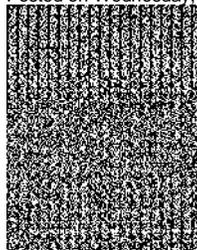


Can You Prevent Ponzi Schemes?

Posted on Wednesday, March 18th, 2009 at 7:00 am and is filed under

[Fraud](#).



Charles Ponzi

With Madoff, Nadel and Stanford in the news, people are wondering why the government does not prevent Ponzi schemes. The government should protect us from these frauds.

How can they?

Ponzi scheme sponsors are thieves. Common criminals. They just wear suits instead of black masks.

The government has not been able to prevent bank robberies, car-jackings or pick-pockets. (I lump Ponzi schemes in with these.) What government can do is deter and punish. An effective detection and prosecution program may deter some bad guys. If you feel certain you will get caught and punished then you are less likely to commit the bad act. On the other side, if you feel certain that you will not get caught or punished, then you are more likely to commit the bad act.

The inspiration of this post is an article from Tresa Baldas summarizing some of the current steps being taken: [Wave of anti-Ponzi laws coming — but will they work?](#) The US Congress has already introduced two bills in the last few weeks trying to increase transparency and registration of private investment funds: The [Hedge Fund Transparency Act](#) and the [Hedge Fund Adviser Registration Act of 2009](#).

Don't forget that Madoff and Stanford were both registered with the SEC and subject to some form of SEC oversight. Clearly registration and transparency were not effective at stopping them. They will increase the paperwork. They will make it harder for private investment funds to execute their business plans.

I guess as a compliance professional more regulation would be good for me. More regulatory oversight means more work for compliance. But I would rather focus my efforts on helping my company execute its business plan and making sure that nobody is cutting any corners to achieve that execution.

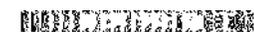
But with a new administration and issues in the financial marketplace, I expect to see some form of new regulatory requirements. Will they prevent Ponzi schemes? No, the government cannot prevent Ponzi schemes.

Investors prevent Ponzi schemes. If it sounds too good to be true, it probably isn't true. Guaranteed returns with no risk? It better be a bank with FDIC insurance (or the equivalent).

Thanks to Bruce Carton of Securities Docket for pointing out the Baldas article in his post: [Wave of "Anti-Ponzi" Legislation May be Coming.](#)

See :

- [FINRA's Article on Avoiding Investment Scams](#)



Tags: [Ponzi schemes](#), [Tresa Baldas](#)

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2. [brucecarton \(Bruce Carton\)](#)

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Remember what Smokey says: "Only you can prevent Ponzi schemes." RT [@DougCornelius](#) [Can You Prevent Ponzi Schemes?](#)

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