

Good example of allen stanford and the stanford financial group research paper

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Introduction

Allen Stanford, James Davis and Laura Pendergest-Holt were the Chief Executive Officer (CEO), Chief Financial Officer (CFO) and Chief Investment Officer (CIO) respectively of the Stanford Financial Group, which was under investigation by the Securities Exchange Commission (SEC) for undertaking to cheat investors of \$7 billion through a massive Ponzi scheme in overseas Certificate of Deposits (CDs) which were offering returns that were consistently higher than the market. Each of the three is presently serving prison sentences for their respective roles in the crime and related investigation.

History of Key Members of Stanford Financial Systems

Allen Stanford: Born in 1950 in Mexia, Texas, Allen Stanford attended Baylor University from where he graduated with a BA in Finance. He and his father set up Stanford Financial Group in the 1980s to invest in real estate, where they made a substantial profit. In 1993, Allen Stanford took over the company of 500 employees. Subsequently he moved to the Caribbean, living first in Montserrat and then in Antigua and Barbuda. He set up the Stanford International Bank in Antigua as part of the Stanford Financial Group. Active in politics and business circles in the Caribbean, he was awarded a knighthood by the Antigua government which was subsequently abolished when details of his criminal conviction were released.

James Davis: James M. Davis was born in 1948 and served as the Chief

Financial Officer (CFO) of the Stanford Financial Group. He met Allen Stanford in Baylor College, where the two studied together and were roommates.

Davis was subsequently offered a role of CFO in Stanford Financial Group in 1987, and continued even after Allen Stanford took it over from his father.

He cultivated the image of a fitness conscious and religious person in office and hometown of Baldwyn, Mississippi, where he started the breakaway LifeWay Community Church, though he was born a Baptist. He was also the mentor to Laura Pendergest-Holt, who was also from the same town.

Laura Pendergest-Holt: Laura Pendergest-Holt grew up in Baldwyn, Mississippi, the same town where James Davis lived. She met Davis in the Baptist Church which both used to attend. She did her bachelors from Mississippi University for Women with a major in mathematics, and her masters in science from the University of Mississippi. As Davis' protégé, she joined Stanford Financial in 1997 right out of college. She was groomed and given rapid promotions to reach the position of CIO in the Stanford Financial Group, with an office based in Memphis, Tennessee, where she settled after her marriage to Jim Holt. She was also related to many of the staff in Stanford Financial Group, with her brother-in-law (sister's husband) Ken Weeden working as Stanford Financial Group's former managing director for investments and research, and her cousin Heather Sheppard working as James Davis's secretary at the firm.

The Fraud

Allen Stanford set up the Stanford International Bank in Antigua, and was reported to have bribed the then Prime Minister and financial regulators to

ignore reports of anything illegal (Prince, 2012). Using the Stanford International Bank, Stanford sold Certificates of Deposit (CDs) offering high interest rates to investors in the US through his parent company Stanford Financial Group, a brokerage firm. The investments in SIG were structured in three tiers, with 80 per cent of the funds in Tier III, to which only Stanford and Davis had access. The rest were managed by the SIB Managing Director and the CIO Laura Pendergest-Holt. The money that came into the bank in the form of investments from clients were illegally used by Stanford as a personal loan, and invested in various real estate developments owned by the Stanford Financial Group. The whole set-up was determined to be a Ponzi scheme, where money from later investors was used to pay the dues of earlier investors.

Allen Stanford used the money invested in his company lavishly, sponsoring cricket tournaments in the West Indies, including matches between West Indian players and the England cricket team. His extravagance went to the extent of sponsoring over \$20 million in prize money for a match at Lords cricket stadium in London, where he arrived in a golden helicopter carrying a transparent box with the prize money. His other indulgences included a \$100 million fleet of business jets and an island, besides several real estate acquisitions in the Caribbean (Ibrahim, 2012).

The Investigation

In 2009, reports began circulating that the Federal Bureau of Investigation (FBI), the SEC and the Florida Office of Financial Regulation, along with the Financial Industry Regulatory Authority (FINRA), which is a major private-

sector oversight entity, were investigating the Stanford Financial Group. The investigation had started as far back as 2005, but could not proceed due to lack of evidence. In 2008, two whistle-blowers agreed to cooperate with the investigation and the process picked up speed. The company's offices were raided and several top executives were taken into custody. Allen Stanford tried to evade arrest and questioning but was finally arrested outside his girlfriend's Virginia home in February 2009 (Cresswell and Krauss, 2009). Media reports portrayed him on par with, if not worse than Ponzi scheme manipulator Bernie Madoff, and he was subsequently charges with several counts of fraud and financial misappropriation. Initially, Stanford along with Davis claimed innocence of the crimes and laid the blame on Laura Pendergest-Holt, the firm's CIO. The latter was accused of trying to block SEC investigations into the firms by lying to the investigation team and covering up the activities of Davis and Stanford, and was sentenced to three years in prison (Calkins and Harris, 2012).

Eventually, Davis and other executives of the firm testified against Stanford. Davis received a five year reduced sentence for cooperating with the authorities and Stanford was sentenced to 110 years of prison, less than the 230 years that he could have received as the maximum sentence. Stanford is presently appealing against the verdict in the Supreme Court.

What Went Wrong

There is a saying by Baron Acton that " Power tends to corrupt, and absolute power corrupts absolutely". Allen Stanford found himself in possession of so much wealth that it corrupted his sense of right and wrong. Davis was

reported to have said in public, “ I’ve perverted what was right and did wrong. I hurt thousands of investors, I betrayed their trust” (Calkins and Harris, 2013). Allen Stanford still refuses to acknowledge that he did anything wrong, in spite of the overwhelming evidence against him. Laura Pendergest-Holt was reportedly a scapegoat, since she had no idea about how the firm’s funds were really invested, in spite of being the CIO for the company. She trusted Davis and tried to protect the top management till the end, even lying to an investigation committee to cover up the misappropriation of funds.

Fate of the investors

In all of this, the ones to suffer the most were the investors. Over 17, 000 investors were taken for a ride by the Stanford Financial Group, and are not likely to recover a substantial portion of their money. Even though Stanford’s assets are under receivership and the assets of Davis, Pendergest-Holt and other top executives have been seized and diverted to repay investors, these are a small percentage of the original funds invested. The investments constitute the life savings of many of the investors, who have nothing to fall back upon.

Conclusion

Through the greed of one person and the connivance and support of others, Stanford Financial Group ruined the lives of over 17, 000 investors, embezzling over \$7 billion in funds over a period of 25 years. Such behavior cannot be condoned and it reminds us at all times that no good ever comes out of being too greedy. The investors were misled by the firm, but only due

to the fact that they hoped to get better returns than what the secure investments offered them. Their greed was also a factor in the whole setup, which Stanford and his company took advantage of for their own profit.

References

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