COMBATTING
PYRAMID SCHEMES
and
MULTI-LEVEL MARKETING

Presentation to the
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by
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Emails from Sri Lanka about an amazing new business called “GoldQuest”

INTRODUCING A BUSINESS OPPORTUNITY

& time

To Achieve Financial & Freedom
GoldQuest Proposition:
Invest $400, then get paid $400 for each group of 10 new investors recruited. Each investor can do the same in an “Endless Chain” of Investors.

As soon as you have referred two people and those two people have referred two people this multiplies till you have five on your left and five on your right side.
THE PROBLEM WITH THE GOLD QUEST PROPOSITION

▲ If continued, it would saturate the earth. The 33rd level of each person recruiting just two others, requires 8 billion new people!

▲ By design the great proportion of investors must ALWAYS be at the bottom - where no profit can be made. If 10 new people are required then always at least 90% are unpaid.

▲ To enroll participants, the scheme must deliberately and massively deceive

▲ It cannot deliver value to the vast majority of investors

▲ It is not an exchange of value, but an income transfer, and therefore not a “business.”
Endless chain schemes have almost mystical power over people. They arouse hope, passion and confusion.

They promise “unlimited” income, an almost divine power.

Promoters can take on god-like authority and power, since they have hold the reigns to this mystical power.

They resemble market bubbles, random lotteries and speculative odds, all of which are proliferating in marketing economies today - therefore appearing “normal.”
They promise “passive income”, derived from other people’s investments or labor and therefore mimic legitimate capitalism.

They appear feasible when seen in the short term since few people understand the math.

They can demonstrate their power and give the appearance of feasibility by delivering on their promises of great wealth to some people.

Even if public realizes the inherent fraud, they are seduced to join anyway, in the hopes that only others will suffer.
Robert L. FitzPatrick

- Founder, president and a director of *Pyramid Scheme Alert.*
- Expert witness and consultant in numerous federal and state court cases involving pyramid schemes and multi-level marketing.
- Retained by US Dept. of Justice and Attorney General Offices of the states of Kansas, Tennessee and North Dakota
- 20 years of professional work in the distribution field, examining distributor channels and business models.
- Analyzes pyramid scheme structures, pay plans, financial statements, retail sales, deceptive marketing, training and recruitment tactics.
- Examines why so many people worldwide join pyramid schemes and how they affect economies, personal relationships and communities.
- Featured on *NBC Nightly News with Tom Brokaw, ABC World News with Peter Jennings and NBC Today.* Interviewed by correspondent Mike Wallace on the May 9, 1999 CBS News show, *60 Minutes,* in an exposé of a multi-level marketing company.
• The first international organization to expose, study and prevent illegal pyramid schemes.

• A consumer organization to battle the Millennium's fastest growing fraud.

http://www.PyramidSchemeAlert.org

PSA Helps Consumers around the World to:

• Recognize illegal pyramid schemes when they are in one, recruited to join one, or have a friend or family member in one.

• Get access to the right information, people and government agencies for exposing and combating pyramid frauds.

• Provide a voice for people around the world to speak out for proper laws, regulation, and protection from pyramid scheme perpetrators.
Pyramid Schemes: Personal and Financial Tsunamis

- The harm spreads rapidly, sweeping across cities and nations, gaining momentum.

- **Leaving long term suffering in the wake.** In pyramid schemes people can be induced to spend all their earnings, lose or quit their existing jobs, neglect their families and other relationships and take on great debt in the pursuit of the elusive "dream" they have been deceptively sold.

- **Causing social and personal damage in addition to financial destruction.** The deception of the pyramid scheme is especially insidious because it includes inducing the participants to spread the deception among close friends, family or associates.

- **Can trigger further disruptions.** Pyramid schemes have contributed to violence, bankruptcies, divorces, loss of credit, ruin of relationships, and even suicides.

- **Little understood, seldom studied, and known by many different names:** Fraud, scam, confidence scheme, Ponzi scheme, mathematical trick, con, swindle, flimflam, deceptive business practice; distributor fraud, endless chain, social and political blight..
The Pyramid Scheme: A Global Phenomenon

Consumers in more than 50 Countries have directly sought help from Pyramid Scheme Alert’s English language website.

AUSTRALIA, BAHAMAS, BELGIUM, BRAZIL, CANADA, CHINA, COLOMBIA, CZECH REPUBLIC, DENMARK, ESTONIA, FINLAND, FRANCE, GERMANY, HONG KONG, ICELAND, INDIA, INDONESIA, IRELAND, ISRAEL, ITALY, JAPAN, MALAYSIA, MALDIVES, NEW ZEALAND, NORWAY, PHILLIPINES, POLAND, PORTUGAL, PUERTO RICO, SERBIA AND MONTENEGRO, SINGAPORE, SOUTH AFRICA, SOUTH KOREA, SRI LANKA, SWEDEN, SWITZERLAND, THE NETHERLANDS, UK, UKRAINE,
Most Frequent Consumer Question all over the world: “It looks and sounds just like a recruitment scheme but the promoters say it is legal and it has never been prosecuted. Is it legal?”

PSA Answer: Whether the promoters say it’s legal or not, and whether or not your government ever prosecutes it— you’ll still lose your money!

• By its design, a pyramid scheme always causes financial harm to nearly all who participate. 90-99.9% of all investors will lose.

• To accomplish this result, a pyramid scheme must deceive the investors.

• Therefore, a pyramid scheme is, by definition, a harmful fraud.

• But, harmful frauds can be disguised to fool regulators.

• Harmful frauds can convince victims that their losses are their “own fault.” So, few victims will make complaints to the police or regulators.

• And, fraudsters can spend millions for political influence and legal maneuvers to escape investigation or prosecution.
A virus that thrives in market economies in which personal wealth building becomes the compelling ideology and purpose of life. Spread one-by-one to huge numbers of people.

The virus was invented and cultivated in the largest market economy of all -- the United States of America.

Has imbedded itself in the economy, camouflaged as a real business, and has learned how to protect itself from regulators.

Has amassed enormous financial wealth for political influence, legal defense, expansion and promotions.

Has become a significant propagandist against government regulation and a champion of ultra-individualism.

Can incite violence and can be virulently anti-government.
Understanding the Pyramid Scheme

A New Form of Fraud in Global Market Economies

▲ Disguised as legitimate business, the public cannot tell the difference between a pyramid scheme and a legitimate business.

▲ Takes on many superficial characteristics of a “sales” business, e.g. products, marketing, employees, contracts, rebates, commissions.

▲ Engages in highly sophisticated deception, manipulations and propaganda

▲ Has cult-like power over followers

▲ Can lead people to deceive and misuse their own friends and family

▲ Is capable of fomenting mass mania and delusion.
Pyramid Scheme Status Report
A New Form of Fraud in Global Market Economies

▲ Legitimate products or services are an essential aspect of the modern pyramid scheme
▲ Today’s Pyramid Scheme Fraud exists in the marketing model, not in the product.
▲ Uses ill-gotten funds to gain political protection
▲ Spreads money to enough people to give the appearance of financial feasibility and to build a base of supporters
▲ Positions itself as a vehicle and a force for liberty, freedom, independence, entrepreneurship, free markets, and the values of “faith.”
▲ A formidable foe of regulation and civil society, on par with drug trade and religious fanaticism.
Pyramid Scheme Status Report
A New Form of Fraud in Global Market Economies

▲ Tens of millions of people lose billions of dollars every year.
▲ Pyramid Schemes cause greater income disparity and poverty, yet overall they are increasing in number, spreading to more areas of the world and gaining legitimacy.
▲ Overwhelmingly, governments do not have adequate laws or they do not enforce their laws against pyramid scheme fraud.
▲ Lack of proper laws or enforcement of laws equates to government endorsement in the world of pyramid schemes.
Some governments have been aroused to action by pyramid schemes that collapse suddenly or by schemes that cause currency drains, civil unrest or violence (as in Albania and China).

But, more governments are weakening their laws and allowing more schemes to operate without interference.

Some countries and several states in the USA are officially legalizing schemes that had been illegal -- endless chain schemes in which there is no retail business, just recruitment of investors or “sales representatives”.
Working Definition of a Pyramid Scheme

Used by U. S. Federal Trade Commission

“Pyramid scheme” means a sales scheme, Ponzi scheme, chain marketing scheme, or other marketing plan or program in which participants pay money or valuable consideration to the company in return for which they receive: (1) the right to sell a product or service; and (2) the right to receive in return for recruiting other participants into the program rewards which are unrelated to sale of products or services to ultimate users. For the purposes of this definition, "sale of products or services to ultimate users" does not include sales to other participants or recruits in the multi-level marketing program or to participants’ own accounts.
Stripping the Disguise from Product-based Pyramid Schemes: Why "Retailing" Is So Important

• If the Sales Company is growing primarily by getting more distributors to purchase goods and these distributors are not reselling to consumers (people not enrolled as other distributors) then the company is only disguised as a distribution company. In fact, no “distribution” and no true “selling” are occurring, just recruiting and investing.

• The only feasible way to make money in that type of company is to enroll many others. Mathematically, this cannot continue, so the plan cannot deliver its promises. It is an “endless chain” scam. The trick is on the distributors who are induced to buy products and they must trick others into also buying goods (and trying to sell them to even more "distributors.")

• If commissions, bonuses or overrides are being paid to the upline, but little retailing is occurring, then these are actually recruitment commissions with the money laundered through the recruits’ purchases.
## Recruiting, not Retailing

### Pyramid Scheme

- Manufacturer
- **Upline/“Distributors”**
- **Downline/“Distributors”**
- **End-Users???”

### Legitimate Direct Selling

- Manufacturer
- Distributors
- **End-User/Customers**
Telltale Signs of a Disguised Pyramid Scheme:

▲ Advancement is based on “recruitment”

▲ Training/Promotions emphasize income based on a "downline”

▲ Rewards favor recruiting over retailing

▲ No evidence that a sizeable number of sales people earns a majority of their income from retailing

▲ Emphasis on unlimited authorizing of new sale reps defeats local retailing opportunity
Telltales Signs of a Disguised Pyramid Scheme:

▲ The business does not stand on its own as a viable enterprise:
   - Inadequate profit for retailing
   - High price of products
   - No real demand for the products on their own
   - High cost of selling outweighs potential profit

▲ The “real” business -- and in practice the only profitable business that is occurring -- is investor recruitment.
Despite the Obvious Signs...
How Does the “Disguise” Work and Why?

▲ MLMs are not required to report, monitor or disclose retail activity. The fiction of “direct selling” is maintained.

▲ MLMs can solicit investments and distributorships but are not required to inform the investors about historical failure rates, average losses, costs or income distribution. The fiction of “individual” failure is maintained.

▲ Government must therefore “prove” fraud, rather than the endless chain proving it is not a pyramid - effectively making enforcement impossible.

▲ Largest schemes are politically protected from investigation or prosecution, providing a legal umbrella for all types of pyramid schemes to flourish without prosecution. Immunity for some becomes impunity for most.
Pyramid Schemes Are Growing

▲ US government has all but stopped prosecuting pyramid sales schemes
▲ US Trade Representatives promote schemes and pressure other countries to accept them as “direct selling.”
▲ False distinction is growing that no pyramid exists if a “product” is sold to participants.
▲ Singapore law changed to allow “non-retailing” schemes.
▲ China lifts ban on multi-level marketing
▲ WTO is making acceptance of multi-level marketing a requirement for acceptance
▲ MLM Trade Association (DSA) is promoting new laws that legalize “non-retailing” schemes.
▲ Some US states have adopted the DSA Law, others have not.
▲ Bill introduced in US Congress to legalize endless chain schemes.

Next slide
Why Pyramid Schemes Are Growing

▲ Greed, Gullibility, and Desperation: The general public - uninformed and financially burdened - will tend to fall for such scams in market economies.

▲ Local Government Ineptitude: Some government and business leaders lack understanding of how pyramid schemes work, just as the general public does.

▲ Victim Silence and Shame: There is a lack of pressure inside the country to ban them or regulate them. Harm is hidden.

▲ Perpetrators and Promoters In Each Country: Those who stand to gain in each country exert strong internal pressure

▲ USA and WTO Pressure: There is powerful pressure from outside the countries to allow pyramid schemes as they are allowed to operate in the USA.
The Trend to Legalize Endless Chain Schemes by Exempting Product-based Schemes

Some Countries are yielding to pressure and allowing types of schemes they formerly outlawed.

Example: Singapore Law Changed in May, 2000

Original Law: “It shall be unlawful for any person to promote or participate in a multi-level marketing scheme or arrangement or a pyramid selling scheme or arrangement or to hold out that he is promoting or participating in such a scheme or arrangement.”

Change in Law: “The definition of "Pyramid selling scheme... shall be taken not to include any scheme... in which any benefit received by any promoter of, or participant in, the scheme accrues as a result of the sale... of a commodity to any other person.”
The Trend to Legalize Endless Chain Schemes by Exempting Product-based Schemes

Some States in USA adopt law written and promoted by the trade association of the pyramid selling companies.

**Example: Texas**

“Pyramid promotional scheme” means a plan or operation by which a person gives consideration for the opportunity to receive compensation that is derived primarily from a person’s introduction of other persons to participate in the plan or operation.

“The term (compensation) does not include payment based on sale of a product to a person, including a participant, who purchases the product for actual use or consumption.”
The Trend to Legalize Endless Chain Schemes by Exempting Product-based Schemes

Example: Texas

- Long, and full of loopholes and exclusions.
- Allows schemes in which there is virtually no retailing, just recruiting.
- Allows schemes to launder money through product purchases by investors.
- Absolves schemes from liability for having deceptively taken victims’ time and effort.
- Allows schemes to profit from selling victims bogus “success materials.”
- Redefines what a pyramid scheme is so that schemes that are illegal in many other states are legal in Texas.

• The Texas Statute is modeled on the bill written by the Direct Selling Association (DSA), the official lobbying arm of the multi-level marketing industry.
• The DSA is lobbying to pass its bill in all states and in Congress in the USA.
Combating Pyramid Schemes with Strong Anti-Pyramid Laws

Example: North Carolina Law

§ 14-291.2. Pyramid and chain schemes prohibited
(a) No person shall establish, operate, participate in, or otherwise promote any pyramid distribution plan, program, device or scheme whereby a participant pays a valuable consideration for the opportunity or chance to receive a fee or compensation upon the introduction of other participants into the program, whether or not such opportunity or chance is received in conjunction with the purchase of merchandise. A person who establishes or operates a pyramid distribution plan is guilty of a Class H felony. A person who participates in or otherwise promotes a pyramid distribution plan is deemed to participate in a lottery and is guilty of a Class 2 misdemeanor.

(b) "Pyramid distribution plan" means any program utilizing a pyramid or chain process by which a participant gives a valuable consideration for the opportunity to receive compensation or things of value in return for inducing other persons to become participants in the program; and
"Compensation" does not mean payment based on sales of goods or services to persons who are not participants in the scheme, and who are not purchasing in order to participate in the scheme.
Combating Pyramid Schemes with Anti-Pyramid Laws

Example: North Carolina Law

▲ Simple, straightforward, comprehensive

▲ Makes clear that pyramids that sell products are covered by the law <“whether or not such opportunity or chance is received in conjunction with the purchase of merchandise.”>

▲ Felony prosecution for perpetrators and misdemeanor for followers

▲ Makes clear that in product-based schemes, (multi-level marketing) retailing is the crucial factor for legitimacy. Scheme cannot just sell to its own distributors. There must be true retail end-users.
**History of Pyramid Schemes**

### Follies and Scams

#### Historical Bubbles:
(Mass Manias)
- Tulip Mania - Holland
- South Sea Island Speculation - England
- Mississippi Land Speculation - France
- Railroad Stock Bubbles, 19th Century - US/UK
- Stock Market, 1920’s - USA
- NASDAQ, 1990’s - USA

#### Ponzi’s:
(Single or Small Group of Perpetrator/Recruiters)
- Investment Scams
- Penny Stocks
- Pyramid Banking

#### Pyramid Schemes:
(Victims are also engaged in the Recruiting)
- Chain Letters
- Gifting Clubs
- Leadership Development
- Multi-level Marketing

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The most common pyramid scheme today is Product-Based (multi-level marketing).
The Modern Pyramid Scheme: An American Invention

• “Endless Chain” schemes were treated as “per se” illegal - inherent frauds in the USA, for many years.

• Multi-level Marketing (MLM), A new endless chain business, developed in the USA the 1970’s with the Amway Corporation as the earliest and largest company of this type. The US government quickly prosecuted it as an illegal pyramid scheme.

• Endless Chains Allowed: A 1979 ruling by the Federal Trade Commission that – under certain conditions – the “Amway” endless chain model (MLM) was not a pyramid scheme. The “certain condition” was the payments to recruiters must come from retail sales, not the investments of each new sales person.

• These conditions for legality -- retail based revenue -- were ignored and were not enforced.

• The modern pyramid sales industry was born. Hundreds of US-based companies, using the Amway model, were launched.
The Modern Pyramid Scheme (cont.): An American Export

• Nearly 7 million Americans are recruited into Amway over the next two decades “independent distributors

• As the US market became saturated, Amway and similar schemes spread to new territories in Asia, Europe, Latin America and elsewhere.

• Amway’s “legality” in the USA is the mainstay of the entire industry and its main legal defense throughout the world.

• Today, the basis of legality and legitimacy -- retail based revenue -- is rejected by the MLM schemes. Most governments, around the world, have not challenged them.

• The US government and the WTO now champion the MLM industry -- called “direct selling” -- in other countries. Pyramid schemes, based in the USA, are now aggressively exported.
Another US Export: Non-Product “Naked” Pyramid Schemes

- Paralleling the product-based schemes, non-product (gifting) pyramid schemes have also spread all across the America and worldwide.

- This type of scheme has now spread to Africa, UK, and other countries.

- These are cash-only scams, “naked” pyramid schemes. Names of these schemes change depending on the group and location.

- As the naked schemes spread, the camouflaged, product-type scheme is treated as “legal.”

The Airplane Game Pyramid Scheme

1st “pilot” received $12,000 from original 8 passengers

15 people composed each “airplane”

Co-pilots

Crew

Passengers

These first passengers each paid $1,500 to the Pilot.

Then a series of further splits occurred that divided the planes into halves and each half recruited eight people in order to divide again. Three splits were needed for each level of passengers to reach the pilot level.
Financial Outcome of the Non-Product, “Naked” and “Illegal” Schemes

• 7% get all the money.
• 93% lose all their investments.
• Odds of success are better than in the “legal” product-based schemes.
• Losses to victims in the “illegal” schemes are actually less than in the “legal” product-based ones.
• Number of people harmed and total dollars lost are far less than in the product-based schemes.

The Airplane Game
Pyramid Scheme

1st “pilot” received $12,000 from original 8 passengers

15 people composed each “airplane”

Co-pilots

Crew

Passengers

The first split then occurred
Introduction:
Financial Outcomes of Multi-Level Marketing Pyramids

▲ The loss rates of the recruitment-based schemes exceed 99% for all who join.

▲ The tricky and difficult-to-understand “pay plan” and the multi-tiers structure of MLMs are the mechanisms for transferring money from new recruits to those at the top.

▲ The actual financial outcome - the harm caused - is hidden by MLMs, making it costly and difficult to expose and prosecute them.

▲ Consumers who join MLMs are not told about the massive failure rates, concentration of payments to those at the top, lack of retail sales, or even costs of doing business.
Example: Nuskin

Financial Outcome of a “Legal” Multi-level Marketing Scheme

Notes on Nuskin’s Reported Data:

▲ Nuskin’s data only calculates the incomes of those who were “active” one month of 1998. The total of those who joined but dropped out during a year are excluded.

▲ More than half of all Nuskin distributors drop out within a year.

▲ By limiting the calculation, the average incomes of those at the bottom are significantly increased and the proportion of those at the top level is similarly decreased.

Despite this severely slanted method of accounting, the chart still reveals that virtually all of the distributors will lose money after taxes and expenses. Disclosing the earnings of all distributors would reveal much greater losses.
Nuskin’s Financial Outcome:
A Massive Transfer of Money from a Huge Group at the Bottom to the Very Few at the Top

<table>
<thead>
<tr>
<th>Level</th>
<th>No. in each Level per 10,000 Distributors</th>
<th>% of all Distributors in each Level/Group</th>
<th>Average Payment per Distributor in each Level</th>
<th>Total Payment per Level/ per 10,000 Distributors</th>
<th>% of Total Payments per Level/Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Blue Diamond</td>
<td>16</td>
<td>.16%</td>
<td>$480,403.97</td>
<td>$7,686,464</td>
<td>52.46%</td>
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<tr>
<td>Diamond</td>
<td>9</td>
<td>.09%</td>
<td>$154,581.68</td>
<td>$1,391,235</td>
<td>9.49%</td>
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<tr>
<td>Emerald</td>
<td>8</td>
<td>.08%</td>
<td>$53,422.40</td>
<td>$427,379</td>
<td>2.91%</td>
</tr>
<tr>
<td>Ruby</td>
<td>19</td>
<td>.19%</td>
<td>$27,070.91</td>
<td>$514,347</td>
<td>3.51%</td>
</tr>
<tr>
<td>Lapis</td>
<td>66</td>
<td>.66%</td>
<td>$12,408.99</td>
<td>$818,993</td>
<td>5.59%</td>
</tr>
<tr>
<td>Gold</td>
<td>111</td>
<td>1.11%</td>
<td>$6,611.44</td>
<td>$783,870</td>
<td>5.35%</td>
</tr>
<tr>
<td>Total per Group</td>
<td>229</td>
<td>2.29%</td>
<td></td>
<td>$11,622,288</td>
<td>79.31%</td>
</tr>
<tr>
<td>Executive</td>
<td>266</td>
<td>2.66%</td>
<td>$4,622.03</td>
<td>$1,229,460</td>
<td>8.39%</td>
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<tr>
<td>Qualifying Executive</td>
<td>46</td>
<td>.46%</td>
<td>$2,988.98</td>
<td>$137,493</td>
<td>0.94%</td>
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<td>Distributor</td>
<td>880</td>
<td>8.8%</td>
<td>$1,888.20</td>
<td>$1,661,616</td>
<td>11.36%</td>
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<tr>
<td>Distributors who did not receive commissions</td>
<td>8,578</td>
<td>85.78%</td>
<td></td>
<td>$0.00</td>
<td>0</td>
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<tr>
<td>Total per Group</td>
<td>9,770</td>
<td>97.7%</td>
<td></td>
<td></td>
<td>20.69%</td>
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<td>Totals</td>
<td>10,000</td>
<td>100%</td>
<td></td>
<td>$14,650,857</td>
<td>100.00%</td>
</tr>
</tbody>
</table>
Nuskin’s Financial Outcome:

A Massive Transfer of Money from a Huge Group at the Bottom to a Tiny Few at the Top “Not a Business Opportunity”

For each 10,000 NuSkin distributors:
▲ When expenses and product costs are factored, more than 99% of all NuSkin distributors lose money.
▲ If data for several continuous years were available, it would reveal a loss rate of all investors of much greater than 99%
▲ Just 16 individuals received 52% of total company payments.
▲ The top 2% of distributors received 80% of all company payments.
▲ The bottom 86% received no company payments at all.
▲ The bottom 98% of all distributors received just 21% of total payments.
Recruit Your Way to the Top:
An Endless Chain is Not a Business Opportunity

- The Royal Ambassador recruits 4 Royal Diamonds
- Each Royal Diamond recruits 3 Diamonds
- Each Diamond recruit 3 Platinums
- Etc., Etc.

1 ← Royal Ambassador
4 ← Royal Diamonds
1 2 ← Diamonds
3 6 ← Platinums
1 0 8 ← Golds
3 2 4 ← Silvers
9 7 2 ← Seniors

Thousands and thousands of “Directs” are recruited below the hierarchy.

To get to the top, the new Nikken recruit starting at the bottom – called a “Direct” – would have to recruit thousands below in a specific architecture - a mathematical impossibility for any but tiny few.
1. Make them think they are at the top, when they are actually at THE BOTTOM.

An “endless chain” is portrayed as an “opportunity” – covering up its mathematical limits and its design which places nearly all participants in the unprofitable “downline” positions at the bottom.

• Of the 21 in the chart above, including the one at the top, 20 of 21 or 95% are in losing spots. As each level recruits more below,

• *That proportion will never appreciably change.* The vast majority will always be at the bottom.
Seven Tricks of the Product-Based Pyramid Schemes

2. Call them “Distributors” but actually they are “Recruiter/Investors.”

In the Pyramid Scheme:

- The only feasible way to make a profit is by recruiting more distributors.
- Almost no “distributors” retail the products to a significant number of real consumers that are not also part of the scheme.
- The money from the “losers” goes directly to the “winners” at the top.
- The pay plan rewards recruiting far more than retailing.
- The pyramid structure places the vast majority of “distributors” always in losing positions at the bottom and it mathematically cannot continue.
Seven Tricks of the Product-based Pyramid Schemes

3. Confuse them with “exponential expansion.”

Exponential Expansion is deceptively presented as feasible for all participants.

These Key facts are obscured:
▲ Many “levels” are required before income accumulates.
▲ It is mathematically impossible for any but a few ever to make money under this system.
▲ The plan cannot continue to grow.
▲ 50-90% dropout rates are required.

Pop Quiz
See if you understand how “exponential expansion” works.

Question:
Which would you take:
One million dollars in cash right now,
or,
one penny now that doubles each day for just 30 days?
(see chart on next slide)
Lesson: You have to be at the top to make any money!

Exponential Expansion in MLM means that only a tiny few can ever be at the top, and in most areas those positions are already taken.

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<th>Days</th>
<th>Dollars</th>
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<tr>
<td>16</td>
<td>$327.68</td>
</tr>
<tr>
<td>17</td>
<td>$655.36</td>
</tr>
<tr>
<td>18</td>
<td>$1310.72</td>
</tr>
<tr>
<td>19</td>
<td>$2621.44</td>
</tr>
<tr>
<td>20</td>
<td>$5242.88</td>
</tr>
<tr>
<td>21</td>
<td>$10485.76</td>
</tr>
<tr>
<td>22</td>
<td>$20971.52</td>
</tr>
<tr>
<td>23</td>
<td>$41943.04</td>
</tr>
<tr>
<td>24</td>
<td>$8386.08</td>
</tr>
<tr>
<td>25</td>
<td>$16777.16</td>
</tr>
<tr>
<td>26</td>
<td>$33554.32</td>
</tr>
<tr>
<td>27</td>
<td>$67108.64</td>
</tr>
<tr>
<td>28</td>
<td>$1342177.28</td>
</tr>
<tr>
<td>29</td>
<td>$2684354.56</td>
</tr>
<tr>
<td>30</td>
<td>$5368709.12</td>
</tr>
</tbody>
</table>

Notice that it takes 25 days to get to just $100,000. Then income zooms up to $5 million in the last 5 days!
Seven Tricks of Product-Based Pyramid Schemes

4. “Top Load” the pay plan so the last ones in continuously pay the earlier ones at the top.

<table>
<thead>
<tr>
<th>Levels</th>
<th>Income</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diamond</td>
<td>$6</td>
<td>Based on 6% “Leadership Bonus” on 5-6 level’s down to Silver.</td>
</tr>
<tr>
<td>Gold</td>
<td>$6</td>
<td>Based on 6% “Leadership Bonus” on Silver’s “Group Volume”</td>
</tr>
<tr>
<td>Silver</td>
<td>$20</td>
<td>Based on 20% “Group Override”</td>
</tr>
<tr>
<td>“Direct” Purchases $100 of goods.</td>
<td>$25</td>
<td>Maximum potential income before all selling expenses are deducted and if he/she sells at full retail.</td>
</tr>
</tbody>
</table>

Compensation plan pays far more to the upline/recruiters on each sale than to the person making a sale - the bottom pays the top.

The bottom levels keep joining, losing and then quitting. The top levels keep collecting.
Seven Tricks of Product-Based Pyramid Schemes

5. **Gradually** front load victims by requiring monthly purchases or “sales” quotas to remain qualified for rebates.

- To evade laws against “front-loading” victims with large up-front payments, many MLM schemes simply require a minimum level of **monthly** purchases.

- By **gradually** front-loading the distributors, the company can also offer limited product-return guarantees - *and still fleece thousands of dollars before the victims quits the scheme.*
6. **Sell the recruits books, tapes and seminars to “motivate” them and help them “succeed.”**

- Even though the failure rate for investors is up to 99+% and 60-90% quit within a year, organizers tell the new recruits that with just more *training* and “motivation” they will be successful.

- The organizers at the top of the pyramid often gain more money from selling the recruits these “success tools” than from commissions on product sales.
Seven Tricks of Product-Based Pyramid Schemes

7. **Convince the victims that their failure and financial losses are their “own fault.”**

- First, the organizers mislead and deceive the recruits about income “opportunity,”
- And, do not disclose actual failure rates, full costs to participate, and many other basic facts.
- Then, they tell them the only reason they might not succeed in the scheme would be their own inadequacy or lack of ambition and effort, or maybe they are just “failures.”
- In this way, they can convince many to stay in longer, purchase more products and buy more “success tools” – to prove *to themselves* that they are not “failures.”
- When the victims finally do quit, most will blame themselves for their “failure” *and won’t report the scam to the authorities.*
## Should Endless Chain, Recruitment-based Schemes Be Legal?

<table>
<thead>
<tr>
<th>Negative Impacts</th>
<th>Positive Impacts</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Increases poverty</td>
<td></td>
</tr>
<tr>
<td>• Displaces savings and investments</td>
<td></td>
</tr>
<tr>
<td>• Employs deception, delusion, false hopes</td>
<td></td>
</tr>
<tr>
<td>• Incites greed with false promises of quick wealth</td>
<td></td>
</tr>
<tr>
<td>• Causes lost time, disillusionment, cynicism</td>
<td></td>
</tr>
<tr>
<td>• Unfair competition to legitimate business</td>
<td></td>
</tr>
<tr>
<td>• Concentrates Money, amasses power</td>
<td></td>
</tr>
<tr>
<td>• Generates “sales”</td>
<td></td>
</tr>
<tr>
<td>• Creates some jobs</td>
<td></td>
</tr>
<tr>
<td>• Makes a few people very wealthy</td>
<td></td>
</tr>
<tr>
<td>• Political contributions and charity donations from scheme organizers.</td>
<td></td>
</tr>
<tr>
<td>• Nation-based schemes attract currency.</td>
<td></td>
</tr>
</tbody>
</table>
Enforcing Pyramid Laws:  
* A Thankless but Crucially Important Job

- Citizens often oppose, resent or don’t care about pyramid scheme law enforcement -- until they lose money!
- The mania and delusion incited by the pyramid can be threatening or discouraging to regulators
- In most cases, the pyramids have more money than the regulators.
- Sometimes they employ former government officials
- The financial power and sophistication of the pyramid promoters can discourage regulators
Combating Pyramid Schemes: Is there Political Will?

- Harm to the public and the country can be demonstrated
- Inherent fraud and harm of endless chains can be demonstrated
- Identifying the schemes is not difficult
- Adequate laws can be written
- Enforcement costs can be minimized by requiring schemes to register, monitor, report and disclose, rather than making the government “prove” fraud.
- Public can be educated
- Regulation can be presented as patriotic, a protection of legitimate local business, and public-spirited
- Government must be consistent and determined.
End of Presentation

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