



## Ponzi Schemes Using Virtual Currencies

As the world evolves and new technologies arise, so does previous fraudulent schemes also evolve and multiply. We thus want to warn our investors that the prevalence of online fraudulent investment schemes, which involve Bitcoin and other virtual currencies, are on the rise.

In this article we've used an investor alert issued by the US Security Exchange Commission Office of Investor Education and Advocacy (SEC) extensively and adjusted it with relevant Namibian information. The Bank of Namibia also continuously investigate multiple businesses suspected of being ponzi or pyramid schemes.

### Ponzi Schemes Generally

A Ponzi scheme or Pyramid scheme is an investment scam that involves the payment of purported returns to existing investors from funds contributed by new investors. Ponzi scheme organizers often solicit new investors by promising to invest funds in opportunities claimed to generate high returns with little or no risk. In many Ponzi schemes, rather than engaging in any legitimate investment activity, the fraudulent actors focus on attracting new money to make promised payments to earlier investors as well as to divert some of these "invested" funds for personal use.

The SEC investigates and prosecutes many Ponzi scheme cases each year to prevent new victims from being harmed and to maximize recovery of assets to investors.

As with many frauds, Ponzi scheme organizers often use the latest innovation, technology, product or growth industry to entice investors and give their scheme the promise of high returns. Potential investors are often less skeptical of an investment opportunity when assessing something novel, new or "cutting-edge."

### Look Out for Potential Scams Using Virtual Currency

Virtual currencies, such as Bitcoin, have recently become popular and are intended to serve as a type of money. They may be traded on online exchanges for conventional currencies, including the US dollar, or used to purchase goods or services, usually online.

We are concerned that the rising use of virtual currencies in the global marketplace may entice fraudsters to lure investors into Ponzi and other schemes in which these currencies are used to facilitate fraudulent, or simply fabricated, investments or transactions. The fraud may also involve an unregistered offering or trading platform. These schemes often promise high returns for getting in on the ground floor of a growing Internet phenomenon.

Fraudsters may also be attracted to using virtual currencies to perpetrate their frauds because transactions in virtual currencies supposedly have greater privacy benefits and less regulatory oversight than transactions in conventional currencies. Any investment in securities in Namibia remains subject to the jurisdiction of Namfisa regardless of whether the investment is made in Namibian Dollars or a virtual currency. In particular, individuals selling investments are subject to be registered and licensed by Namfisa.

### Common Red Flags of Fraud

Many Ponzi schemes share common characteristics. The following are some red flags:

- **High investment returns with little or no risk**  
Every investment carries some degree of risk, and investments yielding higher returns typically involve more risk. "Guaranteed" investment returns or promises of high returns for little risk should be viewed skeptically.
- **Overly consistent returns**  
Investments tend to go up and down over time, especially those seeking high returns. Be suspect of an investment that generates consistent returns regardless of overall market conditions.
- **Unregistered investments**  
Ponzi schemes typically involve investments that have not been registered with a regulator in



general or specifically with Namfisa. Ask yourself where you are going to complain or who you are going to sue, and in which court of law under which jurisdiction, if you lose your investment or one day suddenly cannot log into the fraudsters website and the site disappeared.

- **Unlicensed sellers**

Namfisa regulation and law require investment professionals and their firms to be licensed or registered. Many Ponzi schemes involve unlicensed individuals or unregistered firms or online websites. Also websites that frequently change names is a sign of unregulated and fraudulent activity.

- **Secretive and/or complex strategies and fee structures**

It is a good rule of thumb to avoid investments you don't understand or for which you can't get complete information.

- **No Financial Intelligence Act (FIA) requirements**

Legitimate investment opportunities require you to comply with minimum FIA requirements. You should be highly skeptical of investment opportunities that do not ask about your source of income and positive identification and documentary proof to be verified.

- **No clear investment objective**

Be skeptical of any investment opportunity that cannot provide you with clear information as to what you invest in and how income is to be derived from the investment. Any investment must make sense and should pass the common logic test. If it does not make sense or is too good to be true it most probably is a scheme and not true.

- **Short term return payouts and high frequency returns**

Be suspicious if you don't receive a payment or have difficulty cashing out your investment. Ponzi scheme organizers sometimes encourage participants to "roll over" promised payments by offering even

higher investment returns. Don't be fooled by the fact that you or someone you know is receiving the promised return in rather short cycles such as weekly. Fraudsters lure investors in this way to not withdraw any capital and to spread the word.

- **Incentive to recruit new members**

Ponzi schemes can also incorporate pyramid structures and offer tiered membership structures and incentives to recruit new investors. This is against the law and is a major sign of pyramid schemes. Over the past year the Bank of Namibia has identified multiple pyramid schemes of which the most well known is the Whatsapp Stokvel and Global Green Network.

### **Don't get fooled**

Low interest rates and very volatile equity and property investments as a result of Covid-19 lockdowns, cause many investors to search for alternatives that simply do not exist. Don't get fooled and be lured into losing your hard earned money.

Contact us and let us assist you to make the sensible investment choices that are in line with your unique risk profile to achieve your investment success.

Our sales team is readily available at [cam.service@capricorn.com.na](mailto:cam.service@capricorn.com.na) or 061 - 299 1950 for all your investment needs, whether you are investing for yourself, your children, trust or business.

### **Economic Update**

The worst is over. It certainly appears that the second quarter of 2020 was the bottom of the contraction in economic activity and the height of restrictive policies with respect to the Covid-19 pandemic. GDP numbers of most countries confirmed a sharp and deep contraction. Namibia's economy shrank by 11.1% in real terms compared to a year ago.



This overall number hides the fact that certain industries virtually collapsed while only a few grew. For instance, unsurprisingly, Tourism crashed by 64%. Three industries contracted by around 30%, Manufacturing, Transport and Support Services. Wholesale and Retail trade contracted by 23%. The malaise in this industry continued unabated with 14 out of the past 20 quarters negative. This means that it is now a third smaller than what it was 5 years ago.

A handful of sectors contracted by around 10% or less, such as Fishing, Mining, Finance, Real Estate Services and Construction. The latter appears to be bottoming out after an horrific five-year period – twelve out of the past 20 quarters registered deep contractions – so much so that the industry is now only a third of what it was in 2015.

Sectors that are largely in the public services domain such as Electricity & Water (-2.5%), Administration and Defence (-5.1%), Education (-1.2%) and Health (+6.0%) held up reasonably well. The latter, together with Information & Communication (+11.0%) and Agriculture (+47.2%) were the only sectors that expanded. The surge in Agriculture is attributable to a bumper grain crop. Generally, we see that grain production globally and regionally is quite high this year.

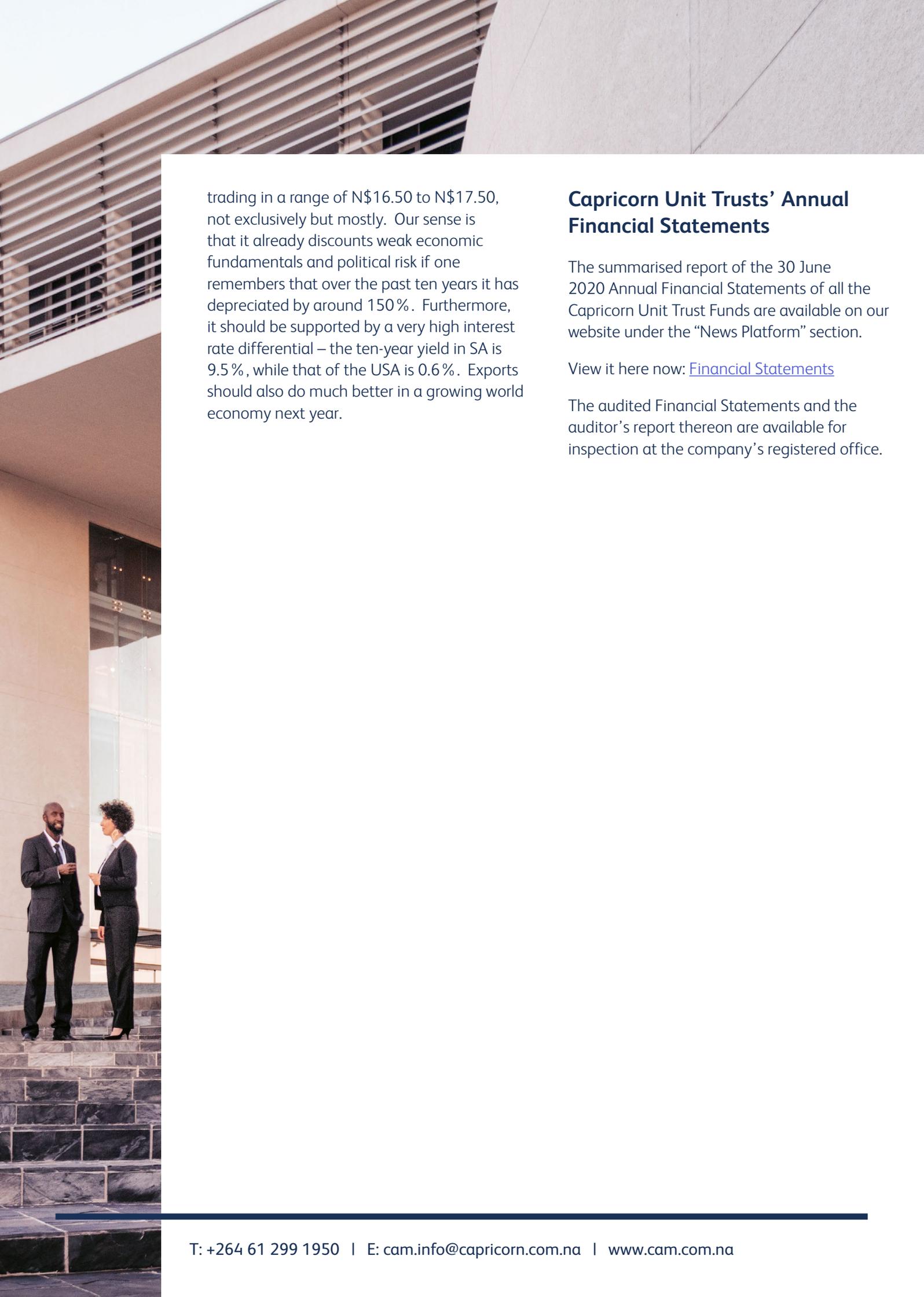
It is likely that, having contracted so sharply, economic activity should pick up over the next year or so. Global growth expectations have stabilised at around +5% for 2021, with Developed Markets (DM's) at +4.5% and Emerging Markets (EM's) at +6%. For this to come about, one generally bargains on a degree of normalisation in business-, consumer- and investor confidence as well as the release of pent-up demand that built up during the lockdown periods. Therefore, the global and regional outlook is subject to unusual uncertainty. This applies to Namibia as well where we expect positive growth next year, but it could range from 1.5% to 4.5%.

Following a surge, Agricultural output is normally subdued for several quarters. Fishing is also driven by seasonal factors. Mining may or may not recover sharply in a growing, albeit uncertain, global economy. This sector has now been contracting for seven quarters in a row and could be due for a rebound. Depending on the uptake of credit in the wake of the aggressive lowering of interest rates, a few sectors such as Wholesale and Retail Trade, Real Estate, Finance and Construction could bounce sharply. The outlook for the Public Service sectors will largely depend on the wherewithal of the state's finances and ability to maintain solvent operational entities.

Unfortunately, the shadow of Covid-19 will remain around for an extended period as well. Its effect is largely due to unpredictable policy actions that may come about in the wake of data changes, which in itself is subject to dispute. The latest instance of this is that in South Africa, the Minister of Health disbanded the scientific advisory committee on the coronavirus amid disagreements. There also appears to be a second wave of infections across Europe with differing and ad hoc policy responses.

Therefore, even if the worst is over, there remains a sting in the tail. By this we mean that there are lagged effects of events of the past eight months that will only become clear in time. For instance, the impact on unemployment is still to play out. Government's finances will remain under severe strain, which will have an impact on the economy directly, as well as investor confidence and interest rates. The degree to which the banking industry will wrestle with non-performing loans and bad debt will have an impact on its willingness and ability to extend credit in an environment of generally weakening credit worthiness.

As far as the Namibian dollar is concerned, our view is that it will be fairly strong over the next six to eighteen months vs. the US dollar,



trading in a range of N\$16.50 to N\$17.50, not exclusively but mostly. Our sense is that it already discounts weak economic fundamentals and political risk if one remembers that over the past ten years it has depreciated by around 150%. Furthermore, it should be supported by a very high interest rate differential – the ten-year yield in SA is 9.5%, while that of the USA is 0.6%. Exports should also do much better in a growing world economy next year.

## Capricorn Unit Trusts' Annual Financial Statements

The summarised report of the 30 June 2020 Annual Financial Statements of all the Capricorn Unit Trust Funds are available on our website under the “News Platform” section.

View it here now: [Financial Statements](#)

The audited Financial Statements and the auditor’s report thereon are available for inspection at the company’s registered office.