Bernie madoff’s ponzi scheme

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In the world of finance, there are a select amount of manipulative masterminds that sit on a throne of lies. Those who commit these white collar crimes take advantage of institutions, and all classes of people. Ultimately, the enormity of these crimes brings ruin and chaos to the lives of those affected. In this manner, Bernard Lawrence Madoff is just one of these individuals who ran history's largest Ponzi scheme.

To begin, Bernie Madoff was born in Queens, New York in 1938. He received his Bachelor's degree in Political Science from Hofstra University in 1960 and shortly thereafter started his own firm known as Bernard L. Madoff Investment Securities, LLC., which offered reliable returns, alongside his wife Ruth. Due to the companies growing popularity from those reliable annual returns, his client list grew to include impressive celebrities like Steven Spielberg, Kevin Bacon, and Kyra Sedgwick. Also included was some of the largest international banks, charities, and hedge funds. Similarly, by the end of the 1980s, the company was responsible for more than five percent of the New York Stock Exchange's trading volume. Madoff's Investment Securities differed from others as it was innovative and constantly changing to advance. For example, their use of computer trading technology kept them ahead of the game. To illustrate his knowledge, it must be known that Madoff served as NASDAQ's chairman in 1990, 1991, and 1993. Soon enough, it was a family business with Madoff's younger brother and sons joining the firm. (" Bernard Madoff Fast Facts," 2018)

To continue, it is Madoff's charm that took hold of investors and allowed for the biggest scheme to occur. He served on boards for nonprofit institutions and was a pillar of financial charity. Madoff engaged in charity work with the

Gift of Life Bone Marrow Foundation, gave monetary gifts through his private foundation, the Madoff Family Foundation, and donated money to hospitals, health charities, and educational resources. He was humble and didn’t flaunt his wealth. His likeability and expert networking skills allowed for him to build rapport with high standing businessmen in New York City, who he had met in the beginning of his career while being a penny stock trader. Later, these people would become his investors. Likewise, he befriended financial regulators, further helping his ethical façade. Who would doubt someone who established themselves as a “ genius” within the financial world? By giving these investors positive returns, they thought highly of the man they trusted. After all, they were promised fifty percent in returns after a ninety-day period. This trust led to positive recommendations of his work to be spread. Due to his prestigious client list, many thought of having money invested with Bernie as a rare opportunity, further attracting wealthy clients.

To understand how Madoff was able to pull off his scheme for so long, one must first understand what a Ponzi scheme entails which will further his character traits. These schemes rely solely on one person organize and carry out the fraudulent behavior. Next, he convinced investors that they were investing in funds with positive returns and even larger profits. After, those investments are used to pay off other investors’ “ profits,” from the money gained by new investors. Without constant new investments, these scammers meet their demise when funds and investors are no longer in the picture (Smith).

Likewise, Madoff performed exactly this. “ The Story Behind One of the Biggest Ponzi Schemes,” shows that he made stock portfolios that appeared

to be matching the returns from the S&P 500. By doing this, he didn’t owe too much money back to investors. This continued to work as he targeted the wealthiest of investors and held onto his famous clients. He specifically targeted those who weren’t majorly concerned with this money as they continuously earned more from their work. He was able to have investments perform exactly how he said they would and would have return rates be whatever he wanted. With this money, fee payments to his firm, family, and friends were made. Next, though fake, he was able to keep reports consistent and up to date with his investors. With investors feeling secure that there would be no major stock drops and just consistency, no suspicions were raised. Even more so, investors believed they could withdraw invested money whenever they wanted. They were urged to stay on course and continue earning more money rather than reclaiming their profits. So, when investors had their gain, they would receive that profit by pulling it from the personal business account in which he had others investors’ money. In order to make sure he could continue his scheme, he decided to pay out small returns instead of larger ones.

However, not everyone was fooled. Many investors tried to recreate his returns and style but failed. Once figuring that his promised investments returns were incredibly unlikely, the firm’s auditor was questioned. Turns out, the auditor was a small storefront operation with only a few employees. This alerted many professionals of the troubles ahead. In this manner, in 2005, Harry Markopolos alerted the Securities and Exchange Commission that the world’s largest hedge fund was a fraud, after looking over his records for a brief few seconds in order to try and replicate the returns

Madoff was producing. In *“ The Journal of Corporation Law,”* it was noted that on November, 21, 2007, the investigation was closed on the grounds that the staff had found no evidence of fraud. However, despite the Securities and Exchange Commission not listening, he was committed to getting the truth out. His dedication caused him to quit his job and work tirelessly to inform the Securities and Exchange Commission for a lengthy eight years. Likewise, when Goldman Sachs executives visited Madoff to see if he was to be recommended to their clients, Madoff “ refused to let them do any due diligence on the funds and when asked about the firm’s investment strategy they couldn’t understand it. According to Charles Fergusons, “ Heist of the century: Wall Street’s role in the financial crisis,” Goldman not only blacklisted Madoff in the asset management division but banned its brokerage from trading with the firm too” (Ferguson). To continue, JPMorgan Chase, a primary banker for Madoff for over 20 years, had their suspicions. The UBS headquarters forbade the investing of bank or client money in accounts with Madoff even though they work on Madoff’s feeder funds. Overall, it was Markopolos’ 2005 complaint that served as the best documented analysis of the fraud, providing the Securities and Exchange Commission with a detailed map of the 29 “ red flags” that proved Madoff’s fraudulent activity.

At the same time, the financial crisis of 2008 was taking over the United States, despite the Federal Reserve and Treasury Department trying to prevent it. It was the worst economic disaster since the Great Depression of 1929. The Great Recession began due to housing prices starting to fall due to a large amount of homeowners with doubtful credit. In summary, banks had

allowed for loans equaling 100 percent or more than the value of their new home to be taken out. However, the major player to blame was the Gramm-Rudman Act which allowed for banks to engage in trading financial contracts, or derivatives, that were then sold to investors. This led to an uncontrollable demand for mortgages. Those mortgage-backed securities were owned by hedge funds and other financial institutions across the world. However, when derivatives lost value, there wasn't enough cash flow to keep up causing banks to panic when it was realized that they'd have to absorb losses. Therefore, according to The Balance, lending was stopped and interbank borrowing costs rose. The crisis called for government intervention and a $700 billion payout package was offered to Congress.

It was in 2008 that his empire fell apart. Madoff borrowed a large amount of money and could no longer keep up with the investors' payouts that totaled 7 billion dollars. Meanwhile, he only had about 200 to 300 million dollars. He planned to give billions of dollars in bonuses earlier than expected at this time. His sons, Mark and Andrew, were suspicious of where this money was coming from. When demanding their father to tell them, he confessed to his investment securities firm being a Ponzi scheme. Mark and Andrew reported their father to federal authorities and Bernie was later arrested.

On June 29 th of 2009, Madoff was sentenced to the maximum sentence for his Ponzi scheme operation to 150 years in federal prison by Judge Chin. He pleaded guilty to 11 federal felonies. Those including frauds of security, wire, and mail, as well as money laundering, making false statements, perjury, theft of employee benefits, and filing false claims with the Securities and Exchange Commission. It is estimated that he defrauded 4, 800 clients as of

November 2008 in what was thought to be nearly $65 billion over the past 20 years. He claimed he was the only one that was to be held responsible for the fraud, and pleaded guilty to all charges. It was thought that his guilty plea would allow for him to avoid giving out names of any employees and accomplices.

On the other hand, employees and accomplices were about to come face to face with their wrongdoings. To discuss some the few, Madoff’s accounting auditor, David Friehling, pleaded guilty to security and investment adviser fraud, as well as filing false reports to the Securities and Exchange Commission, further hindering the IRS’ workings. He cooperated with federal prosecutors, and admitted to approving Madoff’s filings without properly looking over and auditing them. Furthermore, he testified at the trials of other employees who were sentenced up to 10 years in prison. His cooperation allowed him to settle for a sentence of one year of house arrest, and one year of mandatory parole in May of 2015. Unlike Friehling, who was able to avoid more than 100 years in prison, some were not as lucky. Frank DiPascali, another one of Madoff’s close accomplices, pleaded guilty to ten federal charges and testified at the trials of the former colleagues that Friehling did. He would die of lung cancer in 2015 before being sentenced for the 125 years. Next, Daniel Bonventre, Madoff’s director of operations, was charged for enabling and helping to falsify records for at least three decades.

Therefore, this scandal turned attention to the most important federal regulator of Wall Street. This Ponzi scheme could have come to a close much sooner if jobs were properly done. That is, the Securities and Exchange Commission’s Chairman, Christopher Cox, admits and acknowledges missing

several chances to probe claims of corruption by Bernie Madoff. More precisely, it was said that their initial findings were “ deeply troubling” and showed that the company failed to properly take action. Despite being brought to their attention countless times over several years, it was never recommended that the Securities and Exchange Commission take action and get formal authority to investigate claims. A company that was so heavily relied on to bring justice and truth to the financial industry failed to do so. “ *The Journal of Corporation Law”* revealed that it was quite difficult to understand how highly qualified attorneys could have missed seeing such a large scale fraud that was detailed. One of the largest warning signs included having such a large firm handled by a small, unknown auditor. Their mission is simple, watch over securities exchanges, brokers, deals, investment advisors and mutual funds. Many speculate that either the Securities and Exchange Commission was influenced by the intimidating presence of Madoff, or the attorneys who read Markopolos’ memos were uneducated or uninformed on who to understand the severity of such a case.

To show the enormity of how such a scandal can take off, certain key players must be discussed to just scratch the surface of the many effected. For example, according to Shaoul’s “ Madoff collapse has global impact”, Walter Noel, a US fund manager of The Fairfield Greenwich Group, experienced the largest loss of money. He had $7. 5 billion invested with Madoff through feeder fund investments. With great trust in Madoff, he continued to do more business with him. The Fairfield Greenwich Group, who boasted their ethical standards of due diligence, established market capitalization partnerships and marketed Madoff-based funds to some of Europe’s largest banks like the

Spanish Banco Santander, the Swiss Union Bancaire Privee, and Swiss money manager Genvalor. Essentially, they repackaged Madoff's investments and sold them to " funds of hedge funds" that work alongside wealthy investors. In 2007 alone, Fairfield earned $160 million of its $250 million revenues from doing business with Madoff. Next, Rye Investment Management in the United States also faced a loss of $3 billion, due to Madoff being the sole manager of funds for its client's money. Britain's Kingate Global Fund also lost $2. 5 billion. Similarly, Massachusetts state pension fund manager, lost $12 million. Losses due to this criminal scheme even become huge losses to communities. To illustrate, the Chase Family Foundation that donates $12. 5 million to charities annually, was forced to close due to all of its money being invested with Madoff. Even Holocaust survivor and author, Elie Wiesel charitable organization lost $15 million (Shaoul).

These schemes are kept in motion by the investors who buy into them. Investors should be aware of warning signs, to avoid falling victim to these schemes (Brockman). To begin, one not must not be fooled by an extravagant client list. Next, if returns are promised that are not on the same path and funds that are properly managed and maintained in the same market conditions, you should be on high alert. In other words, if it sounds too good to be true, it most likely is. Most importantly, financial statements are used to tell where your money is being invested. For example, stocks, bonds, commodities, money markets, real estate, and so on. It is a huge warning sign f one is unable to tell from their statement where the money was invested. Investors must also do extensive homework with who they plan to invest with. Investors should determine if the fund or adviser is

registered with the Securities and Exchange Commission, there are any records of complaints, lawsuits being filed, or fines and violations. In this manner, investors should not have all assets tied up with one particular fund or adviser.

Accordingly, it is no surprise that global financial market sectors have become increasingly criminalized. The culture that has been created tolerates and encourages fraud across the system. Brockman’s “ Madoff Case Puts Spotlight on SEC” shows that while many would think that after Madoff was sentenced to 150 years in prison, Ponzi scheme crimes would come to a halt, many copycat criminals believe they could get away with it on different scales (Touryalai). For example, according to the Financial Times as of 2016, there were 59 Ponzi schemes uncovered by the United States with losses equaling $2. 4 billion (Brockman). Since 2012 an average 65 schemes a year have been discovered. Ponzitracker. com, also known as the “ Ponzi Scheme Authority,” is a site where headlines of convictions and suspicions of operating Ponzi schemes are exposed. This educational tool allows for an in depth analysis into the complexity and expense of the rise and fall of Ponzi schemes.

The Securities and Exchange Commission have taken steps to protect investors. They operate an investor protection website that highlights red flags that investors can use to identify schemes. It also operates alongside the Financial Industry Regulatory Authority to run whistleblower programs and complaint hotlines. As another form of enforcement, they had charged investments groups and executives engaging in Ponzi schemes with hiding the declining conditions of financial enterprises. Likewise, the Dodd-Frank

Act, or Wall Street Reform and Consumer Protection Act was an initiative put into place to promote hedge funds and investment firms to act in accordance with new requirements on reporting standards and further gave the Securities and Exchange Commission the control to monitor financial firms and institutions that could pose potential systemic risk. There was also a rise in due diligence, which called for greater transparency with investors so they were clear on where their money was being invested in (Alessandro).

To conclude, Madoff's Ponzi Scheme proves itself to be relevant to the Fundamentals of Capital and Money Markets. To illustrate, institutional markets exist to promote growth of societal wealth, income, and economic opportunity. Key players like the Securities and Exchange Commission were introduced as the main regulator of securities markets after the Securities Exchange Act of 1934. Next, the Financial Crisis of 2008 was discussed as it largely effected all financial institutions and called for government intervention. Therefore, stock returns are important to understanding how Madoff's scheme lasted so long. Madoff's returns were too good to be true and didn't reflect the happenings of the market and that time. Lastly, had investors done more research into their investments and known the warning signs of how these white collar crimes occur, a drastic number of people wouldn't have had to face the effects of Madoff and his co-conspirators and protected their assets.

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