: 217 Skipped: 0



ANSWER CHOICES	RESPONSES	
Blue	98.16%	213
Green	0.46%	1
Pink	1.38%	3
Purple	0.00%	0
TOTAL		217

Q8 Buying a single company's stock usually provides a safer return than a stock mutual fund.

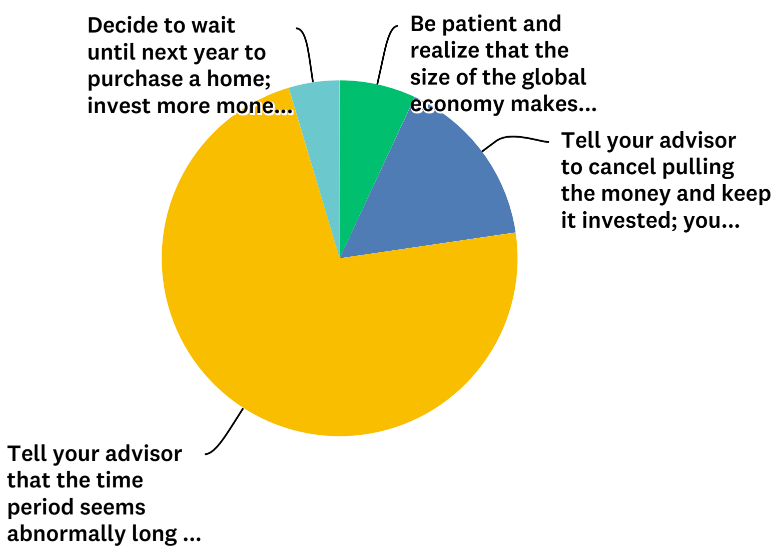
Answered: 217 Skipped: 0



ANSWER CHOICES	RESPONSES	
True	17.05%	37
False	82.95%	180
TOTAL		217

Q9 You decide you want to buy a house. You approach your financial advisor hoping to pull out your investment money to use as a down payment. Your advisor suggests that the best way to continue earning money is by leaving it in the account. He then tells you that even if you pull out of your investment, it takes one (1) month for the money to clear through the system, and then a few more weeks to transfer it to your bank account. What should your initial reaction be?

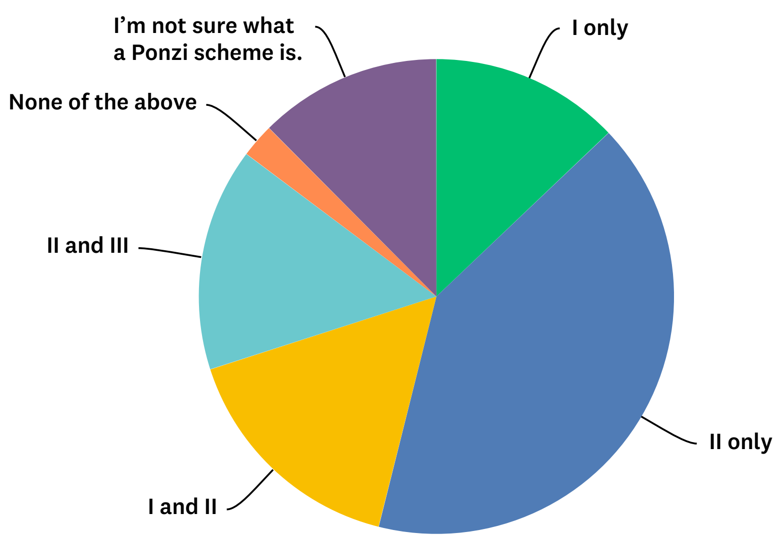
Answered: 216 Skipped: 1



ANSWER CHOICES	RESPONSES	
Be patient and realize that the size of the global economy makes everything move slower.	6.94%	15
Tell your advisor to cancel pulling the money and keep it invested; you'll speak to the bank about a loan or other financing options instead.	15.74%	34
Tell your advisor that the time period seems abnormally long and you would like to see the documents involved in pulling your money out.	72.69%	157
Decide to wait until next year to purchase a home; invest more money to be able to afford a larger home with the returns.	4.63%	10
TOTAL		216

Q10 Which of the following would be considered a Ponzi scheme?I. You purchase HerbCo herbal remedies to sell. The company gives you $50 per person you recruit to also sell HerbCo materials. You must initially pay for all materials with your own money, but you get to keep any profits made from sales.II. You purchase $1,000 of James Company stock. Your financial advisor is secretly pocketing your money and using new investors to give you the illusion of returns on your investment.III. You purchase a new phone, and the salesperson tells you that you can get a rebate for $200 by filling out a survey; however, when the rebate information arrives, it says that you must purchase a new cellular plan to qualify.

Answered: 217 Skipped: 0



ANSWER CHOICES	RESPONSES	
I only	12.90%	28
II only	41.01%	89
I and II	16.13%	35
II and III	15.21%	33
None of the above	2.30%	5
I'm not sure what a Ponzi scheme is.	12.44%	27
TOTAL		217