The Final Demise of the Madoff Ponzi

Whether you have Royalist or republican views, are a British or Commonwealth citizen, or from another part of the world, it has been nearly impossible not to have seen news of the death of H.R.H. Prince Philip, the Duke of Edinburgh on 9th April.

From my personal point of view, it is sad news, not because I have devout Royalist opinions, but simply because, even at my age (nearly a pensioner), he has always been there, a fixed part of the British institution.

We all know he was often prone to verbal gaffs, and for 'not suffering fools gladly', but he was, to most of the British people, a constant, stabilising figure, and this view seemed to be shared world-wide by people who knew him.

So you would be excused, with Prince Philip's death and funeral constantly in the news, for having completely missed the quiet, unassuming notice of the death of Bernie Madoff.

Madoff died in a US prison, last Wednesday, 14th April, according to the Associated Press. The 82-year-old apparently died from natural causes, but not before carrying out one of the biggest frauds in US history.

In 2009, Madoff was sentenced to 150 years in prison for running a pyramid 'Ponzi' scheme so all-encompassing that even today, only a few of his victims have recovered their losses.

As of 2020, the US Department of Justice had returned about $3.2 billion to individuals conned by Madoff out of some $65 billion.

As a well-respected financier, Madoff convinced thousands of investors to hand over their savings, falsely promising consistent profits in return.

He was caught in December 2008 and charged with 11 counts of fraud, money laundering, perjury, and theft.

Madoff conned his investors out of the $65 billion by luring them with a Ponzi scheme that went undetected for decades.

Ponzi schemes draw investors in by guaranteeing unusually high returns. The name originated with Charles Ponzi, a con artist who promised 50% returns on investments in only 90 days and ended up serving a 14-year prison sentence in 1920.

Ponzi schemes are run by a central controller, who uses the money from new, incoming investors to pay the promised returns to existing ones. This makes the operation seem profitable and legitimate, even though no actual profit is being made. Meanwhile, the person behind the scheme pockets the extra money or uses it to expand the operation.

To avoid having too many investors reclaim their "profits," Ponzi schemes encourage them to remain invested and earn even more money. The "investing strategies" used are vague and/or secretive, which schemers claim is to protect their business. Then all they need to do is tell investors how much they are making periodically, without actually providing any real returns.

Ponzi schemes are simply not sustainable. The setup eventually falls apart after the operator takes the remaining investment money and runs; or new investors become harder to find, meaning the flow of cash dries to a trickle, and too many existing investors begin to pull out and request their returns.

In Madoff's case, things quickly went downhill after clients simultaneously requested a total of $7billion in returns.

At the time, Madoff unfortunately, only had $200 million to $300 million left to give.

Another reason Madoff managed to avoid detection for so long (despite multiple reports to the SEC about suspicions of a Ponzi scheme) was because Madoff was a well-versed and active member of the financial industry.

He started his own market-maker business, Bernard L. Madoff Investment Securities in 1960, and was involved in the launch the Nasdaq stock market.

He was on the board of National Association of Securities Dealers and an advisor to the SEC on trading securities.

So it was easy to assume this guy, an industry veteran, knew exactly what he was doing.

Madoff said in 2013, that it all started in 1987, but he later said the scheme began in 1992. His former account manager, Frank DiPascali, Jr., said in court testimony that financial misdeeds had been going on ‘for as long as I remember.’ He started working at the firm in 1975. It seems it is possible to lie enough that you can believe your own lies, so it is little wonder he was so convincing to victims.

Madoff actually only stole about $20 billion (not much if you say it fast enough), even though on paper he cheated clients out of $65 billion, according to CNNMoney.

However, that's hardly any consolation for the thousands of investors who lost money at the hands of Bernie Madoff. The list includes some well-known celebrities, such as Kevin Bacon and his wife Kyra Sedgwick, Dreamworks Animation chief executive Jefferey Katzenberg, actor John Malkovich, Holocaust survivor Elie Wiesel, and broadcaster Larry King.

The court’s 150-year sentence - more symbolic than literal - given he was 70 years old at sentencing, was appealed, but the judge replied that Madoff's crimes were ‘extraordinarily evil’ and the sentence stood. This probably reflected not only the huge sums of money involved, but the loss of trust in the financial regulators, and in the US financial system generally.

Brandon Sample, one of Madoff’s lawyers said this week "Bernie, up until his death, lived with guilt and remorse for his crimes. Although the crimes Bernie was convicted of have come to define who he was, he was also a father and a husband. He was soft spoken and an intellectual. Bernie was by no means perfect. But no man is."

Well, much as I feel sympathy for his family, I have rather more sympathy for the victims of his fraud.

There have been several other notable Ponzi schemes in history, including Allen Stanford's, which stole $8 billion, and Tom Petters', which scammed investors out of $3.7 billion; and there have been myriad smaller ones over the years. However, as far as scale goes, Madoff’s $65 billion wins by a huge margin.

Whilst there is an almost global sense of sadness at the death of Prince Philip, The Duke of Edinburgh, many will reflect on his 70 plus years of Royal duty, and the positive influence he had on so many people and charitable causes over the years.

Perhaps the biggest scheme of his career was the Duke of Edinburgh's Award Scheme, challenging, supporting and helping youth around the world since 1956, and now active is 144 countries.

The world is a lesser place without Prince Philip.

Bernie Madoff, the family man will, I suppose, be remembered fondly by those close to him, but history has stamped his card - 'The Biggest Scammer in Financial History' - And the world will not miss him or his biggest scheme.

And for the rest of us ordinary folk, "If it sounds too good to be true", it probably is… So beware the next Bernie Madoff.