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How to Identify Crypto Scams and Protect Yourself from These Scams

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<https://www.btcc.com/en-US/academy/crypto-basics/how-to-identify-crypto-scams-and-protect-yourself-from-these-scams>

Here we discuss some common warning signs to look out for to avoid getting caught in crypto scams.

Rags-to-riches stories driven by crypto investments may lead people to jump into new projects that promise returns that seem “too good to be true”.

We’ve all heard the stories of people becoming multimillionaires through investing in cryptocurrency. When you hear these tales of people who – just a decade ago! – put a little money into a new digital asset called [bitcoin](#) and saw the kind of exponential growth that minted new millionaires, it’s natural to want to get involved in what seems like an exciting new asset class. To put the growth in context, it took just 12 years for bitcoin to reach a \$1 trillion market cap, a milestone it took Microsoft 44 years, Apple 42 years, Amazon 24 years, and Google 21 years.

There are a lot of reasons to be optimistic about cryptocurrency’s future even amid the current “crypto winter” we’re in. There are also reasons to be skeptical, and many in traditional finance are vocal about their doubts. Charlie Munger, the vice chairman of Berkshire Hathaway, said that “crypto is an investment in nothing” and has compared the crypto asset class to “some venereal disease.” Just this month, Jamie Dimon, the CEO of JPMorgan, called “crypto tokens ‘decentralized Ponzi schemes’.”

On the other hand, large institutional investors like Fidelity are adding bitcoin to the offerings in corporate 401(k) and are considering allowing individual customers to trade it. BlackRock has recently partnered with Coinbase to offer crypto to its institutional clients.

To take a step back and help navigate these polarities, it might help to define exactly what a Ponzi scheme is.

What exactly is a Ponzi scheme?

A Ponzi scheme is a financial fraud disguised as a sophisticated investment opportunity that promises to generate outstanding returns for investors. In reality, a Ponzi scheme is an illicit fraud that distributes payouts to early investors with funds from more recent investors. The money is never invested as promised, but instead goes directly to pay out those “guaranteed high returns” to early investors until the pool of new investors dries up and the scheme falls completely apart. Late-stage Ponzi schemes are often fraught with problems with slow withdrawals, problems “accessing funds” and the eventual disappearance of the con artists with any remaining assets.

Ponzis are notorious for enticing victims by leveraging their mastery or superior knowledge of a “new technology” as a selling point for targets. The con-artists running them often have extraordinary sales skills. Crypto scams prey on the almost insatiable desire of people to “get rich quick.”

Crypto is a prime target for the masterminds of Ponzi schemes. Average investors do not fully understand the technology that crypto uses or how to evaluate a cryptocurrency as a sound investment. Unlike traditional investments where investors can dig into earnings, third-party research reports (i.e., Morningstar), audited documents and other required regulatory material, many crypto projects are unregulated and having anonymous founders is not unusual in the space.

This leaves a wide opening for scammers to present themselves as experts who can take care of that “difficult” tech and learning curve for you. They promise sky-high returns and they’ll also assure you that you don’t need to understand the “how” of those profits. They’ll point to impressively built websites and talk up the intelligence of the team behind the project.



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Warning signs of crypto scams

Investors are faced with a difficult situation: They have a desire to invest in the asset class and

participate in the growth of crypto, yet face a tremendous learning curve in order to safely do so. This creates a dangerous situation for well-intentioned investors that scammers are eager to exploit. But there are some common warning signs to look out for to avoid getting caught in crypto scams.

Some things to look out for include:

- **Very high returns with promises of little or no risk:** Investors need to be very suspicious of “guaranteed returns” or promises of high returns with little risk. All investments carry certain amounts of risk and investors must be wary when presented with an opportunity that sounds too good to be true.
- **Low volatility on returns:** Ponzi schemes promise very consistent returns over time. Markets are volatile by nature. While returns can appear smooth over long periods of time, short-term performance is variable month after month. Red flags should pop up when promises of consistent returns are stated regardless of market conditions.
- **Proprietary or secretive strategies:** When a strategy is able to generate returns exclusively through a sophisticated or secretive strategy, investors should be concerned. If it is difficult to understand the methodology of an underlying investment strategy the investment should be avoided.
- **Lack of liquidity:** Certain assets are illiquid by nature (startup investments, real estate, etc.) but cryptocurrencies are very liquid. If a crypto investment is illiquid, the investor should understand exactly why that is and have a clear understanding of when the investment will be available for liquidation.

Regardless of the technology behind it, investors must have a clear understanding of what they are investing in and how the investment works. Cryptocurrency investments offer a unique opportunity to invest in technologies and companies that will disrupt many industries and have the potential to generate substantial returns for investors. As with any disruptive and technology-based asset, investors need to be prepared for periods of extreme volatility, low or negative returns, and ensure that their exposure to these speculative investments is appropriate for the risk they expect. With cryptocurrencies, conducting your own research is key to ensuring the safety of you and your money.

Also read:

[*Pi Cryptocurrency Review: Is Pi Network a Scam?*](#)