

Ship of Fools

A recent article called “Ship of Fools” describes the Madoff scandal and its many facets. The article indicates that the scams are avoidable if one asks the following questions.

1. Who is the auditor? Have you ever heard of them? Do they have other reputable clients? Are they independent of the hedge fund?

2. Who is the prime broker?

Are they a recognized name in the industry? Are they independent of the hedge fund?

A weak answer on either of these issues should be enough for any smart investor to walk away. Madoff owned his own broker dealer and charged a commission on every trade. He was, in fact, quite open about it. It was how he said he made all his money. He left the management and 20% incentive fees to the feeders, who brought him Investors.

The feeders claimed they had completed their due diligence. One Madoff feeder fund’s website describes its extensive due diligence. It also claims that it completed extensive personal background investigators and explored the “Structural and Operational Risks.”

Lots of people got into the Madoff scam because they assumed, that with so many seemingly reputable people involved, that someone, somewhere, had done actual due diligence. While in a perfect world everyone does their own homework, the practical matter is that individual investors rely on intermediaries. Those intermediaries failed them horribly and



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have given the whole industry one of the greatest black eyes ever.

Also, from the impossibly consistent return stream, as well as from some very early red flags, it was clear this was a scam from the start. In most investments scams, the manager starts out honestly but goes awry. At some point he decides to lie in

the hopes of making money back. Madoff apparently was a liar and a cheat right from the start, and may have been desperate to pay someone else off from the start. Desperate people do desperate things.

Lastly and most importantly to the golf community, the author of “Ship of Fools” believes that Mr. Madoff posted false golf score as well! It’s almost always a good idea to count each stroke, successful or not!

Listen to Howard Rosenfield with Anita Finley on Saturday, January 10 from 8:30-9:00PM on WWNN 1470AM and on the Internet at www.wwnnradio.com.

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