What Bernie Madoff's Ponzi Scheme Can Teach Investors About Spotting Red Flags

Would you have given your money to this recently decreased con artist? Take the 30-second test to find out.

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With Bernie Madoff's recent passing while having served 12 years of his 150-year prison term for fraud, I thought it was timely to reflect on what we can learn from his Ponzi scheme, which essentially involved persuading many from new clients to pay for his lavish lifestyle as well as "returns" to other clients who were existing the funds; there wasn't any real investment. The collapse came when too many clients were exiting during the Financial Crisis, and he confessed to his sons, who turned him in to the authorities.

Take This *Simple* 30-Second Test

But first, here's a one-question multiple-choice test that every investor should take (I'll reveal the "answer" below — no peeking until you have chosen!): Considering how much risk you are prepared to take with investments for your retirement, if you had to choose just one of the following four assets, which one would it be? The Dow Jones Index shown reported returns over 18 years for the four different assets.

Which Single Investment Would You Prefer?
Value of $1
$100
$10
$1
$0.1
$0.01
$0.001
$0.0001
$0.00001
$0.000001
Jan 1
Jan 1
Jan 1