

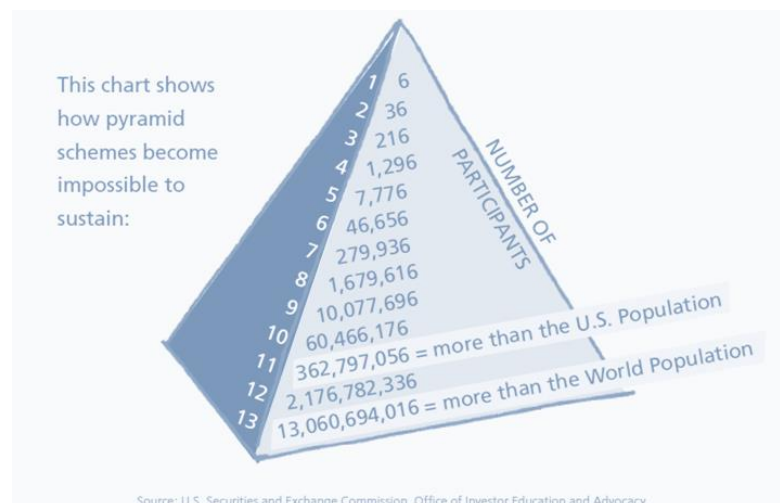
INFORMED INVESTOR ALERT: PYRAMID SCHEMES

MULTI-LEVEL MARKETING (“MLM”)

The SEC's Office of Investor Education and Advocacy is issuing this Investor Alert to warn individual investors about pyramid schemes, a type of investment scam that fraudsters often pitch as a legitimate business opportunity in the form of multi-level marketing programs.

Have you ever been tempted by an advertisement or offer to make "easy money" or "online income" out of your own home? Multi-level marketing ("MLM") programs are promoted through Internet advertising, company websites, social media, presentations, group meetings, conference calls, and brochures. In an MLM program, you typically get paid for products or services that you and the distributors in your "downline" (i.e., participants you recruit and their recruits) sell to others. However, some MLM programs are actually pyramid schemes -- a type of fraud in which participants profit almost exclusively through recruiting other people to participate in the program.

Pyramid schemes masquerading as MLM programs often violate the federal and state securities laws, such as laws prohibiting fraud and requiring the registration of securities offerings and broker-dealers. In a pyramid scheme, money from new participants is used to pay recruiting commissions (that may take any form, including the form of securities) to earlier participants just like how, in classic Ponzi schemes, money from new investors is used to pay fake "profits" to earlier investors. Recently, the SEC has sued the alleged operators of large-scale pyramid schemes for violating the federal securities laws through the guise of MLM programs.



WHEN CONSIDERING JOINING AN MLM PROGRAM, BEWARE OF THESE HALLMARKS OF A PYRAMID SCHEME:

- **No genuine product or service.** MLM programs involve selling a genuine product or service to people who are not in the program. Exercise caution if there is no underlying product or service being sold to others, or if what is being sold is speculative or appears inappropriately priced.
- **Promises of high returns in a short time period.** Be leery of pitches for exponential returns and "get rich quick" claims. High returns and fast cash in an MLM program may suggest that commissions are being paid out of money from new recruits rather than revenue generated by product sales.
- **Easy money or passive income.** Be wary if you are offered compensation in exchange for little work such as making payments, recruiting others, and placing advertisements.
- **No demonstrated revenue from retail sales.** Ask to see documents, such as financial statements audited by a certified public accountant (CPA), showing that the MLM company generates revenue from selling its products or services to people outside the program.
- **Buy-in required.** The goal of an MLM program is to sell products. Be careful if you are required to pay a buy-in to participate in the program, even if the buy-in is a nominal one-time or recurring fee (e.g., \$10 or \$10/month).
- **Complex commission structure.** Be concerned unless commissions are based on products or services that you or your recruits sell to people outside the program. If you do not understand how you will be compensated, be cautious.
- **Emphasis on recruiting.** If a program primarily focuses on recruiting others to join the program for a fee, it is likely a pyramid scheme. Be skeptical if you will receive more compensation for recruiting others than for product sales.

THE BOTTOM LINE

Pyramid schemes cannot be sustained and always collapse eventually. Protect yourself and your money by steering clear of any "opportunity" bearing warning signs of a pyramid scheme.

Get advice from a registered professional to determine the appropriate course of action for your particular circumstances. For more information, or to check the registration and background of individuals selling the investment, contact the Hawaii Securities Compliance Branch at (808) 586-2722.

(Source: U.S. Securities and Exchange Commission (SEC) Investor Education Program. For more information visit the website at www.sec.gov)

**To report investment fraud, call (808) 587-2267 or Toll Free 1-877-447-2267
Protecting Hawaii Investors**