Bernie Madoff

A well-known Wall Street investment advisor who became world-famous for operating possibly the largest Ponzi scheme in history

Written by CFI Team
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Who is Bernie Madoff?

Bernie Madoff, a well-known Wall Street investment advisor, became world-famous for operating possibly the largest Ponzi scheme in history. When investigators for the FBI and the SEC finally uncovered the massive fraud in 2008, losses by Madoff's investors were estimated at more than $50 billion over the course of nearly 20 years.

Madoff was effectively given a life sentence – 150 years – and his brother, Peter, who also worked for Bernard L. Madoff Investment Securities LLC, received a prison sentence of 10 years. Madoff was also ordered to pay nearly $200 billion in restitution, but that order from the court was essentially meaningless, as Madoff's assets at that time couldn't begin to cover the amount.

Summary

Bernie Madoff is famous for operating probably the largest Ponzi scheme in history.

It's estimated that Madoff's fraud extended for more than 20 years and ran to over $50 billion.

Madoff was arrested in 2008 and eventually sentenced to 150 years in prison.

The History of Bernie Madoff

Bernie Madoff began his Wall Street career in the early 1960s as a trader in penny stock. Eventually, he formed the business, Bernard L. Madoff Investment Securities LLC, that would go on to become one of the largest penny stock brokerage and wealth management firms.

Madoff was a true entrepreneur – the computer trading software program developed by the investment advisor and his brother, Peter – was eventually adopted by the NASDAQ trading exchange and laid the foundation for much of the electronic trading systems that are commonplace now. In fact, Madoff served as chairman of the NASDAQ exchange in 1990.

Ironically, in light of Madoff's eventual fate, he was so well-respected on Wall Street that he also served for a time as the chairman of the board of directors of the National Association of Securities Dealers (NASD) – a privately operated regulatory firm for the securities industry. Other members of his family also occupied prominent positions in industry organizations, such as the Securities Industry and Financial Markets Association (SIFMA).

Madoff's brokerage firm was, by the 1990s, processing 10%-15% of all the trading orders for the New York Stock Exchange (NYSE). Madoff was also known for being a philanthropist to several charity organizations and a major contributor to candidates of the Democrat Party in the United States. However, some of his victims included non-profit charities that previously invested huge sums with his firm.

Bernie Madoff – The Ponzi Scheme

One of the most puzzling aspects of the Bernie Madoff case is the question of why he ever committed the fraud. Madoff's legitimate brokerage business was wildly successful, making him and his family extremely wealthy. He certainly had no financial need to bilk thousands of clients out of billions of dollars.

Madoff's Ponzi scheme was operated through the wealth management portion of his business. It was a classic – and, in fact, frighteningly simple – Ponzi scheme. Madoff attracted investors by promising them extraordinarily high returns on their investments. However, when investors handed over the money, Madoff just deposited it into his personal bank account at Chase Manhattan Bank. He paid "returns" to earlier investors using the money obtained from later investors. Clients' trading statements, showing their alleged profits, were complete fabrications.

Things fell apart in 2008 when a large number of investors wanted to cash out their investments – to the tune of around $7 billion. Madoff didn't have anywhere near enough money to cover the requested withdrawals. According to Madoff, at that time, he could only manage to come up with a couple of hundred million.

Two other unsolved riddles around Madoff's Ponzi scheme were when it began and how it managed to go undetected for so many years. Some former Madoff employees claimed the scam extended as far back as the 1970s. Madoff himself maintained that it didn't begin until the 1990s. Estimates from other sources fall somewhere in between on the timeline.

It's downright astonishing that Madoff managed to keep the scheme undiscovered for as long as he did. As far back as 1992, individuals had urged the Securities and Exchange Commission to investigate Madoff's business practices, and the agency had done so on numerous occasions but had failed to detect the massive fraud. Madoff was widely distrusted by many Wall Street firms – several of which refused to do any trading with him. Nonetheless, Madoff was able to operate his massive Ponzi scheme without detection for at least a couple of decades.

The Aftermath

Bernie Madoff was arrested in 2008 and eventually sentenced to a 150-year prison term in 2009. The United States government ended up offering to pay out more than $700 million to defrauded Madoff investors, but that amount paled in comparison to the billions upon billions of dollars that investors had been scammed out of. However, it is true that some of Madoff's earliest investors did manage to recover their full investment amount plus a hefty profit.

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