

What is a Ponzi scheme? A Ponzi scheme is an investment scam that pays early investors money taken from later investors to create the illusion of large profits. A Ponzi scheme promises a high rate of return with little risk to the investor. It relies on word of mouth, as new investors hear about the great returns achieved by early investors. The scheme is bound to collapse when the flow of new money slows, making it impossible to maintain the so-called dividend payments. A Ponzi scheme is similar to a pyramid scheme in that both use new investors' money to pay previous backers. A pyramid scheme usually relies on rewarding early participants to recruit more participants, but it collapses when the number of potential participants dwindles. A Ponzi scheme is a type of investment scam in which investors are promised large profits with little or no risk. The money is not invested. Instead, the scammer focuses on attracting more investors. An increasing number of victims are needed to pay the supposed profits that are distributed to previous investors.