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To:

William E. Kovacic, Chairman
Federal Trade Commission
600 Pennsylvania Avenue, NW
Washington, DC 20580

Christopher Cox, Chairman
Securities & Exchange Comm.
100 F Street, NE
Washington, DC 20549

December 13, 2008

Att: Mr. Kovacic and Mr. Cox,

Our organization, Pyramid Scheme Alert, respectfully urges you to see the Ponzi scandal involving former Nasdaq chairman, Bernard Madoff, as a compelling signal for your respective agencies to correct previous neglect and to begin vigorous regulation of pyramid and Ponzi schemes in the securities and home business markets.

These frauds are plaguing consumers and investors at unprecedented levels. The spread of these devastating scams has escalated in recent years as regulation from your agencies markedly declined. Investor and consumer harm can only worsen as the Recession deepens and drives more people into financial desperation and toward income-producing schemes.

- The illegal pyramid scheme is now ubiquitous on the internet, camouflaged as “matrix selling” and “cash gifting.” These naked pyramids lure millions of Americans by boldly asserting their legality and citing lack of government action as evidence of their legitimacy. In just one case (12DailyPro.com) of a widespread type of internet-based pyramid scheme, called “Autosurfing”, the promoter raked in \$500 million in a few months.
- The “direct” selling industry has transformed into “pyramid” selling in which consumers/investors are deceptively induced to purchase (not sell) several thousand dollars worth of goods a year and then recruit other consumer/investors to do the same in an endless chain reward plan. Little or no goods are retailed and 40-60% of the inflated price of the goods is transferred directly to the pyramid promoters at the top.
- Eight “direct selling” companies that operate as endless chain recruitment schemes are now listed on major stock exchanges or on the over-the counter markets. The aggregate capitalization of these eight schemes is approximately \$5 billion. One of these, Your Travel Biz.com, is currently prosecuted by the California Attorney General who called it “a gigantic pyramid scheme.” The other publicly trade companies operate with impunity.

Pyramid Scheme Alert's Request for Action on Pyramid and Ponzi Schemes 12/15/08

- The publicly traded schemes are supported by a clique of analysts who hype the stocks and obscure the nature of the business and the losses they inflict on consumers. Their untenable business models continue only by gaining the investments of a churning base of “salespeople” who are in fact new investors and the source of the revenue paid to earlier investors. 99% of the investor/salespeople (last ones in each year) ultimately lose money and 60-80% of them quit the schemes within a year after losing money. Overall, the securities market has little knowledge or understanding of the true nature of the schemes.

Regulation of pyramid schemes and Ponzis requires vigilant oversight and prosecutorial will. The basic fraud of a pyramid or Ponzi can be revealed only upon close examination of operations. Outwardly they may appear normal and, until collapse, they seldom produce large-scale complaints or controversy. The pyramid selling schemes operate in a state of *continuous* collapse as most investors quit the scheme each year, but the schemes are able to continue by ongoing deceptive recruitment of new investors.

Reliance upon complaints or blatant financial irregularities as cause for government action leaves the public exposed and allows the schemes to operate unfettered. Normal market mechanisms such as word of mouth warnings from consumers that were harmed or obvious indicators such as bankruptcies or police records of promoters do not apply in the white collar and well disguised world of pyramids. Until his first indictment, the infamous Charles Ponzi never missed a payment to investors in his namesake fraud of the 1920's and, therefore, did not generate complaints.

Madoff's respected stature as former chair of NASDAQ is typical in the world of pyramids and Ponzis where the promoters are viewed as upright business people who claim religious faith and who engage in philanthropy. Many are prominent in churches or the chambers of commerce.

Waiting for complaints or other obvious signs of fraud recently resulted in a great tragedy in the US and Canada. More than 1,000 family farms were lured into a pigeon-breeding Ponzi scheme. The promoter paid investors regularly for seven years, relying purely on new investors for his revenue, as the scam spread widely across the country and into the USA.

When the scam collapsed in June of this year, the farmers were ruined with many facing foreclosure on their family farms. Reputable banks had made loans to the farmers to participate in the scam. Though several state Attorneys General in the US banned the scheme in their respective states or warned consumers, no regulatory agency in the USA or Canada ever brought charges against the promoter.

Please take that tragedy and the scandal involving one of America's pre-eminent money managers, Bernard Madoff, as signals for a new policy at your agencies that recognizes the epidemic of fraud and takes appropriate action to combat it.

Thank you for your consideration,

Sincerely,

Robert L. FitzPatrick, Pres.
PYRAMID SCHEME ALERT