Madoff scandal research paper

In the last decade, more and more investors are finding it hard to trust the financial system in the United States. With the scandals and frauds, such as Enron and Worldcom, investing is riskier than ever. However, previous scandals and frauds were nothing compared to the newest scandal, the Madoff Scandal. Many people call this a fraud or a Ponzi scheme, and others call it a scandal. The truth is that this situation is both. Through explanation, this will be proven as well as reasons why this situation should never have occurred. The first thing that must be understood is the concept of fraud. Fraud is a misrepresentation of a situation that usually promises some type of reward. A Ponzi scheme is a game in which the investment advisors get people to invest and then use new investor'smoneyto pay the returns of earlier investors. When defined, it becomes quite obvious that the Ponzi scheme is a definite fraud. The basis of the Ponzi scheme usually promises extremely high and unrealistic and consistent returns.

As with any fraud, it is the promise of reward or money that gets people to believe in the scam. The Madoff scam was not the first Ponzi scheme, even in this year. Recently, several others have been discovered and are in litigation at the moment. On is the scheme run by a Minneapolis financial advisor, Thomas Petter. He is accused of defrauding investors of $3. 5 billion in funds. Another one, closer to Madoff, is Nicholas Cosmo. His scheme has been accused of taking $370 million from unknowing investors. However, neither of these Ponzi schemes even comes close to the Madoff scheme at $50 billion in funds. While the others are not as extensive, it shows that Madoff is not alone and that investors need to be cautious even when dealing with a financial or investment advisor. There are sure signs of Ponzi schemes that financial advisors are trying to get to the public so that these occurrences do not happen so often. There are six major signs that could prove to be a Ponzi scheme, but should be regarded before any type of investment.

The first is to question why one company would have several arms or subsidiaries within the same company. Investors should also question if the investment company sells services other than those of financial advising. Third is that any investment company that wants full control of all assets is suspect. Any credible investment advising company will be audited yearly by a well-known, independent auditing company that is registered as such. Investors should always question hedge funds. Not all are Ponzi schemes, but they make for a good front. Also, you may be interested in the HealthSouth Corporation Scandal essay. The last tip is to check out the investment firm. Run a check on the internet and with the Securities and Exchange Commission (SEC) to see if the company has received any type of disciplinary action. This is a red flag and is the easiest to find. Unfortunately, fraud is not the end of the story. The scandal starts once the fraud is discovered. Part of this type of fraud and which lends itself to accentuate the scandal is that this Ponzi scheme used of the reputations of those involved as being beyond doubt. In fact, many of those associated with this scheme were meticulously hiding their true colors in this field. Bernard Madoff, the mastermind of this scheme, used his reputation to get other investment advisors to believe in him and invest their client's money with him. He had the reputation proceeded him. He had been the Chairman of NASDAQ and had worked on Wall Street for over 50 years, part of this time with the Ponzi scheme which lasted over 20 years.

J. Ezra Merkin worked with Madoff and made a nice living out of investing with Madoff. He, too, used his reputation and his act of a conservative investment advisor to get many investors, individuals as well as foundations, schools, and organizations, to put their money with Madoff. He headed many of these organizations and worked closely with many of the foundations. They had faith in him and considered him a smart investor, but found out the hard way that he was not as smart or as conservative as they believed in the first place. Another aspect that came out about Merkin is the fact that he would invest money with Madoff even if his clients did not want to invest. A prime example of this is Bard College. He had worked with this college and told them that their money was safe and invested with him. It was not, it was with Madoff. Another example of Merkin's unscrupulous actions is with New York University. Merkin had recommended the school invest with Madoff. They rejected the recommendation, but Merkin went ahead and invested the school's money with Madoff. Merkin went down on the same day Madoff was arrested. The scandal continues to unfold with the number of celebrities, including Zsa Zsa Gabor, as well as individuals and foundations that have lost everything. One investor is a 61-year-old woman who was diagnosed with Parkinson's disease. When she was diagnosed at the age of 53, she was told she had to quit her job. Over the years she had saved and invested money and was advised to invest with Madoff. Her $2million is gone and she has no way of getting more money due to her disease. Another individual, a retired business owner, lost over $2. 5 million because of Madoff.

He and his wife are now having to re-evaluate their life and try to find a way to exist These are not isolated events, but just a hint of the devastation this fraud perpetrated by Bernard Madoff and other investment advisors. Knowing that Madoff defrauded these people, and the scandalous fact that many lost everything they had in his Ponzi scheme, the biggest part of the scandal was the fact that governmental agencies, including the SEC, ignored the signs. The chairman of the SEC, Christopher Cox admitted that he overlooked evidence about Madoff for over a decade. This scandal has led the Senate and Congress to question the SEC about why and how a fraud of this proportion pasted by their investigations. The answers were disheartening, as the congressional committee was told that there are not enough investigators to look at every tip that comes into the agency. In fact, there was a major bit of evidence that was true against Madoff that was sent to the SEC in 2002 and was ignored. So not only did the investment advisors and companies ignore the warning signs, but the SEC ignored the signs as well. In 2006, the SEC did conduct an investigation on Madoff, but he and his investments were cleared. At the point of the investigation, the fraud had been taking place for over 20 years. How did a thorough investigation miss such a scheme? No one is sure except for the investigator, but the public would probably guess right that the investigation was anything but thorough. It may also assume that the interests and friendships of 50 years in the financial world, probably allowed for some of the obvious disinterest in Madoff and his scheme. This situation is a prime example of fraud and how that fraud turns into a scandal. No one is ever safe or free when trying to defraud a person or group. The fallout is devastating for all involved from the ground floor on up to the person in charge. This example shows that devastation for so many. Many who have to alter their lives unjustly because of the greed of an unscrupulous man named Bernie Madoff.

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