

## Madoff Madness

By Paul Gibson



If you have been paying attention to the news lately, you might find it hard to avoid a certain news item about the famous businessman turned notorious financier, Bernard Madoff and his extremely intricate pyramid or Ponzi scheme.

The news media has gone into an absolute frenzy of sensationalism about Madoff with headlines reading, “Madoff Made Off with Millions,” “Madoff Madness”, or “Life After Madoff.”

Many US regulators like the SEC (Security Exchange Commission) are wondering how Madoff was able to mount such an extraordinary scheme that could cross borders and leave investors penniless across the globe, while racking up an astounding 50 billion dollars in liability. But while they were scratching their heads, yet another problem appeared, Madoff, who was under house

arrest in his home in Queens, New York, actually sent million-dollar jewels to his relatives via mail. Surprised?

The real reason may lie in a very strong, stalwart and solid, but sometimes tricky and stealthy concept called trust. Madoff is a serious professional who racked up many of his millions on his own. He was famed for making all the right investment decisions and making bundles of money in the process. His reputation on the street even brought him into the social limelight of the grandiose gurus of Wall Street. Finishing up his career as the chairman of Nasdaq (the electronic stock exchange) seemed to be the culmination of an admirable and stellar financial career. That all ended in December, 2008 when Bernhard was detained for allegedly scheming to rob billions from investors across the globe.

In our beloved Spain, la Kutxa, Banco Santander and other top banking institutions were not immune to Madoff’s madness. They had clients that had invested in a number of funds that Madoff had created with other people’s money, distributing fictitious returns and pocketing the rest of the money.

The scary part about the news though, is that Madoff was not the only one on the street to abuse the

confidence and trust of the very people that got him there. So how were these people taken in?

Here were the red flags that regulators and investors missed: Madoff promised his clients “high returns in a short time.” Lesson to be learned: “If it sounds too good to be true, it probably is.” The second red flag is harder to miss: consistent, double-digit returns on relatively low sums of money. Third red flag: Madoff was the owner of his own registered brokerage firm. If you add up all of these together plus a chair on the Nasdaq exchange, it starts to become clear how Madoff could make off with millions.

Another ingredient to the disaster was hidden extortion and dark threats: when investors started to smell a rat or ask for transparency in these transactions, they were gently persuaded or cleverly threatened to be thrown out of the fund. Investors, many representing large institutions, felt between a rock and a hard place: if he throws me out of the fund, my banking institution (and our clients) will blame me so I better keep my mouth shut. Lesson learned: never send a boy to do a man’s job. When you invest, make sure you have control over your money or at least the brokers that work with and for you. Stay away from those funds promising high returns with little risk. The golden rule has once again been affirmed: if it sounds too good to be true, it is too good to be true.