

BEWARE OF DUBIOUS SCHEMES

There are several dubious schemes operating in the market. The promoters of such schemes float companies with attractive names. They start in a particular area and then, on attaining saturation of member enrollments, keep shifting over to new areas. While promoting the schemes, they get film stars, politicians, sportspersons etc. at grand functions to impress the public. They engage persuasive direct marketing agents, print attractive brochures, release eye-catching advertisements and hoardings and offer gifts to the investors. They also use attractive slogans. They also “honour” their members with titles like Silver Member or Gold Member. Some of such schemes that are designed to entrap the gullible public by luring them with the promise of becoming rich overnight are:

MONEY CIRCULATION SCHEMES (MCS)

MULTI-LEVEL MARKETING SCHEMES (MLM)

NETWORK MARKETING (NWM)

SELF EMPLOYMENT YOJANA (SEY)

By enrollment into such scheme, one gets back some or full initial investment and then keeps gaining financially by enrolling new members. So also the second set of enrollers keeps multiplying and gain financially, luring every onlooker. Such a system of chain to work endlessly to provide profit to everyone concerned ultimately breaks down at some stage, resulting in big financial losses to many. When a person fails to get his required clients or enrollers, the promoters of the scheme do not tell about the non-viability of the scheme but blame it as one’s personal failure. Many companies have now disguised into the activity of marketing goods, services, drugs and health care products.

CHIT FUNDS

Chit fund is a kind of savings scheme under which a person enters into an agreement with a specified number of persons that every one of them shall subscribe a certain sum of money by way of periodical installments over a definite period and that each such subscriber shall, in his turn, as determined by lot or by auction or by tender, be entitled to the prize amount. However, there are many such schemes which have been misused by their promoters and there are many instances of the founders running what is basically a Ponzi scheme and absconding with their money.

DEPOSITS

Finance Companies take deposits from the public, promising them unusually high returns. Since high returns are unsustainable, ongoing repayments of interest and deposit amounts depend on continuous and uninterrupted flow of fresh deposits. At some stage, when the flow of deposits gets stifled, the payments to the investors stop, leaving them high-and-dry.

PRIVATE PLACEMENTS

Many companies offer equity shares/convertible debentures/preference shares etc to the public through the private placement route, often for a “a mega project” and promise dream returns. By law, such securities cannot be sold to more than 49 persons, beyond which the Company is required to come out with a Public Issue under the guidelines of SEBI.

PLANTATION COMPANIES

Many companies offer schemes that multiply money by investment into plantations. Most of such companies are not registered with SEBI, and typically have fled with the investors’ monies.

Caution for the general public

Remember that there is no free lunch and that there is some catch when some one offers to make money for you easily and quickly. So any get rich quick scheme or high returns schemes should be suspected. Remember also that these schemes are unsecured, are illegal and are not regulated by the Government. As such, if you lose money, you will not be able to seek any help from the Government.