

What is Pyramid/Ponzi scheme ?, How to Spot it and who is Zhao Jiaotang? and the E-Creator scam the fooled thousands.

In the business the realm we say , “the bubble has burst” simply meaning the hype and the idea or potential business behind a certain concept has died. The E-creator frenzy has come to an abrupt close leaving thousands of our brothers and sisters in dismay with all their hard earned cash gone in a carefully orchestrated scam.

It has come to our attention that most of the population need to be educated in order to be aware and know how to spot a pyramid or a ponzi scheme.

Today we take a deeper look into who is **Zhao Jiaotang?**, What is a **Pyramid scheme?**, What is a **Ponzi scheme?**, **How to Spot** a Pyramid or a Ponzi Scheme?. Ladies and gentlemen let’s sympathize with our brothers and sisters who lost out to this E-Creator Fraud because the loss impacts lives differently.

Now the dust has settled the promised 7 or 8 July dates for the resumption of withdrawal option has passed, it’s now clear that they E-Creator participants have been robbed of their hard earned money. To further solidify this sentiment or situation to the still doubting Thomas’ who still had hope that E-Creator could still come back as promised, their website is no longer functional and their app followed through moments later. With economic times hard on the citizens such an opportunity would easily persuade people to join in the hope of making money and changing lives so we can’t blame

the masses for trying their luck but try to hold the perpetrators accountable for their cruel actions.

It's really sad and unfortunate that many scams of this nature have been in play in our country for many years before and almost every time the money always ends up disappearing without anyone to be held accountable. The media on their part have not done enough to provide enough coverage and help unearthing of these scams taking place in our country. I think to solve this issue they had to first apprehend admins and directors pushing these scams.

Some recent schemes that have taken place in Zimbabwe:

- Beven Capital, involved in a US\$17,823,000 scam of 2,000 people and the chief suspects are on the run
- Bitcoin Interchange Zimbabwe where 43 people reported being swindled of US\$765,935.
- Elamant Global swindled "investors" of US\$80,000 and R150,000
- Manifest Global Marketing is accused of ripping off 902 people of US\$1,500,000
- Eaul Peter Capital's scheme robbed 600 people of US\$843,000
- Madzimai Akarongeka made off with US\$23,300
- KDW Investments defrauded 1,590 people of US\$192,000
- Cryptal Shares allegedly swindled 5 people of US\$5,000

## CHAPTER 1: Who is Zhao Jiaotang?

**Z**hao Jiaotang is dubbed the founder and owner of the so called E-creator. He is said to be a Chinese international and is allegedly on the run with over a million dollars from the E-Creator scam.

Before we go any further into Zhao Jiaotang, Let's take you back a bit so you really understand. Firstly, when a foreigner wants to create a company in Zimbabwe they have to go through the registration process and it would require different things depending on the type of business you want to do but there is one common thing in doing so regardless of the type of path you choose, there has to be ordinarily a resident (has to have an address in Zimbabwe) of Zimbabwe in the top positions for example a private limited company has to have at least two directors and a maximum of 50 directors and among those directors one has to have an address in Zimbabwe although he/she can be of any Nationality. The people at the join might try to pin and blame all this on the mystery of Zhao Jiaotang who we had never heard of until now putting the whole situation into doubt. In my opinion those who are left behind knew exactly what's going on if this story of Zhao Jiaotang is to be believed or the big question is did he really exist?

Zhao Jiaotang sounds made up, just at the right time when everyone has lost everything he is revealed as the mastermind behind the scam and blame

everything on him. With it's buzz and success surely he had to get media coverage before all this mess unfolded, in silicon valley this is what they would call a unicorn simply referring to a successful fast growing business. Instead not a single word bout him was uttered until the whole thing has shuttered.

Given the Ecocash story they were spinning about the withdrawals made by Zhao Jiaotang , it doesn't make sense in the slightest and it makes us doubt the existence of Zhao Jiaotang even more...

Well during the time they claim Zhao Jiaotang was withdrawing funds into his personal accounts, the amounts stated don't add up given Ecocash has withdrawal limits on USD wallets. An individual can send or withdraw a maximum of \$500 USD per transaction and can have such transaction only 4 times a month basically meaning you can only withdraw \$2 000 USD per month. Their statement said Zhao Jiaotang sent company funds to his personal account and proceeded to withdraw the money which is said to be over millon dollars. It would have taken him approximately 41 years to withdraw a million and given E-Creator on lasted a few months it all doesn't add up. Even if he had to send it to other agents to withdraw the money on his behalf like their press release stated it still wouldn't have worked because the cap we mentioned before affects transfer the same way it affects withdrawals. To further contradict their press release Ecocash also has a cap on how much money you can hold into your Ecocash account, which is \$20

000 USD so how can you steal a million dollars using Ecocash. It all doesn't add up and anyone with common sense can see that this is just a lie.

When the withdrawal issue began we knew all was going downhill from there but what surprises me given how popular this scam had become was the relevant authorities still unaware?, we don't know what to think.

But the silver lining is there are names and faces of people who paraded themselves as bosses of the company. Justin Kuchekenyia was the CEO and Abraham Matambu was one the first and is on record in interviews promoting the scam which defrauded many and could potentially impact lives. For a start I think the relevant authorities can get these 2 to tell us where is Zhao Jiaotang?, if he really exists? Or at least point us int the right direction.



## Chapter 2: What is a Pyramid Scheme

### What's the Difference Between a Ponzi Scheme and a Pyramid Scheme?

A Ponzi scheme is a mechanism to attract investors with a promise of future returns. The operator of a Ponzi scheme can only maintain the scheme as long as new investors are brought into the fold.

On the other hand, a pyramid scheme recruits other people and incentivizes them to further bring along other investors. A member within a pyramid scheme only earns a portion of their proceeds and is "used" to generate profit by members higher along the pyramid.

#### The Pyramid Scheme

A pyramid scheme is a common type of fraud where members make money by recruiting more people to buy in.

Typically the founder solicits an initial group of people to buy in and promote the scheme, they are then encouraged to recruit others and promised part of the money those newbies invest while the founder also takes a share. The pattern repeats for each group of new participants with money from recent arrivals funneled to those who recruited them.

As a pyramid scheme grows it becomes increasingly difficult for new recruits to make money, that's because the number of participants expands exponentially. For example a pyramid structure where each person has to recruit 6 people to earn a profit. The founder recruits 6 people to start and

each of them recruits 6 more with 36 people in this round of recruits who then each recruit 6 people to make a total of 216 new recruits. By the twelfth round of recruiting over 2.1 billion recruits would have to recruit over 13 billion more people total to make money, more than the entire world population. In this scenario the most recent recruits, over 80% of the scheme's participants lose all the money they paid in.

And in real life situations even those who join early lose out too because they let their money circulate in the scheme in the hope of making more. Pyramid schemes are illegal in most countries for obvious reasons, not only do they defraud unsuspecting citizens but also affect the currency in circulation which in turn would have a negative economic impact. This said well orchestrated pyramid schemes can be difficult to detect simply because they are presented as many different things. They just change names and business models but the concept is the same. It could be gifting groups, investment clubs but the most difficult one illegitimate/illegal **Multi-Level Marketing (MLM)** businesses.

The distinction between pyramid schemes and Legitimate Multi-level Marketing can be particularly be hazy. In **theory** the difference is that the members of legitimate multi-level marketing companies primarily earn compensation from selling a particular product or service to retail customers, while pyramid schemes primarily compensate members for recruitment of new sellers or participants. **In practice**, though many Multi-

Level Marketing companies make it all but impossible for member to profit purely through sales.

Many pyramid schemes disguise themselves as a legal Multi-Level Marketing business using a product or service to hide the pay and recruit structure. Many pyramid schemes also capitalize on already existing trust within churches, immigrant communities or other tightly knit groups. First few members are encouraged to report a good experience before they actually start making profits , others in the network follow their example and the scheme expands before it becomes clear that most members are not profiting. Often the victims are embarrassed into silence. Pyramid schemes entice people with the promise of opportunity and empowerment.

So when members don't end up making money they can blame themselves rather than the scheme, thinking they weren't tenacious enough to earn the returns promised. Some victims keep trying investing in multiple schemes and losing money each time.





## Chapter 3: What is a Ponzi Scheme?

To begin with the man himself the one who started the Ponzi schemes, **Charles Ponzi**. His deception was so infamous that even now, a hundred years later, the scam still shares his name – the Ponzi Scheme. He ruined lives of thousands during his time with him being able to convince thousands of people to give them their money based on lies.

A Ponzi scheme is a fraudulent investing scam promising high rates of return with little risk to investors. A Ponzi scheme is a fraudulent investing scam which generates returns for earlier investors with money taken from later investors. This is similar to a pyramid scheme in that both are based on using new investors' funds to pay the earlier backers.

Both Ponzi schemes and pyramid schemes eventually bottom out when the flood of new investors dries up and there isn't enough money to go around. At that point, the schemes unravel.

### KEY Points

- The Ponzi scheme generates returns for older investors by acquiring new investors, who are promised a large profit at little to no risk.
- The fraudulent investment scheme is premised on using new investors' funds to pay the earlier backers.
- Companies that engage in a Ponzi scheme focus their energy into attracting new clients to make investments, otherwise their scheme will become illiquid.

- The largest Ponzi scheme was carried out by Bernie Madoff, conning thousands of investors out of billions of dollars.

## Understanding Ponzi Schemes

A Ponzi scheme is an investment fraud in which clients are promised a large profit at little to no risk. Companies that engage in a Ponzi scheme focus all of their energy into attracting new clients to make investments.

This new income is used to pay original investors their returns, marked as a profit from a legitimate transaction. Ponzi schemes rely on a constant flow of new investments to continue to provide returns to older investors. When this flow runs out, the scheme falls apart.

## Origins of the Ponzi Scheme

The term "Ponzi Scheme" was coined after a swindler named Charles Ponzi in 1920. However, the first recorded instances of this sort of investment scam can be traced back to the mid-to-late 1800s, and were orchestrated by Adele Spitzeder in Germany and Sarah Howe in the United States. In fact, the methods of what came to be known as the Ponzi Scheme were described in two separate novels written by Charles Dickens, *Martin Chuzzlewit*, published in 1844 and *Little Dorrit* in 1857.

Charles Ponzi's original scheme in 1919 was focused on the US Postal Service.

The postal service, at that time, had developed international reply coupons that allowed a sender to pre-purchase postage and include it in their

correspondence. The receiver would take the coupon to a local post office and exchange it for the priority airmail postage stamps needed to send a reply.

Ponzi schemes rely on a constant flow of new investments to continue to provide returns to older investors.

This type of exchange is known as an arbitrage, which is not an illegal practice. But Ponzi became greedy and expanded his efforts.

Under the heading of his company, Securities Exchange Company, he promised returns of 50% in 45 days or 100% in 90 days.

Due to his success in the postage stamp scheme, investors were immediately attracted. Instead of actually investing the money, Ponzi just redistributed it and told the investors they made a profit. The scheme lasted until August of 1920 when *The Boston Post* began investigating the Securities Exchange Company. As a result of the newspaper's investigation, Ponzi was arrested by federal authorities on Aug. 12, 1920, and charged with several counts of mail fraud. In November 1920, Ponzi was sentenced to five years in prison.<sup>3</sup>

### Madoff and the Largest Ponzi Scheme in History

The concept of the Ponzi scheme did not end in 1920. As technology changed, so did the Ponzi scheme. In 2008, Bernard Madoff was convicted of running a Ponzi scheme that falsified trading reports to show a client was earning a profit on investments that didn't exist.

Madoff promoted his Ponzi scheme as an investment strategy called the split-strike conversion that utilized ownership of S&P 100 stocks and options. Madoff would use blue-chip stocks which have highly accessible historical trading data which he could back into to falsify his records. Then, falsified transactions that never occurred were reported to yield the desired periodic return.

During the 2008 Global Financial Crisis, investors began to withdraw funds from Madoff's firm, exposing the illiquid nature of the firm's true financial picture. Madoff stated that his firm had approximately \$50 billion of liabilities owed to approximately 4,800 clients. Sentenced to 150 years in prison with forfeiture of assets of \$170 billion, Madoff died in prison on April 14, 2021.

*Ponzi schemes can be carried out over decades. Investigators suspect Madoff's Ponzi scheme was started in the early 1980's and lasted over 30 years.*

### Ponzi Scheme Red Flags

Regardless of the technology used in the Ponzi scheme, most share similar characteristics. The Securities and Exchange Commission (SEC) has identified the following traits to watch for:

1. A guaranteed promise of high returns with little risk
2. A consistent flow of returns regardless of market conditions

3. Investments that have not been registered with the Securities and Exchange Commission (SEC)
4. Investment strategies that are secret or described as too complex to explain
5. Clients not allowed to view official paperwork for their investment
6. Clients facing difficulties removing their money

### What Is an Example of a Ponzi Scheme?

Imagine a very basic example where Cain promises 10% returns to his friend Alex. Alex gives Cain \$1,000 with the expectation that the value of the investment will be \$1,100 in one year. Next, Cain promises 10% returns to his friend Christine. Christine agrees to give Cain \$2,000.

With \$3,000 now on hand, Cain can make Alex whole by paying him \$1,100. In addition, Cain can steal \$1,000 from the collective pool of funds if he believes he can get future investors to give him money. For this plan to work, Cain must continually get money from a new client in order to pay back older ones.

### Why Is it Called a Ponzi Scheme?

Ponzi schemes are named after Charles Ponzi, a 1920's businessman who successfully persuaded tens of thousands of clients to invest their funds with him. Ponzi's scheme promised a specific amount of profit after a specific amount of time through the purchase and sale of discounted postal reply

coupons. Instead, he was using new money invested to pay off old obligations.



## Chapter 4: How to spot a Pyramid/Ponzi scheme

The SEC has identified a few traits that often signify a fraudulent financial scheme. It is important to understand that almost all types of investing incur some level of risk, and many forms do not carry with them guaranteed profits.

### ❖ Time Pressure

- This is a clear red flag
- Be wary of directives to “act now or miss a once in a lifetime opportunity”

### ❖ Unrealistic Returns

- If anything would be obvious it would be this
- Promises of large, life altering amounts of income are also a suspect.

### ❖ Require Payment

- You shouldn't be required to pay for the opportunity to sell a product or service unless you are buying products first for retail which is known as hoarding.

### ❖ Investments that have not been registered with the Securities and Exchange Commission (SEC)

### ❖ Investment strategies that are secret or described as too complex to explain

### ❖ Clients not allowed to view official paperwork for their investment

❖ Clients facing difficulties withdrawing their money

Signs E-Creator was a scam

1. First of all the domain name of their website was e-creatoerzw.com but the company was called e-creator. So you ask yourself why was the domain name wrongly spelt and why include a zw in the domain name itself if they wanted it to be purely Zimbabwean why not go for e-creator.co.zw. Some might have argued that they may have made a mistake in ordering the domain name because once ordered a domain name can't be changed but why not order a new one domain name a very very cheap, it all seemed very fishy.
2. Payment to get in – well another obvious sign was payment to get in. How can one pay to get into a job yet you are looking to get paid. Take this scenario you go to Econet then they tell you pay a certain amount so that we can employ and one can be promoted depending on the amount you paid and what was the VIP 1, 2 , 3 e.t.c classifications it was clear as day that it was a strategy for you to put more money. Take note there are programs that make you pay membership fee their difference with ponzi/pyramid schemes is they are making you pay to get exclusive access or belong to a group and they clearly tell you it's not an investment that's very legal. Know how to differentiate.
3. Referrals – well this was another red flag, usually businesses rewarding referrals directly with money of those who referred is



obviously a suspect. Yes sure some companies may reward positive feedback or referrals but not in a manner that E-Creator was doing, get a piece of the money the person you referred has invested.

4. Unclear Business plan – well how can you be paid to rate a product or fake buy products and leave fake reviews. Money is not that easy, you have to work to earn. First business is an enterprise selling a **Product** or a **Service** or both, and if there is no clear product or service being sold just know you are the product or service and it should be a red flag in your. E-Creator had no clear business plan and they had no clear product or service they were selling where would you think their revenue to reward participants with such amounts was coming from.

## Interlude

KineByte Technologies is dedicated to helping the community through technology. We have been doing this since 2019. We specialize in software and website development, graphic designs, software installations e.t.c

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We produce informative articles like this regularly on our Kine Press blog (click [here](#) to open the blog). There will be free online courses on cyber

security on our website soon to help the masses get a better understanding of this online world.

## Conclusion

Let's sympathize with our brothers and sisters who lost out to E-Creator. Pyramid of Ponzi schemes can be incredibly destructive to individuals, communities or even entire countries but we can minimize the effects by sharing this pdf to help educate others.

We hope to create more content and educate the Masses. Subscribe to our newsletter on the website footer to stay ahead and updated (click [here](#) to subscribe)

