

BEN CARLSON

DON'T
FALL
FOR IT

A SHORT HISTORY OF
FINANCIAL SCAMS



WILEY

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Introduction

The most instructive, indeed the only method of learning to bear with dignity the vicissitude of fortune, is to recall the catastrophe of others.

— Polybius

In 2008, a self-employed handyman named Fred Haines was wandering around Wichita’s Dwight D. Eisenhower airport in search of a Nigerian man carrying two chests full of cold hard cash. After asking around and waiting for an hour or so he finally realized the \$64 million inheritance he was promised in an email from Nigeria wasn’t walking off an airplane.

Over a period from 2005 to 2008, Haines mortgaged his home three times in hopes that forking over six figures of cash would be enough to help him receive a seven-figure inheritance from Africa. It’s hard to believe the Nigerian Prince scam could be so effective but some people just want to believe these things could be true. Haines claims the first email he received did come off as some sort of joke or scam. Nevertheless, he was intrigued as the person on the other end of his correspondence promised Haines he was owed tens of millions of dollars of an inheritance that rightfully belonged to him. The scammers told Haines his money was being moved from country to country but they needed money along the way to grease the wheels of international law that were overseeing the movement of his funds.

The scammers said at one point that the money had gone from Nigeria to Egypt to England to New York and once again back to Nigeria. Haines claims to have tried to get back the money after he sent it, but after going so deep down this rabbit hole he had convinced himself it couldn’t be a scam. “It got to the point where they were showing me that the president of Nigeria had sent me a letter. It had his picture on

it and everything,” Haines said. “I looked it up on the computer to see what the Nigerian president looked like, and it was him.”

Then there was the email he received from Robert Mueller, Director of the FBI at the time, and a man who is now widely known for conducting an investigation of some sort on the 45th President of the United States. The subject line of this email read:

SUBJECT: FRED HAINES, CODE B-DOG

The text showed a picture of Mueller in the top left-hand corner and was littered with grammatical errors. It read:

I receive your email and for your good and successful of operation of your account, I will advise you to look for the fee and send to them you can see that your funds is available, and everything is clear no trick on it. Looks for some one [sic] and borrow then promise to pay in three days.

You may be shocked to learn FBI Director Robert Mueller didn’t actually send an email to a man in Kansas about a secret inheritance from a Nigerian prince. This was, in fact, a fake. The problem was Haines had already gone too far to give up at that point, so he held out a glimmer of hope the money was still coming. “Those Nigerians know how to talk,” was his explanation for getting caught up in this fantasy. Luckily, Haines was able to recover \$110,000 of what he lost in a settlement with Western Union, but others haven’t been so lucky.^[1]

The Airplane Game

In the late-1980s a money-making scheme called the Airplane Game was invented and the rules were quite simple. All you had to do was hand over \$1,500 and the game would, in turn, give you back \$12,000. What a world, right?

The reason it was called the Airplane Game is that every new player became one of eight “passengers” on a flight that also consisted of four flight attendants, two co-pilots, and a pilot. All eight passengers put in their \$1,500 which went directly to the pilot as their cost of admission on the “flight.” The pilot then left the game having already put in their own initial \$1,500 and working their way up the ladder. The co-pilot then started two new planes, where each passenger was required to bring on a new passenger (and thus \$1,500 more per person). After each successive round, the passengers moved up

to flight attendants and then became pilots themselves after a turn as co-pilot, picking up their \$12,000. And the more people you brought into the game, the faster you earned your payout.^[2]

This idea spread quickly to other areas across the country. It only took four days in some cases for people to move up the ranks to become a pilot and cash out. The game worked so well for so long that many players went through the process on multiple occasions, each time picking up a cool twelve grand. One man in Florida worked his way through the “airplane” nine times, making more than \$100,000 in the process.^[3]

The Airplane Game didn’t last because there was no business model. There were no profits, products, or revenue to speak of. In fact, the whole idea behind the airplane game was good vibes and positive thinking. Those participating at the outset assumed you could visualize your way to abundance, happiness, and wealth. And the game sounds like a sure thing until you realize the original eight passengers need to recruit 64 new passengers to get paid. Those 64 passengers then needed to turn around and recruit 512 new passengers to keep the house of cards from falling apart. For every \$12,000, eight people had to initially “lose” \$1,500. There was also the small matter of the fact that the FBI frowned upon the operation of a Ponzi scheme so this whole charade fell apart when law enforcement found out about it.^[4]

I know what you’re thinking.

THESE STORIES ARE INSANE!

A secret inheritance from a Nigerian prince?!

Handing over your life savings to a pyramid scheme because of good vibes?!

And these stories do sound insane when you’re not personally involved. But people make insane decisions with their money all the time. You may never become involved in a Ponzi scheme or hand your money over to a 14-year-old kid from Africa posing as royalty, but everyone makes mistakes when it comes to their finances. We are emotional beings, and money tends to bring out the worst in those emotions.

The world is a complex place. No one has it all figured out. We want to believe there’s an easy path to improve our finances, health, and relationships. A secret club that’s reserved only for those lucky enough to stumble across the Holy Grail that will cure us of our ills. I wish that Holy Grail existed, but there is no tried and true way to get rich overnight or fix your life through the powerful words of a guru.

Most of the stories you read in this book will make you think, “*There’s no way that could ever happen to me.*” The truth is, even if you never fall

prey to massive fraud or a Ponzi scheme, everyone makes dumb decisions with their money. It's in our DNA. Most business and finance books tell you how to be successful. They purport to give you the secret, the recipe, the motivational quote, or the simple steps to earn riches or emulate successful entrepreneurs, business models, investors, or CEOs. This is not one of those books. The problem with only studying successes is they're often overflowing with survivorship bias. You never hear about all of the other failed businesses, ideas, or individuals who tried a similar route but failed. The person who won the lottery can't teach you how to follow their path to success and riches.

There is much more to learn from failures, fraud, charlatans, shady sales practices, and scams because it gives you some idea of what to avoid. There is no formula for getting rich quickly. No top-ten list or morning routine of high-functioning CEOs will automatically make you a successful entrepreneur. But studying poor decisions, gullible individuals, hucksters, irrational human behavior, and mental errors can help you see these things in yourself. Avoiding stupidity is often more helpful than trying to emulate brilliance. Even brilliant people can make bad decisions (as you will learn throughout these chapters). Money is one of the most unifying mediums on the planet. People of all levels of wealth – the rich, the poor, and everyone in between – make dumb decisions with their money. The simple reason for this is because money decisions have nothing to do with finances and everything to do with human nature.

The goal of this book is to help you make better decisions by learning from the mistakes of others and avoid getting taken advantage of.

Notes

1. McKinley E. Nigerian prince scam took \$110K from Kansas man; 10 years later, he's getting it back. *The Kansas City Star* [Internet]. 2018 Jun 11. Available from: <https://www.kansascity.com/news/state/kansas/article212657689.html>
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CHAPTER 1

No One Sells Miracles

It's not a lie if you believe it.

—George Costanza

In the late 1980s a group of chemists from Pfizer created a compound called sildenafil citrate. It was developed to fight cardiovascular diseases such as high blood pressure and chest pain. The project was called UK92480 (the UK is because the chemists were based in the United Kingdom) – but even though it sounds top secret, it ended up being a low drug on the totem pole because of disappointing test results. No one involved with the effort thought they were onto something groundbreaking at the time.^[1]

In fact, in the summer of 1993, the group was given an ultimatum that unless they could come back in the fall with conclusive data, it was time to close up shop and move on. Just a few short days later the researchers were doing a study on a group of miners in South Wales. Per protocol, they asked the miners if they noticed anything different after taking the drug. One of the men spoke up and said, “Well, I seemed to have more erections during the night than normal.” The other men grinned and nodded in agreement.^[2] One of the nurses in another clinical trial around the same time also noticed many of the men were lying on their stomachs, embarrassed that they ended up with an erection

after taking the drug. A drug that was meant to treat cardiovascular disease was having very surprising unintended consequences.^[3]

One of the main causes of chest pain is a condition called angina, which has to do with a reduced flow of blood to the heart. The reason this chest pain occurs is because the vessels that supply your heart with blood become constricted, which leads to pain in your chest as well as shortness of breath. Scientists often know how certain compounds are supposed to work but they don't always know if they will have the intended effect on the intended area of the body. The idea behind sildenafil was that it would dilate the blood vessels in the heart, thus reducing chest pain and breathlessness. Instead, the blood vessels in the penis became dilated. This drug inhibited the enzyme that breaks down a chemical that is key to the biology behind an erection.^[4]

This isn't the first time a drug was discovered by accident. After vacationing in Scotland for a month in 1928, a pathologist named Andrew Fleming returned to his laboratory to discover he had left a petri dish on a windowsill at a hospital in London. Fleming was growing bacteria in these dishes but noticed the one he accidentally left out had grown an airborne fungus. The fungus stopped the bacteria dead in its tracks. This mold was called *Penicillium notatum*. Fleming inadvertently made one of the most important discoveries in the history of medicine. He created the antibiotic penicillin.^[5]

It can't be overstated how huge this discovery was. At the time, the average life span in the United States was under 60 years of age. That number is now around 80 years old, and Fleming's accidental discovery had a lot to do with this. Fleming would later say, "When I woke up just after dawn on 28 September, 1928, I certainly didn't plan to revolutionize all medicine by discovering the world's first antibiotic, or bacteria killer. But I suppose that was exactly what I did."^[6]

A failed cardiovascular drug that gave men erections didn't have quite the same impact as penicillin, but these scientists did stumble across one of the most successful drugs of the modern era. Today we know of this drug as Viagra. According to Pfizer, since it was officially launched in 1998, 62 million men from around the globe have purchased the erectile dysfunction drug. It's estimated that people in the US alone spend almost \$1.5 billion on Viagra each year. Even the US military is said to spend almost \$42 million on the little blue pill.^[7]

A few months after the drug was released, there were over 300,000 prescriptions filled in a single week. Obviously, there was

a ton of pent-up demand for this product. Before Viagra's approval by the FDA in 1998, there really was no treatment for erectile dysfunction. The only options available included a painful injection or an implant, not exactly as easy as popping a little blue pill in your mouth. And before even penicillin was discovered, men went to far greater lengths to cure their libido.^[8]

Goats as Viagra?

Before the discovery of penicillin the field of medicine was full of quacks, hucksters, and charlatans. The general public knew so little about their healthcare options that it was easy to take advantage of people's ignorance. In the early 1900s the entire field of medicine was still in its infancy in many ways. The American Medical Association was founded in 1847 but each state still had its own licensing board which led to a lax system of oversight and ease of corruption because no one knew any better. Medical quackery isn't exactly like the typical financial scams that go after our need for greed. Instead, it preys on our worst fears: mainly death, disease, and our hope that miracles do truly exist when it comes to healing.

Samuel Hopkins Adams wrote a series of articles in 1905 entitled "The Great American Fraud." He wrote, "Gullible America will spend some \$75 million (that's more than \$2.1 billion in today's dollars) in the purchase of patent medicines. In consideration of this sum it will swallow huge quantities of alcohol, an appalling amount of opiates and narcotics, a wide assortment of varied drugs ranging from powerful and dangerous heart depressants to insidious liver stimulants; and, far in excess of other ingredients, undiluted fraud."^[9]

The wild west that was the medical profession was the perfect fit for Dr. John Brinkley. Brinkley never actually finished medical school, instead opting to purchase a diploma for \$100 which granted him the ability to practice medicine in eight states. Unbelievably, this was all it took to practice medicine in the early twentieth century. Still in his 20s, Brinkley opened up a doctor's office in Greenville, South Carolina with a partner. They took out ads in the local paper which asked:

ARE YOU A MANLY MAN FULL OF VIGOR?

Each morning the two "doctors" would ask the patients who answered the ad different questions, take some notes, collect \$25 – a massive sum at the time – and inject colored water into their posteriors.

They called the treatment electric medicine and claimed it came from Germany. The two men skipped town a few months later to avoid those who figured out their scam. After running out of money, Brinkley found a newspaper ad looking for a doctor in Kansas, in a town called Milford with a population of just 200 people. So he and his wife Minnie moved to Milford to open up a doctor's office and drugstore.^[10]

The couple were barely making ends meet when a 46-year-old farmer named Bill Stittsworth came into their office. Stittsworth said he and his wife had been unsuccessfully trying to get pregnant for 16 years. "I'm a flat tire," he told the Brinkleys. Then Stittsworth looked out the window at a nearby farm and observed, "Too bad I don't have billy goat nuts." You see, billy goats are known to be some of the healthiest, most fertile animals on the planet. The farmer knew firsthand a goat's appetite for sex was famous.^[11]

No one really knows exactly what happened next. Brinkley claims the farmer begged him to try an experimental procedure using goat glands. The farmer's family claims Brinkley paid Stittsworth to experiment on him. Regardless of whose idea it was, a few nights later both men were back in the office prepping for a unique surgical procedure. Brinkley slit the farmer's scrotum, after which he reached for two goat testicles that were sitting on a small silver tray, implanted a goat testis on each side of the scrotum, and sutured them to the loose tissue. Stittsworth had his man parts sewn up and the whole ordeal was over in 15 minutes.^[12]

Two weeks later the farmer showed up and told Brinkley the good news – his wife was finally pregnant! They named their child Billy, after a goat, of course. The second couple who conceived a child after having the goat gland surgery named their child Charles Darwin Mellinger, in honor of science of all things. Brinkley unwittingly stumbled onto a genius marketing campaign for the rural population in a small Kansas town. The goat gland surgery became an instant hit. His operation became so personalized he would even let the patients select their own goat from his backyard. Brinkley was averaging 50 procedures a month in no time, at \$750 a pop (a lot of money for the 1920s and around \$9,000 in today's dollars). Eventually he began implanting goat ovaries in women as well, to double his clientele.^[13]

Spoiler alert: Implanting goat testicles into men's scrotums is not a scientifically backed procedure. Most people didn't stop to think

about how insane this was at the time because they were desperate. A few weeks after his first goat gland transplant, Brinkley told a classroom full of other doctors, “I have a scheme up my sleeve and the whole world will hear of it.” The way he was going to get the whole world to hear about his plan was through a brand-new technology that would take his operation to the next level.

Radio

Radio was an entirely new medium for the mainstream public in the 1920s. It not only allowed broadcasters to reach large groups of people all at once across the country, it also allowed them to capture people’s attention in their own homes. Radio was truly one of the first technological breakthroughs that allowed families to have leisure time with one another in their own living rooms where they didn’t have to pay attention to one another.

Companies began advertising their products in the late nineteenth century, but the 1920s is when advertising exploded into popular culture. The radio had a great deal to do with its spread. The first commercial radio station was launched in 1920. By the end of the decade, radio penetration went from basically zero to close to 40% of households. By 1940, more than 80% of households had a radio. The adoption of radios in households was faster than electricity, automobiles, or the telephone. Comedian George Burns wrote in his biography, “It’s impossible to explain the impact the radio had on the world to anyone who didn’t live through that time.”^[14]

Radio sales doubled in 1923, and then tripled from there by 1924. The biggest reason radio spread like wildfire is because it was free. There was nothing else to pay for once you purchased it. And the reason it was free is because the business model was predicated on advertising. The swift rise in radio ownership coincided perfectly with Brinkley’s rise to prominence as a healer of all things to all people with ailments. Brinkley was a world-class charlatan, but according to one media historian he was also, “the man who, perhaps, more than any other, foresaw the great potentialities of radio as an advertising medium.”^[15]

Advertising these days is everywhere you look. It’s on the websites, social media, billboards, TV, radio, and podcasts. But advertising wasn’t always so ingrained in our lives. When the radio went mainstream in the 1920s and revolutionized how we communicate