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How To Avoid Getting Scammed By Illegal Pyramid Schemes

By Marketing Basics

How To Avoid Getting Scammed By Illegal Pyramid Schemes by Marketing Basics

Multi-level marketing (MLM) or network marketing programs are a method of selling goods or services through distributors. These programs typically promise that if you sign up as a distributor, you'll receive commissions for your sales and those of the people you recruit to become distributors. These recruits are referred to as your "downline."

Some multi-level marketing programs are legitimate. However, others are illegal pyramid schemes. In pyramids, earned commissions are based on the number of distributors recruited. Most of the product sales are made to these distributors—not to consumers in general. The underlying goods and services, which vary from car leases to cosmetics to vitamins, serve only to make the schemes look legitimate.

Joining a pyramid is a risky proposition because the vast majority of participants lose money to pay for the rewards of a lucky few. Most people end up with nothing to show for their money except the expensive products or marketing materials they're pressured into buying.

If you're thinking about joining what appears to be a legitimate multi-level marketing program, take time to check out everything about the program. For example:

What's the company's track record? What product does it sell? Does it sell products to the general public? Does it have the evidence to back up the claims it makes about its product? Is the product competitively priced? Is it likely to appeal to a large customer base? How much is the investment to join the program? Is there a minimum monthly sales commitment to earn a commission? Will you be required to recruit new distributors to earn your commission?

Be skeptical if a distributor tells you that for the price of a "start-up kit" of inventory and sales literature—and sometimes a commitment to sell a specific amount of the product or service each month—you'll be on the road to riches. Many times participants spend a lot of money to "build their business" by participating in training programs, buying sales leads or purchasing the products themselves. Far too often, their own purchases are all they will ever see for their investments.

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Also, if you decide to become a distributor, you are legally responsible for the claims you make about the company, its products and the business opportunities it offers. That applies even if you're repeating claims you read in a company brochure or advertisement. The Federal Trade Commission advises you to verify the research behind any claims about a product's performance before repeating those claims to a potential customer.

In addition, if you solicit new distributors, you are responsible for the claims you make about a distributor's earning potential. Be sure to represent the opportunity honestly and avoid making unrealistic promises. If those promises fall through, remember that you could be held liable.

The Federal Trade Commission (FTC) suggests that you use common sense when evaluating a multi-level marketing opportunity and consider the following tips before you make your decision:

1. Avoid any program that pays commissions for recruiting additional distributors. It may be an illegal pyramid.
2. Beware of programs that ask new distributors to purchase expensive inventory. These programs can collapse quickly—and also may be thinly-disguised pyramids.
3. Be cautious of programs that claim you will make money through continued growth of your "downline"—the commissions on sales made by new distributors you recruit—rather than through products you sell.
4. Beware of program that claim to sell miracle products or promise enormous earnings. Just because a promoter of a program makes a claim doesn't mean it's true! Ask the promoter of the program to substantiate any and all claims with cold, hard evidence.
5. Beware of shills—"decoy" references paid by a programs promoter to describe their fictional success in earning money through the program.
6. Don't EVER pay or sign any contracts in an "opportunity meeting" or any other high-pressure situation. Insist on taking your time to carefully think over your decision to join. Talk it over with your spouse or partner, a knowledgeable friend, and an accountant or lawyer.
7. Do your due diligence! Check with the Better Business Bureau and state Attorney General's office about any program you're considering—especially when the claims about the product or your potential earnings seem too good to be true.

The FTC works for the consumer to prevent fraudulent, deceptive and unfair business practices in the marketplace and to provide information to help consumers spot, stop and avoid them. To file a complaint or to get free information on consumer issues, visit www.ftc.gov or call toll-free, 1-877-FTC-HELP (1-877-382-4357); TTY: 1-866-653-4261.

High Gas Prices Inspire Con Artists

By Dave Larsen

The high price of gasoline brings out the worst in some people. It also brings out the gullibility in others. A spate of rip-offs have been uncovered recently, all designed to take advantage of people's desperation to lower their fuel bills.

Texas based company BioPerformance, Inc., was shut down in May for being an illegal pyramid scheme and marketing a "magic gas pill" that wasn't magic at all—unless moth balls are magic.

Drawing on the desire for cheap gas at a time when gas prices are at record heights, BioPerformance claimed to have a "magic gas pill" that would increase fuel efficiency by 30% and reduce harmful emissions by half. In independent laboratory tests at the University of Texas and a university in Florida, the gas pills were discovered to be nothing but moth balls! Moth balls not only won't improve gas mileage, they can actually hurt your car's engine instead of helping it. Moth balls are also deadly to people, although the BioPerformance bottle claimed the pills were non-toxic.

"These claims are bogus," said Texas Attorney General Greg Abbott. "The pill does absolutely nothing to improve gas mileage. The company is merely a smokescreen to trigger the recruitment of more and more paying members into what appears to be an illegal pyramid scheme."

Along with promoting a product that is dangerous, BioPerformance was found to be an illegal pyramid scheme masquerading under the guise of a multi-level marketing company. In legitimate multi-level marketing, profit comes from how much product a person sells; in illegal pyramid schemes, profit comes from recruiting more people into the program.

According to the BioPerformance website, at the time the company was shut down, it had 4,500 members in Texas and \$25 million in sales. All that was built in just five months, which goes to show how desperate people are to save money at the gas pump.

You must be careful, there are very few product on the market today that will help you get better gas mileage. BioPerformance is one of the worst cases and fortunately, they've been put out of business and their owners are in serious legal trouble.

Dave Larsen has worked in the alternative energy business for 20+ years. Originally trained as an auto mechanic, Dave left that business because he was tired of shop managers ordering him to rip people off. Dave now offers tips to help people save money on fuel bills and not be ripped off.



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