

ISSUE #27 – 1st Quarter 2009

**Ponzi Schemes****Bernie Madoff Raised the Bar, and is Now Behind Bars**

Let's be clear about one thing. Ponzi was not the name of the suave character played by Henry Winkler in the 70s hit television show "Happy Days." Ponzi (first name Charles), an Italian immigrant, was a slick con artist in the 20s who fleeced thousands of New England residents into investing in a foreign postage stamp speculation scheme. Ponzi told gullible investors that he could provide a 40 percent return in just 90 days compared with 5 percent for bank savings accounts.

The charismatic Ponzi was flooded with funds from eager investors, raking in \$1 million during one three-hour period. Early investors were paid off to make the scheme look legitimate, but a later fraud investigation found that Ponzi had only purchased about \$30 worth of the international mail coupons.

Ponzi was sent to prison but his name has lived on in infamy to describe an all-too-common illegal pyramid scheme: money from new investors is used to pay off earlier investors at sky-high returns until the entire house of cards collapses when the pool of new investors runs out.

The latest inductee to the Ponzi Hall of Shame is former NASDAQ chairman Bernard Madoff who orchestrated a \$50 billion Ponzi scheme, which is the largest of its kind. "Uncle Bernie," as friends and colleagues knew him, shamelessly preyed on the wealthy upper crust that handed over huge piles of money to him based on a smile and handshake.

"Madoff's investors rave about his performance - even though they don't understand how he does it," wrote Barron's Erin Arvedlund, who has penned a new book on the crooked financier who will be spending the rest of his life in federal lockup.

His country-club cohorts wanted to give money to Madoff because he guaranteed high returns that consistently beat the market. But he was no more than a common thief who stole from his own social circle, throwing into financial ruin hundreds of formerly well-heeled philanthropists, do-gooders, socialites, and investment firms.

Madoff was a one-man financial wrecking ball when his decades-long Ponzi scheme came to light in December 2008. A downturn in the economy placed a tight squeeze on new investors; old investors wanted their money out. But Bernie's coffers were bone dry. The game was up. He tearfully confessed his duplicity to his two sons who then called the feds.

This is not to suggest that Madoff and his wife Ruth lived like paupers. They had a \$7 million penthouse condo in New York City, villa in southern France, spacious beach home in Palm Beach, another home in Montauk, and a large yacht fittingly called Bull. All told, they had assets totaling \$62 million. We need to emphasize "had." The feds took almost everything, leaving Ruth just \$2 million.

It is difficult to know what makes a Ponzi schemer like Madoff tick. Was he a sociopath? After all, he was stealing from his closest friends.

Yet ever since the "greed-is-good" 80s, there have been a number of Ponzi schemes.

In 1985, a San Diego currency trader named David Dominelli bilked more than 1,000 investors for \$80 million. Dominelli pled guilty and was sent to prison.

In the 90s, Florida church leader Gerald Payne used his Greater Ministries International to persuade 20,000 worshippers to fork over \$500 million for investments in gold coins. Payne said that God would double the money of pious investors. Payne was convicted and sentenced to prison. Most of his investors never received a cent in return.

Then there's Democratic fundraiser Norman Hsu, who was charged in October 2008 with operating a \$60 million Ponzi fraud.

Or how about former boy-band music producer Lou Pearlman, who stole \$300 million from investors over two decades.

Want more? Minnesota businessman Tom Petters was indicted by a federal grand jury on 20 counts of fraud, conspiracy and money laundering stemming from his alleged role in a 13-year, \$3.5 billion Ponzi ring.

"I'm not sure this is an unusual flow of Ponzis," Katherine Addelman, SEC regional director in Atlanta, told *Time* in March 2009. "But since Madoff, there's a lot more coverage. These cases are moving to the front page, and because of it more people are getting skeptical of these investments. They're more willing now to give information to us."

If you want to look at potential red flags for a Ponzi operator, check out the yachts, jets mansions, cars, and expensive jewelry. What you see is not always what you will end up getting.

Ponzi schemes, however, don't necessarily have to tally in the billions of dollars. There are many with more modest sums. Unfortunately, the SEC does not keep statistics on Ponzis. "There are too many variations," John Heine, SEC deputy director of public affairs, also told *Time*. "It's hard to categorize a Ponzi vs. a pyramid scheme vs. something else."

You can argue that financier R. Allen Stanford belongs in his own separate category. He owned his own Caribbean island, cricket stadium, a \$10 million moated castle in Miami, and a \$100 million fleet of private jets. He did this (so says the SEC) by running a 15-year, \$8 billion Ponzi racket based on fooling investors with so-called high-yield certificates of deposit.

As for a post-Madoff increased crackdown on Ponzis, Heine says, "We go after them as they come in."

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