

Comparing Madoff's Ponzi to PrePaid Legal's Pyramid

Looting Investor Capital

Madoff may have had some profits from trades and investments. We don't know how much. We don't have to. We do know that his scheme DEPENDED FOR ITS LIFE on transferring capital investments from later investors to pay earlier ones. Whatever amount of trading profits he did have was insufficient for solvency or to achieve the growth he wanted or to meet his commitments of 12% a year. So, he dipped into the principals of later investors to make promised payments to earlier ones. That's when he crossed the line to Ponzi.

PrePaid Legal devised a plan to base the business on capital investment money -- the investments of associates. We don't know the percentage of retail income (outside revenue) to capital investment (fees and purchases of coaches). We don't have to. We do know that the scheme DEPENDS FOR ITS LIFE on inducing capital investments from later investors (associates) to pay earlier ones.

Concealment

Madoff went to great lengths to conceal the fact that looted some or all his investors' capital in order to pay dividends. His most important challenge was to prevent people from seeing the transfer fraud. He did this in a secret office that only he had the key to.

PrePaid Legal has some retail sales in the memberships to the monthly legal service. But, an insufficient amount to drive growth, maintain solvency or to produce the growth its owners want. So, it must obscure the fact that it is operating an endless chain recruitment business, not a retail-based sales company. It does this by obscuring the distinction between associates and members, disguising the business model, making disclosures opaque, leaving out key facts about percent of business from associates, churn rates, etc.

Methodology

Madoff sustained his transfer system by continuously recruiting new investors. He became a master at this, promising 12% annual returns and a safe haven against market downturns. He implied membership in his fund was exclusive. He claimed he ran a "Hedge fund" that protected against downturns.

PrePaid Legal, in turn, must draw on capital investments of later investors. It cannot produce enough retail revenue to remain solvent or to grow to the limits its owners want. So, it takes a lesson from the masters, in how to continuously induce and use the capital of new investors. It uses the MLM method, a proven system for drawing in investors in the disguise of a "direct selling" company. This system incentivizes each investor to recruit other investors and offers rewards for doing so "endlessly." The market is treated as "unlimited." Amazing income promises and claims are made and the mirage of the "endless" downline is hawked. The system can be sold as "exclusive" as in "aren't you lucky to be in on this "unique" system-- a 'hedge' against the Recession. While others are being laid off you have 'no cap' on income.

Affinity

Madoff focused on one affinity group, which would then spread the word among friends and colleagues about the great opportunity and how lucky they were to be on the "inside". He also used a few "feeder" firms as well.

PrePaid Legal also focuses on the affinity of the current associates, who are instructed to recruit their friends and family to invest in this "unlimited" income opportunity. They invite others to become a part of this elite group of people who are praised to be smarter than the average individual, because they "never have to fumble through their billfold" in order to have legal representation and to see how lucky they are to have found this system.

Political Protection

Madoff, by registering as a "Hedge Fund", which served as his disguise, was able to remain relatively clear of regulation and he relied on the weakness and ineptness of the SEC for good measure. The Hedge Fund "industry" has successfully lobbied to keep its members out of regulatory control.

PrePaid Legal relies on the political protection and good disguise of the "direct selling" industry, and it relies on the weakness and ineptness of the SEC and the FTC too for good measure. The MLM industry has successfully lobbied to keep its members out of regulatory control.