PONZI SCHEMES - [link to Wikipedia]

Μαρτίου 12, 2009

Ponzi schemes are named after Charles Ponzi (pictured above), the flamboyant con man whose scam followed a particularly spectacular course. On November 15, 1903, he arrived in Boston aboard the S.S. Vancouver. By his own account, Ponzi had $2.50 in his pocket, having gambled away the rest of his life savings during the voyage. "I landed in this country with $2.50 in cash and $1 million in hopes, and those hopes never left me," he later told The New York Times.

Mr. Ponzi began telling New York investors in December 1919 that investments in foreign postage coupons could yield 50 percent returns in 45 days. By redeeming coupons bought cheaply overseas for much higher amounts in the United States, he could double their money in three months, he claimed.

Mr. Ponzi was a fast-talking immigrant and college dropout, and his scheme — according to Mitchell Zuckoff, Mr. Ponzi’s biographer — rested on the eagerness of ordinary working people to benefit from the wealth they saw being generated around them as the economy recovered from World War I.

As the fever spread, millions of dollars were coming in every week, most of it from ordinary working-class people investing as little as $10 at a time. It’s estimated that nearly three-quarters of the Boston Police Department invested in “Ponzi notes,” as they became known.

With successive waves of people entrusting him with their cash, Ponzi needed only enough money to pay off those people redeeming their coupons. Of course, with the prospect of increasing their savings exponentially every couple of months, few ever redeemed anything.

A born overreacher, Mr. Ponzi sketched out ever more grandiose financial schemes and, always smiling, talked as fast as he could. It was not enough. The Boston Post, the financial journalist Clarence W. Barron and state banking officials began digging, and the more they dug, the more they found. In the end, the prison gates swung open once again, investors were left holding the bag and the brief, brilliant reign of Charles Ponzi came to an end.
Mr. Ponzi was convicted of mail fraud in 1920 and served time in federal and state prisons before he was deported to Italy in 1934, never having become a citizen. He died penniless in Rio de Janeiro in 1949 and was buried in a pauper’s cemetery there.

The $50 billion fraud that federal authorities say Bernard L. Madoff perpetrated has been called the largest Ponzi scheme in history. Though the magnitude, scale and details are different, Mr. Ponzi’s scheme and the fraud that Mr. Madoff has been charged with each reflect their respective, super-heated financial eras.