An Amish Ponzi schemer?

According to SEC reports, Monroe L. Beachy began offering investments to Amish families in 1986. His success in making his pitch was tied to the fact that he himself was Amish. Beachy promised higher returns than those available from banks, coupled with the safety of investing in U.S. Treasury bonds. Does that sound familiar? Over the next 25 years, he raised $33 million from some 2,600 investors, most of whom were Amish.

Unfortunately, Beachy's operation had more in common with Bernard Madoff's investment program than just its sales pitch. He apparently became insolvent as early as July 1998, but stayed in business by using money from new investors to pay off old ones. That is what is known as a Ponzi scheme. Some of the money that Beachy managed was invested in dot-com companies, many of which tanked in 2000. Such investments are ironic, given that many Amish avoid modern technology as a matter of religious principle. These details have come to light now because Beachy filed for personal bankruptcy last year.

Although it may seem remarkable that this fraud continued for 25 years, it shouldn't be surprising. Beachy took advantage of the unique trust that members of the Amish community have in each other. This is known as "affinity fraud," preying upon those in one's social or professional group. Very often people do not hold their peers to the same level of skepticism or supervision that they do those outside the group.

Whom should you trust? When it comes to managing your investments, this is the fundamental question. Always investigate before you invest. When it sounds too good to be true, it's almost always not true.

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