Forbes http://onforb.es/1mtIx17

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PERSONAL FINANCE 9/25/2014 @ 12:03AM | 3.635 views

Bitcoin Savings & Trust Comes Up $40 Million Short On The Trust Part

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Bitcoin is the buzz! Well, the latest buzz anyhow in the weird world of cyber-currencies. It seems like only yesterday that Liberty Reserve went down, see this but here we are again.

This article is not whether Bitcoin is going to make it or not as a cyber-currency. There are thousands of articles out that positing that Bitcoin will be different, that this time it is the real thing. Most of those articles seem to written by folks promoting Bitcoins. But there are a few well-researched articles out there that warn that Bitcoin's days are numbered, see this as just one example.

Again, this article is not about any of that. If you want to invest in something that doesn't materially exist, then I'm going to be no more critical of you than I would be of anybody who invests in complex derivative contracts on the major stock markets, which are traded by the billions everyday — just ask any partner, er, former partner of Lehmann Brothers about those.

No, this article doesn't go so far as to ponder the imponderables about Bitcoin. Instead, it is a lesson about how to invest, or rather not to invest, in Bitcoins, should one be so inclined.

Anytime something is new, and generates a buzz, it attracts both investors and the folks who sell them the investments, known as promoters. Inevitably, with any investments whether in Bitcoins or wheat futures or even seemingly innocuous mutual funds, some promoters are good and some promoters are bad.

Unfortunately, new things typically attract far more than their share of bad promoters. The reason is that many of the good promoters will sit on the sidelines for a while, waiting for things to shake out — as they inevitably do. Thus, it is rare that the established investment firms will jump right in to something new. They wait a few years, let the market develop momentum, and then use their huge infrastructure, pools of existing clients, and seemingly endless advertising dollars to enter the movie only after they are convinced that folks are not going to walk out after the first few scenes.

Bad promoters have thus, quite predictably, settled upon Bitcoin like so many vultures. That brings us to the point of this article.

A good example is found in the recent final judgment obtained by the U.S. Securities & Exchange Commission against Mr. Tendon T. Shavers and his Bitcoin Savings & Trust ("BTCST"), by which Shavers used to defraud his suckers out of more than 700,000 Bitcoins. To give you an idea of the size of this fraud, the judgment entered by the U.S. District Court for the Northern District of Texas requires Shavers to disgorge more than $40 million in ill-gotten gains and interest, and, oh, both Shavers and BTCST are each required to pay $150,000 in civil penalties.

According to the SEC's Litigation Release 23090 dated September 22, 2014:

> *The Commission established, and the Court found, that from February 2011 through August 2012, Shavers offered and sold investments in BTCST over the internet. Shavers solicited all investments, and paid all purported returns, in bitcoins. Operating under the internet name, "pirateat40," Shavers solicited investors in online chat rooms and on the Bitcoin Forum, an online forum dedicated to Bitcoin, promising them up to 7% returns weekly based on his claimed trading of bitcoin against the U.S. dollar, including selling bitcoins to individuals who wanted to buy them "off the radar." In reality, Shavers used new bitcoins received from BTCST investors to pay purported returns on outstanding BTCST investments, and diverted BTCST investors' bitcoins for his personal use. The Court further found that, even as he publicly denied the Ponzi scheme on the Bitcoin Forum, Shavers knowingly and intentionally operated BTCST as a sham and a Ponzi scheme, and repeatedly made materially false and misleading representations to BTCST investors and potential investors concerning the use of their bitcoins, how he would generate the promised returns, and the safety of their investments.*

This is how scam artists work: They set up an elaborate front to make investors think they are real, use chat rooms and internet postings to both promote themselves and also quell negative questions, and then pay some investors some big profits up-front to encourage the rest of the investors to open up their wallets.

That scam artists would use Bitcoins as the basis for their scam is not surprising — it is wholly predictable. What is always surprising, and sadly as predictable, is that folks would invest their hard-earned dollars not through any legitimate investment firm but instead through some joker (or, rather, "joker-broker" as they are sometimes known) on the internet.

Might as well send your bucks to that Nigerian Princess who e-mails you out of the blue offering 30% of $40 million if you will just help her get her inheritance out of Africa. It is fundamentally no different.

This is not the first Bitcoin scam, and it will not be the last. "Trust Me" on that one.

CITE AS:

SEC Litigation Release 23090 (Sept. 22, 2014) available at http://www.sec.gov/litigation/litreleases/2014/lr23090.htm

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