

What you can do to protect yourself from investing in an illegal pyramid scheme disguised as an MLM business:

- Don't invest because your friends tell you it's a good investment – use your own judgment and make your own decision.
- Ask for financial information about the company.
- Be wary about mandatory payments for starter materials, membership fees or other payments to join the scheme.
- Be wary if money is made primarily by recruitment and not by the sale of a product.
- Ask for specific documentation about the product and product sales.
- Be wary of schemes that require minimum ongoing purchases of products.
- Make sure that any products purchased can be returned to the company if not sold.
- Ask if there are minimum sales requirements before payouts can occur.
- Be wary of promoters who urge the purchase of higher positions in the distribution network to immediately increase payouts.
- Ask for written contracts detailing payouts, cancellation terms, and long-term business plans.
- Be wary of promoters who urge quick establishment of distribution networks by adding family members, children, pets, etc.
- Be wary of any scheme that claims to provide payouts in cash.

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What You Need to Know

Illegal Pyramid Schemes



*Disguised as Multi-Level
Marketing Businesses (MLMs)*



William Francis Galvin
Secretary of the Commonwealth
Securities Division

Illegal Pyramid Schemes Disguised as Multi-Level Marketing Businesses (MLMs)

Pyramid schemes are fraudulent businesses where participants are paid to recruit others to participate. Pyramid schemes are often disguised as multi-level marketing businesses or MLMs. You should be aware of the following information before investing in any MLM business.

The scheme:

Make money quickly by purchasing a starter package that promises immediate guaranteed payouts of anywhere from \$700-\$1,500 per month. These payouts are unrealistic and are promised only to induce the investor to buy into the scheme. Mandatory purchase of high-priced starter packages are hallmarks of this scheme and the sales pitches usually promise higher payouts if more money is paid for the starter package.



The product:

In many illegal schemes the promoter spends little time explaining the product because the product is ancillary to the overall scheme. Recent schemes have involved products related to internet services, mobile marketing platforms, app sales, cloud computing services, and voice-over-internet applications. Often unsold products purchased by the investor may not be returned to the company. Instead, promoters emphasize that the way to make money is to recruit other people to sign up and purchase the starter package.

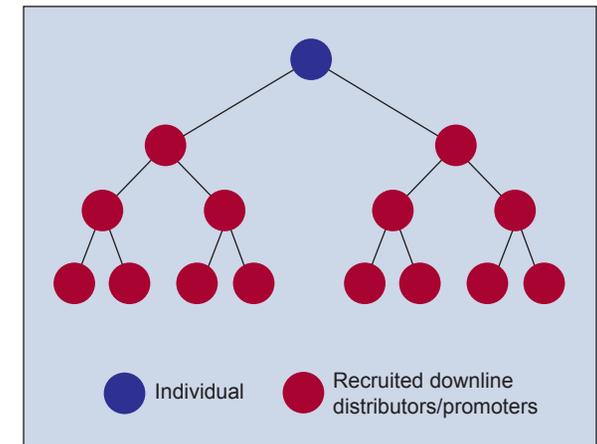


The sales pitch:

Make money without working hard or make money through minimal effort like making referrals or inviting others to presentations. Investment of money where you expect to make returns mainly through the efforts of others is potentially a security. Individuals must be registered to offer and sell securities and securities must themselves be registered or exempt from registration.

How money is made:

Money is made primarily when you recruit others to purchase the package, NOT from product sales. Illegal pyramid or Ponzi schemes disguised as fraudulent MLMs pay earlier investors with funds from later investors. Also, specific payouts are often guaranteed by promoters, but actual payouts fall far short of the guarantees.



Who is targeted:

MLM frauds usually involve affinity fraud and can be spread quickly through word-of-mouth. The Securities Division has investigated MLM frauds in Spanish and Portuguese communities, Brazilian communities, and Asian-American communities, but anyone is potentially vulnerable.

Questions:

Check with the Securities Division to determine if the individuals and firms selling the investment are properly registered with the Commonwealth of Massachusetts.

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