



## How a Master Scammer Met His Match: Ponzi vs. the Postal Inspection Service

Charles Ponzi wasn't the world's first con man—scams probably originated with cavemen. And he certainly wasn't the worst—the \$10 million Ponzi stole from investors nearly a century ago is small change compared to such current-day schemes as New York fund manager Bernard Madoff's \$65 billion investor rip-off, or Texas billionaire R. Allen Stanford's multibillion-dollar certificate of deposit fraud.

Nevertheless, the flamboyant Ponzi has long been the poster child of scammers, and the Ponzi investigation represents one of the Postal Inspection Service's most famous cases.

Who was Charles Ponzi? Why has his name become synonymous with "swindle"? And just what is a "Ponzi scheme" anyway?

Ponzi schemes are scams in which investors are promised exaggerated profits (often short-term) from supposedly can't-miss investments. If and when early investors are paid returns, the money doesn't come from actual investment gains; it comes from new cash pouring in from later investors. Since the con artists pocket most of the money, the scam is ultimately doomed to collapse—but not before people get bilked.

Ponzi scammers promise windfall returns. And the appeal of quick and hefty profits is precisely why some people fall for Ponzi schemes, even though they clearly fall into the category of "too good to be true."

Charles Ponzi, an Italian immigrant living in Boston in the early 20th century, was a master at playing a con. He was clever, yes, but more than that, he was charming and charismatic, easily convincing people to jump aboard his pie-in-the-sky schemes. In his most famous fraud, he claimed to be taking advantage of foreign currency rates to make millions of dollars by manipulating postal reply coupons. (The coupons could be purchased abroad in foreign currency and included in correspondence; recipients of the letters could redeem the coupons at U.S. Post Offices for enough postage to reply to the original correspondent.)

With great fanfare (he was also a genius at manipulating attention from the press), Ponzi opened his postal reply coupon-based business front, called The Security Exchange Company, near Boston's City Hall in December 1919. He promised investors a 50 percent return within 90 days on \$10 to \$50,000 promissory notes based on postal reply coupon exchanges. It seemed as if everyone wanted in—people stood in long and boisterous lines in the streets outside his office, eager to surrender their hard-earned cash. (Although the average investment was \$35, many people happily handed over their life savings.) In all, more than 30,000 investors were duped by the dapper Mr. Ponzi.

In the nine months before he was arrested in August 1920, Ponzi raked in \$10 million, much of which he expended on an extravagant lifestyle (living in a mansion, flashing \$10,000 bills, sporting a gold-handled walking stick, waving to admirers

from the back seat of his chauffeured car). He became the toast of the country, with his name in newspaper headlines all over the United States.

But the bubble burst when he was arrested and charged with mail fraud after Post Office Inspectors found he had used the U.S. Mail to send letters urging victims to reinvest when their notes became due. Ponzi was sentenced to five years in federal prison, but when he was released, he had to stand trial again in Massachusetts on state larceny charges. Out on bail while he was appealing his Massachusetts conviction, he headed to Florida and launched another scam, this time selling swampland as prime real estate.

Ponzi was arrested again and convicted for that as well, but before he could be returned to jail, he tried to flee the United States by disguising himself as a crewman on a merchant ship. Caught in New Orleans, he was sent back to Massachusetts and served seven more years in prison. Then he was deported to Italy, where he went to work for Benito Mussolini's government, scammed the Italian treasury, and was forced to flee to South America.

Although ultimately he died penniless in a Brazilian charity hospital, Charles Ponzi did make one dubious but enduring bequest: He left his name to dangerous scams that decades later continue to proliferate—hurting, and sometimes bankrupting, unwary victims.

