

# CONSUMER'S NOTEBOOK

## Pyramid Schemes

### What is a Pyramid Scheme?

A pyramid scheme is an arrangement where a large number of people (at the bottom of a "pyramid") pay money to a few people at the top (of a "pyramid.") Each new participant pays for the chance to advance to the top and profit from payments of others who might join later. The pitch promoters use is that you can make a lot of money. The fact is, you can lose a lot of money, and usually that's the case!

The diminishing odds of making money with a pyramid scheme make it a losing proposition because each time a new level rises to the top, a new level must be added to the bottom, each one twice as large as the one before. There is a very real chance that the pyramid may collapse before you ever earn a dollar (as opposed to the hundreds or thousands you might have paid).

Beware! Some promoters disguise their pyramids as multi-level distribution schemes (MLDS) - legitimate income opportunities. An MLDS is a way of retailing in which consumer products are sold by independent businessmen, usually in customer's homes. As a distributor, you can build and manage your own sales force by recruiting and training others to sell those products. Thus, your compensation then includes a percentage of the sales of your entire sales group as well as your earnings on your own sales to retail customers.

The best protection is *prevention* and the informed consumer *can* learn to identify the difference between a fraudulent pyramid scheme and a legitimate MLDS!

### How to Spot a Pyramid Scheme

**TAKE TIME:** Good opportunities do not disappear overnight. Avoid high pressure sales tactics.

**ASK QUESTIONS:** Inquire about the company, the products (cost, fair market value, source of supply, potential market value in your area), start-up fees, the company's guaranteed buy-back of products.

**DO YOUR RESEARCH:** Get written copies of all the available company literature.

**ASK OTHERS:** Consult with others who have had experience with the company, especially those no longer involved.

**DOUBLE CHECK:** Investigate and verify all information. If it seems questionable, contact authorities.