

# The Madoff Lessons: What Every Financial Advisor Must Learn from History's Biggest Ponzi Scheme

## Presenters:

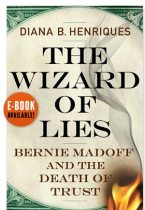
Diana B. Henriques, Author of *The New York Times* Bestseller “The Wizard of Lies: Bernie Madoff and the Death of Trust”, moderated by Cynthia Stephens, VP of Marketing, ByAllAccounts

# Diana B. Henriques, Author and Financial Writer

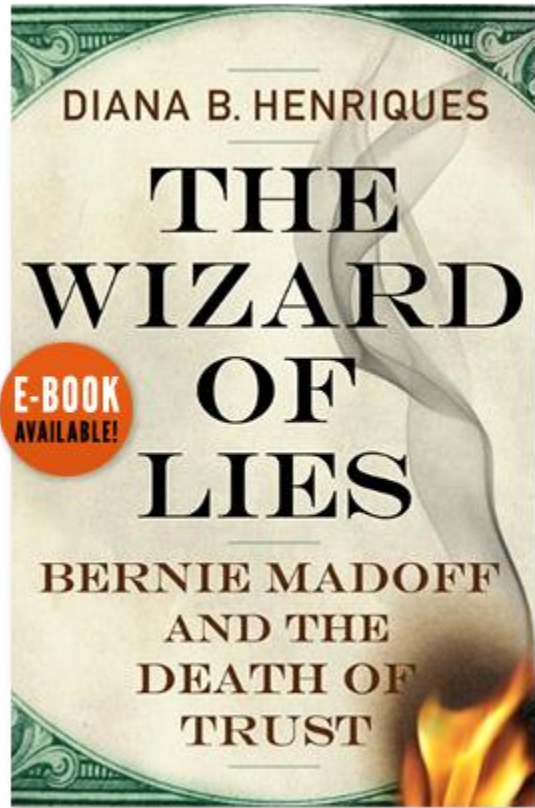


Diana B. Henriques is a senior financial writer at *The New York Times* and the author of *The Wizard of Lies*, a book about the Bernie Madoff scandal. She has largely specialized in investigative reporting on white-collar crime, market regulation and corporate governance.

[www.dianabhenriques.com](http://www.dianabhenriques.com)



# The Wizard of Lies: Bernie Madoff and the Death of Trust



- New York Times Bestseller
- Wall Street Journal "True Crime" Bestseller List
- Optioned by HBO
- British, Australian, Chinese and Russian editions in process

# Cynthia Stephens, VP of Marketing, ByAllAccounts



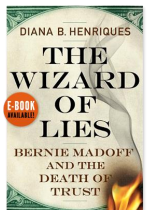
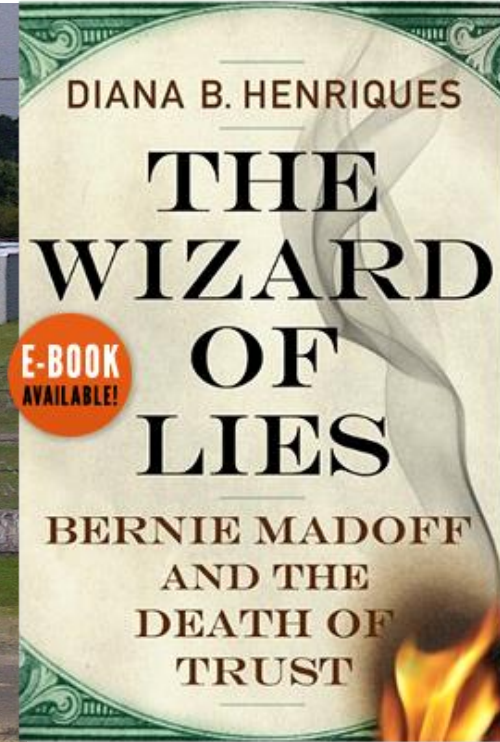
Cynthia Stephens has more than 15 years of experience in marketing and research, which includes a proven track record developing and executing high-impact marketing initiatives to build market visibility, acquire new clients and grow existing account relationships. With ByAllAccounts Cynthia oversees marketing of the firm's financial account aggregation services to investment management and advisory firms. Previously, Cynthia was Director of Marketing at Compete, one of the 50 fastest growing technology companies in New England.

# Agenda

- 1 How Madoff and His Crime Made History and Why That Matters
- 2 New Challenges for Financial Advisors Post-Madoff: Trust Issues, Custody Issues, Regulatory Issues
- 3 How Can Financial Advisors Draw a Line Between Their Legitimate Practices and Madoff's Fraud?
- 4 How Madoff Will Shape the Frauds of the Future
- 5 Q&A Session



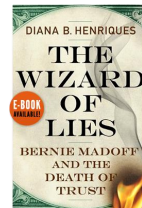
# Writing “The Wizard of Lies”



# How Madoff and His Crime Made History, Why That Matters

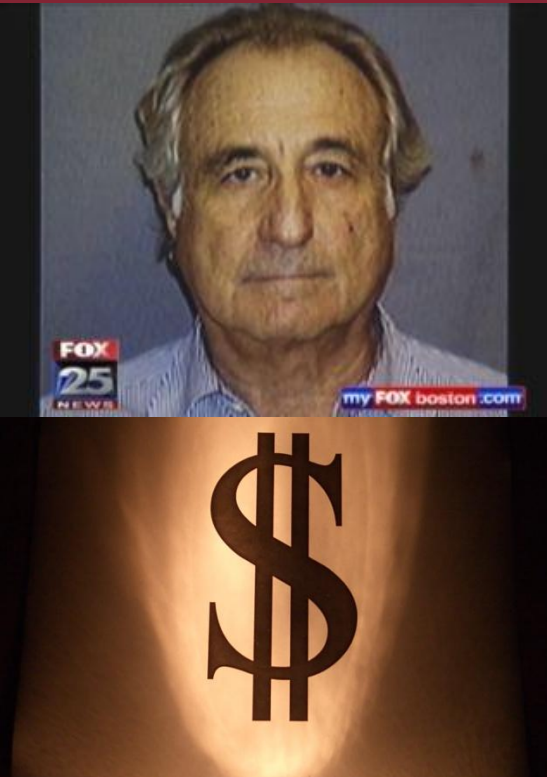


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# The Madoff Fraud, Beyond the Numbers

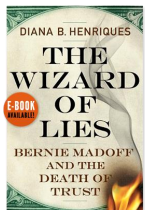


- Three investor suicides, including Madoff's older son
- Charities and foundations forced to shut down
- Small-business and union pension funds wiped out
- Criminal charges filed against eight Madoff associates
- Humiliation for regulatory agencies
- A long court fight ahead on many fronts

# A Madoff Primer

The Madoff fraud, by the numbers:

- More than **\$64 billion** in fictional paper wealth evaporated
- Between **\$17 billion** and **\$20 billion** in "cash losses"
- Of **16,516 claims** filed, **2,419** qualified for recovery

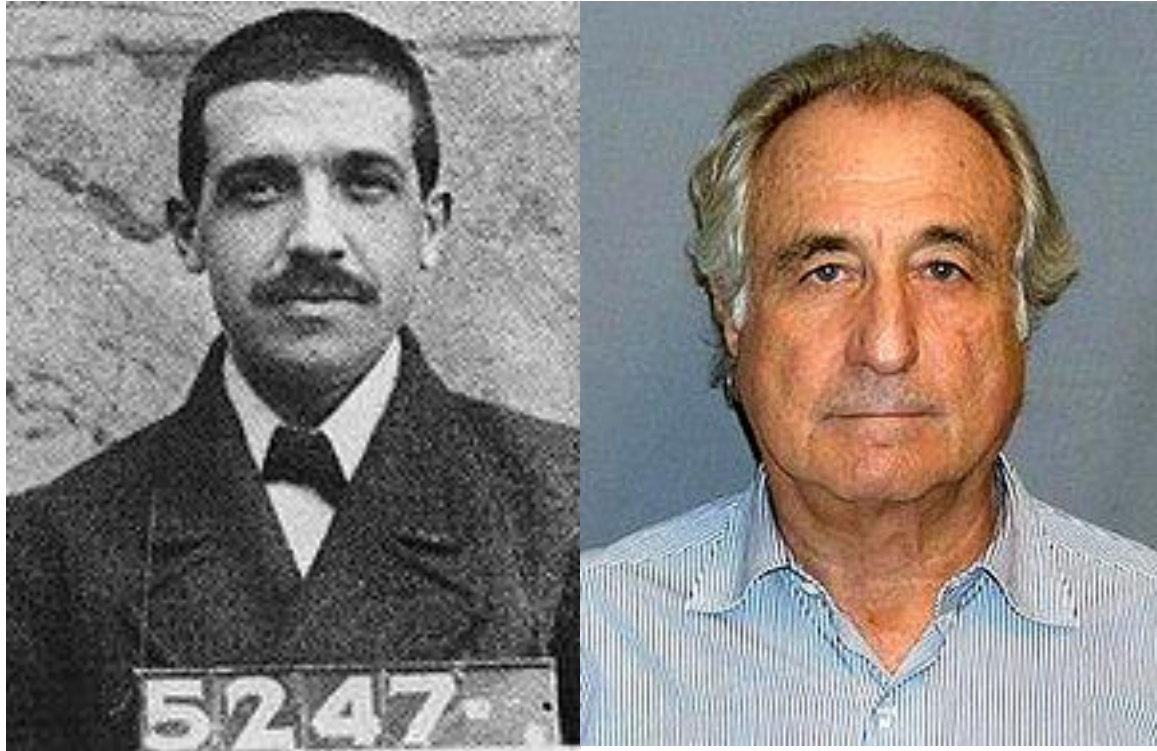


# The Madoff Fraud in the Courts

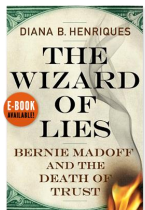


- SIPC commitment: **\$794.9 million**
- Initial distribution of **\$272 million**
- Assets collected for victims to date: **\$10.6 billion**
- More than **1,000 lawsuits** filed
- Almost **\$100 billion** sought, including damages

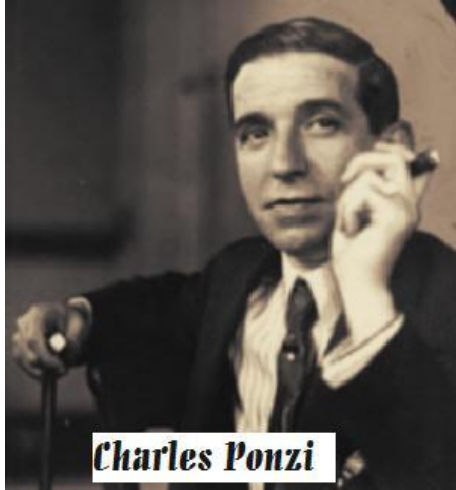
# How Madoff Redefined a Very Old Crime



- A new breed of Ponzi schemer
- A new kind of Ponzi scheme



# A New Breed of Ponzi Schemer



**The Classic Model:** charismatic, gregarious, out to impress you

But Madoff was reserved, casual, impressed by you

**The Classic Model:** the fraud is all he does

But Madoff ran a legitimate, successful brokerage firm

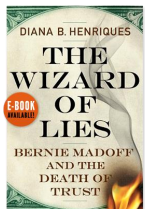


# A New Kind of Ponzi Scheme



**The Classic Model:** sky-high returns, get-rich-quick promises designed to appeal to the greedy

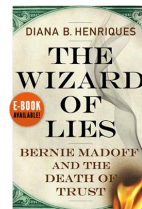
**The Madoff Model:** consistent but barely market-matching returns designed to appeal to the frightened



# New Challenges for Financial Advisors Post- Madoff: Trust, Custody and Regulatory Issues



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# How Madoff Created New Challenges for Financial Advisors



**Madoff Scandal Turns Up Heat on Financial Advisors**

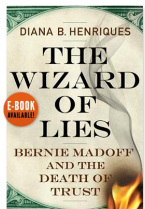
- **Trust** revealed as a two-edge sword
- **Custody** issues shoved into the spotlight
- **Regulators** acting and reacting

# New Challenges: Trust is a Two-Edge Sword

We're hardwired to **trust** one another:



- Modern commerce requires it
- Financial advisors rely on it
- Investors must trust someone in a complex market

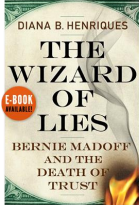


# But Trust is the Air that Ponzi Schemers Breathe...

- Trust blinds investors to red flags
- Trust disarms regulators
- Trust overrides rules and limitations
- Only sure vaccine against Ponzi? Paranoia



# Live Poll

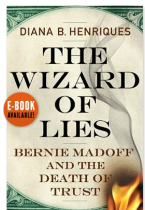


# The Financial Advisor Addresses the Trust Challenge:

Guiding investors to trust enough -- but not too much



- Emphasize the need for personal rules
- Lay out the differences between Bernie and you
- Be honest about "due diligence"
- Be candid about regulatory limitations
- Look for your own blind spots



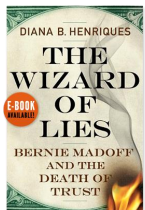
# New Challenges: Custody Issues Pushed into the Spotlight

- Self-clearing + self-custody = self-delusion
- Initial SEC support for requiring independent custodian
- Now: No outside custodian = more audit scrutiny
- But no new SEC resources for examinations, so...



# The Financial Advisor Addresses Custody Issues

- Explain why it matters
- Police (or avoid) products w/o independent custody
- Find ways to use an independent custodian
- Extra scrutiny for self-directed IRA choices



# New Challenges: Regulatory Actions and Reactions

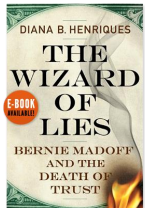


- The good news: enforcement upgrades
- The bad news: years of uncertainty and delay

- The good news: whistleblower initiatives
- The bad news: limited means to follow up on tips

# The Financial Advisor Addresses Regulatory Challenges:

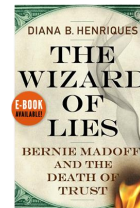
- Steps up self-education efforts
- Keeps an eye on what matters to clients
- Goes above and beyond



# How Can Financial Advisors Draw a Line Between Their Legitimate Practices and Madoff's Fraud?



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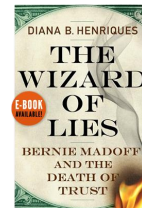
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# How Do Legitimate Financial Advisors Distinguish Themselves from Madoff?



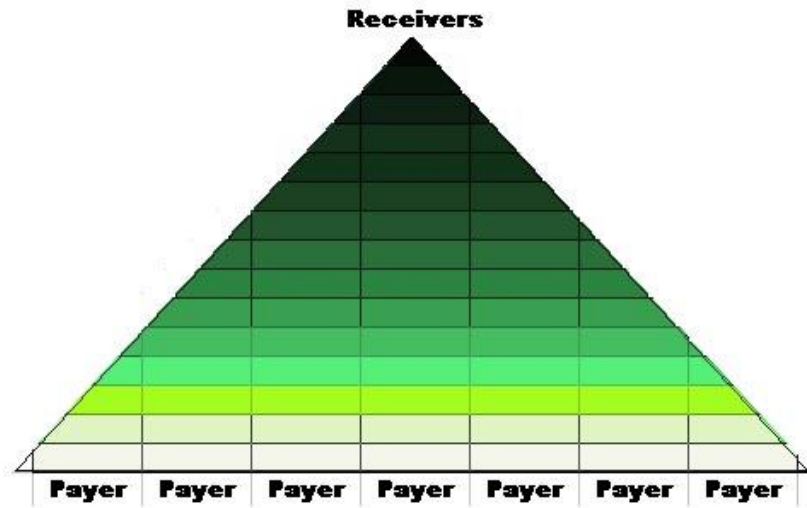
- Itemize the differences - scale? custody? oversight? transparency? independent boards?
- Invite scrutiny from clients - Madoff never did
- Invite independent scrutiny - monitors? auditors? - and share the results with clients
- Band together to establish the differences as "best practices"

# How Madoff Will Shape the Frauds of the Future

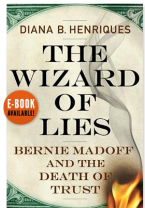


# What's Ahead?

## The Ponzi Schemes of the Future Will...



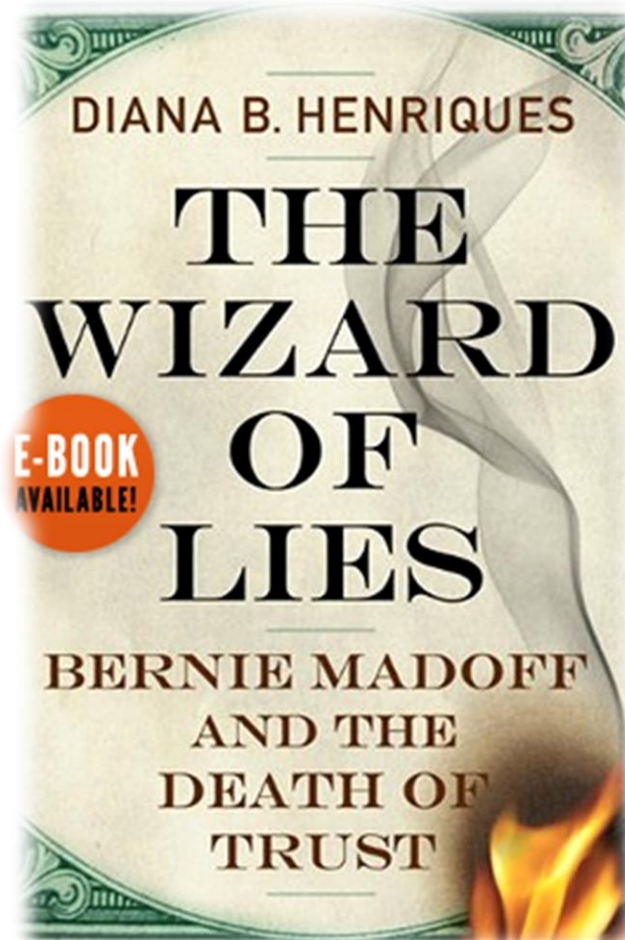
- Offer low, steady returns
- Offer the illusion of diversification
- Emphasize safety over profits
- Pose as adjuncts to a legitimate business



# Lessons Learned...



Remember...



*"In a world of lies,  
the most dangerous ones  
are those we tell  
ourselves."*

-- "The Wizard of Lies"

# Additional resources

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# Q&A and Contacts



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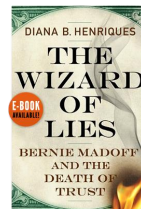
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