



NEWS **RELEASE**

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STATE WARNS CONSUMERS AGAINST SO-CALLED GIFTING CLUBS

(Salem) Do the math: It probably adds up to fraud. That's the message state regulators and law enforcement officials have for Oregonians who may be offered a chance to participate in a variety of "gifting clubs" being promoted throughout the state under names such as the "Dinner Club" and the "Women's Empowerment Network."

Organizers claim it's tax-free and perfectly legal, because participants are just giving and receiving "gifts" among themselves. In some cases, the clubs even say they are approved by the IRS, the attorney general, or securities regulators. These claims are false. In reality, the clubs are pyramid scams.

How does it work? Club promoters pitch the groups as win-win opportunities for participants to help each other achieve financial security or overcome money troubles. All you have to do is join the bottom tier of the club by "gifting" an agreed amount of money – maybe \$5,000 – to the person at the top tier. That person collects your cash and that of others who join, and then supposedly drops out once the "gifts" total a set amount. This allows the people in the next tier to move up. You recruit your friends and relatives to join the club in a tier below you, and the process continues until you're at the top tier and collect "gifts" amounting to a much greater sum than you paid to join the club. Your friends and neighbors will reap the same reward in turn. It sounds so easy.

What's the catch? Pyramid schemes generally violate state securities law, as well as the Oregon Unlawful Trade Practices Act. That means participants in the pyramid – not just the organizers – may face civil or even criminal penalties. Why? No matter what organizers call it, the money participants put into the club is not a gift or a charitable donation. It is put in with the expectation of getting more money back, and that may make it an investment contract or security, which must be registered with the state and sold by a licensed securities broker. No pyramid scheme will ever be registered, and no broker who promotes one will keep his or her license.

The fundamental issue, however, is that pyramids are mathematically certain to fail. They require a constant supply of new participants to funnel money up through the pyramid. When there are no more willing recruits, the pyramid collapses and the people in the lower tiers lose their money.

Won't the pyramid succeed as long as new people keep joining? In reality, that's just not possible. Take, for example, a pyramid where participants pay in \$5,000 and withdraw when they've collected \$40,000. For each member at the top tier to withdraw, eight members must join in the tiers below. For each of those eight members to move up to a point where they can withdraw, there must be eight more members, and so forth. The pyramid has to grow at a rate that will quickly make its membership exceed the population of Oregon, and shortly after that of the entire United States.

To make matters worse, the pyramid's reliance on personal relationships to recruit new members means that not only may participants lose their money and face civil or criminal penalties, they risk dragging their friends and relatives into the same mess.

So how can people avoid this trap?

- Remember that any deal that sounds too good to be true almost certainly is too good to be true. Like getting \$40,000 back on a \$5,000 investment for little effort on your part from an organization that offers no actual product or service.
- Keep in mind that if you put money in with the understanding that you will or even that you may get money back at a future date, it is not a gift or a charitable donation. It is an investment, regardless of your motives or what you plan to do with the money. If you want to give money to a good cause, find a reputable and legally constituted charitable organization and make a contribution.
- If you are invited to become a member of a pyramid, don't join, and urge others not to participate.
- If you have already joined, ask for your money back and return any money you have accepted from other participants.
- Report the promoters to your local law enforcement agency, the Oregon Division of Finance & Corporate Securities at 503-378-4387, or the Attorney General's consumer protection hotline at 503-229-5576 (Portland area), 503-378-4320 (Salem area), or 1-877-877-9392 (toll-free).

Consumers can also download a complaint form or get more information by visiting the Department of Justice's Web site, www.doj.state.or.us. Additional information is available under the link for securities enforcement at the Division of Finance & Corporate Securities' Web site, www.oregondfcs.org. The division can also be reached for questions by e-mail at dfcs.gifting@state.or.us.

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