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HYIPs—High Yield Investment Programs Are Hazardous to Your Investment Portfolio

High-yield investment programs (HYIPs) are unregistered investments created and touted by unlicensed individuals. Typically offered through slick (and sometimes not-so-slick) websites, HYIPs dangle the contradictory promises of safety coupled with high, unsustainable rates of return—20, 30, 100 or more percent *per day*—through vague or murky trading strategies. According to recent law enforcement cases, many operate as Ponzi schemes, using payments from today's recruits to pay "interest payments" to yesterday's investors or "referral" fees to those who recruit new members. The Federal Bureau of Investigation recently reported that the number of new investigations in this area during fiscal year 2009 increased 105 percent over fiscal year 2008.

HYIPs use an array of websites and social media—including YouTube, Twitter and Facebook—to lure investors, fabricating a "buzz" and creating the illusion of social consensus, which is a common persuasion tactic fraudsters use to suggest that "everyone is investing in HYIPs, so they must be legitimate." Some of these sites purport to monitor and rank the "best" programs. Others tout "winning" HYIP investment strategies or provide a forum for trading tips on how to profit from HYIPs, even those suspected to be scams. Still others—such as the recently exposed "[Pathway to Prosperity](#)" scheme in which investors on six continents allegedly lost \$70 million—expressly caution investors *against* HYIP scams, using a form of reverse psychology to create the false impression that *this* HYIP is somehow different.

But the reality is virtually *every* HYIP we have seen bears hallmarks of fraud. We are issuing this alert to warn investors worldwide to stay away from HYIPs. If you have already put money into a HYIP:

- Do not send more, even if the program appears to be paying "interest."
- Do not refer others to HYIPs in an effort to garner referral fees—doing so only helps professional criminals commit fraud and draws you into the scheme.
- Do not try to "ride the Ponzi" by attempting to get in and get out before the scheme collapses. If you do, you could end up like investors in the [Genius Fund](#), a HYIP shut down by regulators where participants lost some \$400 million.

A Snapshot of the HYIP World

Open the cyber door to HYIPs, and you will find hundreds of HYIP websites vying for investor attention. It is a bizarre substratum of the Internet. In addition to the HYIP sites themselves, there are sites that:

- **Rank the latest programs** and provide details of "payout options," presumably to lend credibility to the HYIP "markets" and to falsely suggest that those HYIPs at the top of the list are worthwhile investments.
- Allow web designers to **buy ready-made HYIP templates** and set up an "instant" HYIP.
- **Blog, chat and "teach" about HYIPs.** Some HYIP "investors" proffer strategies for maximizing profits and avoiding losses—everything from videos showing how to "make massive profits" in HYIPs and "build a winning HYIP portfolio" to an eBook on how to "ride the Ponzi" and get in and out before a scheme collapses. Other HYIP forums discuss how to enter "test spends," how to identify new HYIPs to maximize one's chances of being an early stage payee and even how to check when a HYIP's domain name expires so you can guess how long it might pay returns before shutting down.
- **Offer e-gold and other online payment systems** that provide the means by which participants fund their accounts, get "return" on their "investment" and, presumably, enrich the scammer. Investors should be aware that not all digital currency sites are subject to federal regulation. And some have been tied in recent years to criminal activity, including money laundering, identity theft and other scams.

All of these sites and supposed support mechanisms are designed to lend legitimacy to a high-risk scheme by creating the *illusion* of a real market, complete with real investors, real investments and real demand.

Spotting HYIP Scams

Any time an investment purports to provide guaranteed above-market returns with no risk whatsoever—especially if you cannot tell how the investment makes money—you should hear warning bells sounding. HYIP sites often display multiple telltale signs of fraud, including:

1. **High, unsustainable yields.** Investment return is usually stated as a daily rate of return, often with cryptic "short-term" and "long-term" payout options. For example, the Genius Fund HYIP at one time promised 36 to 40 percent daily, with 2-day yields of 106 percent. In contrast, the Pathway to Prosperity scheme offered investors a choice of 7-, 15-, 30- and 60-day "plans" paying annual rates of return as high as 17,000 percent! Regardless of how the yield is presented, keep in mind that returns on investments in large-

company stocks have historically averaged less than 10 percent per year.

2. **Unclear methodology for achieving returns.** HYIP sites often give virtually no clues to how the promised returns will be generated beyond generic references to trading in foreign currencies, futures or other investments.
3. **Lack of concrete information about the HYIP operator.** HYIP operators cloak themselves in secrecy regarding who manages investor money, where the company is located or where to go to get additional information.
4. **Off-shore operations.** Many HYIP sites are located outside the U.S. and typically are not licensed to sell securities in any country, let alone here. Be aware that generally persons or firms offering securities to U.S. residents *must* be licensed by FINRA and registered with the SEC.
5. **Reliance on e-currency sites.** Virtually all HYIP sites require you to open an “e-currency” account from one of a number of online vendors that service the HYIP market. Be aware that while there is currently no federal regulation of e-currency sites, many states require “money transmitters” to register with the state’s banking regulator. An unlicensed e-currency site is a red flag.
6. **Incentives to recruit new investors.** Many HYIP ploys dangle the prospect of paying a “referral bonus”—as high as 25 percent—to those who bring in new investors with fresh streams of money. Remember that Ponzi schemes tend to collapse when the fraudster at the hub can no longer attract new investors, so perhaps it’s no surprise that HYIPs encourage participants to rope in new recruits to help keep the scheme afloat.

Typo Tip-Off

Watch out for online postings, website copy or emails that are riddled with typos and poor grammar. This is often a tip-off that scammers are at work.

How to Protect Yourself

HYIPs all too often are short-lived scams—and, according to FBI data, they seem to be on the rise. The best way to avoid losing money in these scams is not to put any money in one to begin with. Navigate elsewhere—the sooner the better. Here are some additional tips to protect yourself:

- **Ask and check.** Always independently verify who you are dealing with and whether the seller of investment is licensed to do business with you. You can see who is behind a website by doing a “Whois” lookup online. You can confirm the status of an individual broker or firm using [FINRA BrokerCheck](#). And you can check with your state banking regulator to confirm whether an e-currency site is registered. You’ll find contact information on the website of the [Conference of State Bank Supervisors](#).
- **Exercise skepticism.** Bear in mind that most people who sell strategies for getting rich quick make *their* money on the sales of their books or seminars, not necessarily by practicing what they preach. Ask yourself why they’re “sharing” their “secrets” with you. And do not spend time reading about the latest HYIP strategy—such as when to join, how much to deposit, whether to take a compounding offer or when to exit. A scam like this has no viable investment “strategy.”
- **Recognize persuasion at work.** Rankings and testimonials are tactics fraudsters use to bolster the credibility of the scam—but remember: credibility can be faked. Pay no attention to the experiences of others—good or bad. Pay no attention to sites that rank HYIPs—they are just one more element of the elaborate HYIP ruse. Avoid falling into the trap of thinking that you can outsmart the con artists. In these schemes, sooner or later the investor always loses.

If you have already put money into a HYIP, do not sink any additional funds into it, even if you think it will help you get your original investment back.

Where to Turn for Help

If you suspect that you are being scammed, have information regarding the offer or sale of HYIPs or simply want to talk through an investment that seems a little too good to be true, call FINRA at (240) 386-4357 or file a complaint or question using FINRA’s online [Investor Complaint Center](#). You may also contact FINRA’s Office of the Whistleblower to report potentially fraudulent or illegal activity by submitting a tip at whistleblower@finra.org or by calling 1-866-96-FINRA (1-866-963-4672). International investors should similarly contact their home country securities regulator. Visit the website of the [International Organization of Securities Commissions \(IOSCO\)](#) to get contact information.

Additional Resources

- [Financial Fraud Enforcement Task Force](#)
- British Columbia Securities Commission News Release: [Genius Funds Permanently Banned for Illegally](#)

[Selling Securities](#)

- [United States Attorney Southern District of Illinois News Release: Resident of the Philippines Charged by Criminal Complaint with Numerous Offenses](#)
- [Risk Meter](#)
- [Scam Meter](#)

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