

Investor Education

Securities Division, Maryland Attorney General's Office

Is that Multilevel Marketing Plan a Pyramid Scheme?

Multilevel marketing plans, or network marketing plans are a way of selling goods or services through distributors who earn commissions both from their own sales and from the sales of others they recruit into the plan. Multilevel marketing plans usually promise to pay commissions through two or more levels of recruits, known as the distributor's "downline." A multilevel marketing plan is an illegal pyramid scheme, however, if participants earn money **primarily** from the recruitment of others into the plan, rather than from the sale of a product or service.

It may be difficult to determine in advance whether something calling itself a multilevel marketing company is, in reality, a pyramid scheme. Here are some warning signs of a pyramid scheme:

- The plan offers a product or service to disguise its true nature, but the product or service may be overpriced, useless, or have no established market value. Examples include exotic vitamins, health tonics, diet aids, miracle cosmetics, new inventions, financial secrets, cryptocurrency, Bitcoin, and precious coins or gems.
- The company employs hard sell tactics or group psychology to pressure new recruits to sign up as distributors. Seminars and meetings may resemble old time revivals with stories of great wealth and promises of easy money for all, with very little effort required.
- New distributors are required to pay substantial initial fees or are told to purchase a large amount of product inventory up front.
- The purchasers for the plan's products or services seem primarily to be new and existing plan distributors, rather than the general public.
- Distributors must commit to receiving shipments of product each month, whether or not distributors need the inventory.
- The company advertises the multilevel marketing plan as a "job" in the help wanted sections of newspapers or on employment search websites.
- The terms and conditions of membership, the compensation plan, or the refund policy are hard to understand.

- The company or promoters show off large commission checks or luxury items earned by other distributors.
- Promoters suggest that distributors can earn significant “residual income” for little or no effort.

If you are thinking about joining a multilevel marketing company,

watch out for these signs. The plan may be nothing more than a pyramid scheme. If you join, you may not only lose your money, you also may be violating the law.

For more information, or to check on any investment opportunity, contact the Maryland Attorney General’s Office, Division of Securities by calling (410) 576-7042 or e-mailing securities@oag.state.md.us.