Who Was Bernie Madoff?

By ADAM HAYES Updated July 02, 2022
Reviewed by KHADIJA KHARTIT
Fact checked by JARED ECKER

Bernard Lawrence "Bernie" Madoff was an American financier who executed the largest Ponzi scheme in history, defrauding thousands of investors out of tens of billions of dollars over the course of at least 17 years, possibly longer.

He was also a pioneer in electronic trading and chair of the Nasdaq in the early 1990s. He died in prison at age 82 on April 14, 2021, while serving a 150-year sentence for money laundering, securities fraud, and several other felonies.[1]

KEY TAKEAWAYS

- Bernie Madoff was a money manager responsible for one of the largest financial frauds in modern-day history.
- Bernie Madoff's Ponzi scheme, which likely ran for decades, defrauded thousands of investors out of tens of billions of dollars.
- Investors put their trust in Madoff because he created a front of respectability, his returns were high but not outlandish, and he claimed to use a legitimate strategy.
- In 2009 Madoff was sentenced to 150 years in prison and forced to forfeit $170 billion as restitution.
- As of September 2021, the Madoff Victims Fund distributed its seventh distribution of more than $568 million.[2]

Bernie Madoff

Investopedia / Ellen Lindner

What Is A Ponzi Scheme?

Early Life and Education

Bernie Madoff was born in Brooklyn, New York, on April 29, 1938, to Ralph and Sylvia Madoff. His father worked as a plumber before entering the financial industry with his wife.[3] [4] They founded Gibraltar Securities, which was ultimately forced to close by the SEC.[5]

Bernie earned a bachelor's degree in political science from Hofstra University in 1960 and briefly attended law school at Brooklyn Law School. While in college, Bernie married his high-school sweetheart, Ruth (née Alpern), with whom he later founded Bernard L. Madoff Investment Securities LLC in 1960.[6] [7]

At first, he traded penny stocks with $5,000 he earned installing sprinklers and working as a lifeguard.[8] He soon persuaded family friends and others to invest with him. When the "Kennedy Slide" flash crash lopped 20% off the market in 1962, Madoff's bets soured and his father-in-law had to bail him out.

Notable Accomplishments

Madoff had a chip on his shoulder and felt that he was not part of the Wall Street in-crowd. In an interview with journalist Steve Fishman, Madoff advised, "We were a small firm, we weren't a member of the New York Stock Exchange. It was very obvious."[9]

According to Madoff, he began to make a name for himself as a scrappy market maker. "I was perfectly happy to take the crumbs," he told Fishman, giving the example of a client who wanted to sell eight bonds; a bigger firm would disdain that kind of order, but Madoff's would complete it.[10]

Success finally came when he and his brother Peter began to build electronic trading capabilities—"artificial intelligence" in Madoff's words—that attracted massive order flow and boosted the business by providing insights into market activity. "I had all these major banks coming down, entertaining me," Madoff told Fishman. "It was a head trip."[11]

He and four other Wall Street mainstays processed half of the New York Stock Exchange's order flow—controversially, he paid for much of it—and by the late 1980s, Madoff was making in the vicinity of $100 million a year.

Madoff would become chair of the Nasdaq in 1990, and also served in 1991 and 1993.[6]

At some point, Madoff attracted investors by claiming to generate large, steady returns through an investing strategy called split-strike conversion, a legitimate trading strategy. However, Madoff deposited client funds into a single bank account that he used to pay existing clients who wanted to cash out.

He funded redemptions by attracting new investors and their capital but was unable to maintain the fraud when the market turned sharply lower in late 2008.

On Dec. 10, 2008, he confessed his wrongdoing to his sons—who worked at his firm. The following day, they turned him over to the authorities. [12] Bernie remained adamant that his sons were not aware of his scheme.

The fund's last statements indicated it had $64.8 billion in client assets. [4]

The Players

It is not certain when Madoff's Ponzi scheme began. He testified in court that it started in the early 1990s, but his account manager, Frank DiPascali, who had been working at the firm since 1975, said the fraud had been occurring "for as long as I remember." [13] [14]

Even less clear is why Madoff carried out the scheme at all. "I had more than enough money to support any of my lifestyle and my family's lifestyle. I didn't need to do this for that," he told Fishman, adding, "I don't know why." The legitimate wings of the business were extremely lucrative, and Madoff could have earned the Wall Street elites' respect solely as a market maker and electronic trading pioneer. [15]

Madoff repeatedly suggested to Fishman that he was not entirely to blame for the fraud. "I just allowed myself to be talked into something and that's my fault," he said, without making it clear who talked him into it. "I thought I could extricate myself after a period of time. I thought it would be a very short period of time, but I just couldn't." [16]

The so-called Big Four—Carl Shapiro, Jeffry Picower, Stanley Chais, and Norm Levy—have attracted attention for their long and profitable involvement with Bernard L. Madoff Investment Securities LLC.[17] Madoff's relationships with these men go back to the 1960s and 1970s, and his scheme netted them hundreds of millions of dollars each.[18]

"Everybody was greedy, everybody wanted to go on and I just went along with it," Madoff told Fishman. He indicated that the Big Four and others (several feeder funds pumped client funds to him, some all but outsourcing their management of clients' assets) must have suspected the returns he produced or at least should have. "How can you be making 15 or 18% when everyone is making less money?" Madoff said.[19]

The Scheme

Madoff's apparently ultra-high returns persuaded clients to look the other way. In fact, he simply deposited their funds in an account at Chase Manhattan Bank—which merged to become JPMorgan Chase & Co. in 2000—and let them sit. The bank, according to one estimate, may have made as much as $435 million in after-tax profit from those deposits.[20]

When clients wished to redeem their investments, Madoff funded the payouts with new capital, which he attracted through a reputation for unbelievable returns and grooming his victims by earning their trust. Madoff also cultivated an image of exclusivity, often initially turning clients away. This model allowed roughly half of Madoff's investors to cash out at a profit. These investors have been required to pay into a victims' fund to compensate defrauded investors who lost money.

Madoff created a front of respectability and generosity, wooing investors through his charitable work. He also defrauded a number of nonprofits, and some had their funds nearly wiped out, including the Elie Wiesel Foundation for Peace and the global women's charity Hadassah.[21][22] He used his friendship with J. Ezra Merkin, an officer at Manhattan's Fifth Avenue Synagogue, to approach congregants. By various accounts, Madoff swindled $2.4 billion from

Madoff's plausibility to investors was based on several factors:

- His principal, public portfolio appeared to stick to safe investments in blue-chip stocks.
- He claimed to be using a collar strategy, also known as a split-strike conversion. A collar is a way of minimizing risk, whereby the underlying shares are protected by the purchase of an out-of-the-money put option.
- His returns were high (10 to 20% per annum), consistent, and not outlandish. As the *Wall Street Journal* reported in a now-famous interview with Madoff, from 1992:

> *"[Madoff] insists the returns were really nothing special, given that the Standard & Poor's 500-stock index generated an average annual return of 16.3% between November 1982 and November 1992. 'I would be surprised if anybody thought that matching the S&P over 10 years was anything outstanding,' he says."*[25]

The Investigation

The SEC had been investigating Madoff and his securities firm off and on since 1992—a fact that frustrated many after he was finally prosecuted since it was felt that the biggest damage could have been prevented if the initial investigations had been rigorous enough.[26]

Financial analyst Harry Markopolos was one of the earliest whistleblowers. In 1999, he calculated in the space of an afternoon that Madoff had to be lying. He filed his first SEC complaint against Madoff in May 2000, but the regulator ignored him.[27]

In a scathing 2005 letter to the Securities and Exchange Commission (SEC), Markopolos wrote, "Madoff Securities is the world's largest Ponzi Scheme. In this case, there is no SEC reward payment due to the whistle-blower so basically I'm turning this case in because it's the right thing to do."[28]

> **Important:** Many felt that Madoff's worst damage could have been prevented if the SEC had been more rigorous in its initial investigations.

Using what he called "Mosaic Theory," Markopolos noted several irregularities.[29] Madoff's firm claimed to be making money even when the S&P was falling, which made no mathematical sense, based on what Madoff claimed he was investing in.[30] The biggest red flag of all, in Markopolos's words, was that Madoff Securities was earning "undisclosed commissions" instead of the standard hedge fund fee (1% of the total plus 20% of the profits).[31]

The bottom line, concluded by Markopolos, was that "the investors that pony up the money don't know that BM [Bernie Madoff] is managing their money."[31] Markopolos also learned Madoff was applying for huge loans from European banks (seemingly unnecessary if Madoff's returns were as high as he said).[32]

It was not until 2005—shortly after Madoff nearly went belly-up due to a wave of redemptions—that the regulator asked Madoff for documentation on his trading accounts. He made up a six-page list, the SEC drafted letters to two of the firms listed but didn't send them, and that was that. "The lie was simply too large to fit into the agency's limited imagination," writes Diana Henriques, author of the book "The Wizard of Lies: Bernie Madoff and the Death of Trust*,"* which documents the episode.

The SEC was excoriated in 2008 following the revelation of Madoff's fraud and their slow response to act on it.[33]

The Punishment

In November 2008, Bernard L. Madoff Investment Securities LLC reported year-to-date returns of 5.6% during the same period when the S&P 500 dropped 39%.[34] As the selling continued, Madoff became unable to keep up with a cascade of client redemption requests.

So, on Dec. 10, according to the account he gave Fishman, Madoff confessed to his sons Mark and Andy, who worked at their father's firm. "The afternoon I told them all, they immediately left, they went to a lawyer, the lawyer said, 'You gotta turn your father in,' they went, did that, and then I never saw them again." Bernie Madoff was arrested on Dec. 11, 2008.[35]

Madoff insisted he acted alone, though several of his colleagues were sent to prison. His elder son Mark Madoff committed suicide exactly two years after his father's fraud was exposed.[36] Several of Madoff's investors also killed themselves. Andy Madoff died of cancer at age 48 in 2014.[37]

Madoff was sentenced to 150 years in prison and forced to forfeit $170 billion in 2009. His three homes and four boats were auctioned off by the U.S. Marshals.[38] On Feb. 5, 2020, Madoff's lawyers requested that Madoff be released early from prison claiming that he was suffering from a terminal kidney disease that may kill him within 18 months.[39]

However, Madoff, prisoner No. 61727-054, remained at the Butner Federal Correctional Institution in North Carolina until he died on April 14, 2021.

The Aftermath

The paper trail of victims' claims displays the complexity and sheer size of Madoff's betrayal of investors. According to documents, Madoff's scam ran for more than five decades, beginning in the 1960s. His final account statements, which include millions of pages of fake trades and shady accounting, show that the firm had $47 billion in "profit."[40]

While Madoff pleaded guilty in 2009 and was sentenced to spend the rest of his life in prison, thousands of investors lost their life savings, and multiple tales detail the harrowing sense of loss victims endured.[41]

Investors victimized by Madoff have been helped by Irving Picard, a New York lawyer overseeing the liquidation of Madoff's firm in bankruptcy court. Picard has sued those who profited from the Ponzi scheme; by April 2021, he had

In addition, a Madoff Victim Fund (MVF) was created in 2013 to help compensate those Madoff defrauded, but the Department of Justice didn't start paying out any of the roughly $4 billion in the fund until late 2017. Richard Breeden, a former SEC chair who is overseeing the fund, noted that thousands of the claims were from "indirect investors"—meaning people who put money into funds that Madoff had invested in during his scheme.[44]

Since they were not direct victims, Breeden and his team had to sift through thousands and thousands of claims, only to reject many of them. Breeden said he based most of his decisions on one simple rule: Did the person in question put more money into Madoff's funds than they took out?[45] Breeden estimated that the number of "feeder" investors was north of 11,000 individuals.[46]

In a September 2021 update for the Madoff Victim Fund, Breeden wrote, "MVF is thrilled to announce a new distribution totaling $568,648,065 to 30,539 victims of the crimes committed at Madoff Securities. Measured by the number of victims paid, this is our largest distribution yet." With the completion of the seventh distribution of funds in September 2021, approximately $3.762 billion has been distributed to 39,494 Madoff victims in the U.S. and around the world. Breeden also noted that they have recovered 81.35% for victims.[44]

Who Was Bernie Madoff?

Bernie Madoff was an American financier and former Nasdaq chair who orchestrated the largest Ponzi scheme in history. Bernie promised investors high returns in exchange for their investments. However, rather than investing, he deposited their money into a bank account and paid, upon request, from existing and new investors' funds. During the 2008 recession, he could no longer accommodate redemption requests. His scheme came to an end after his sons turned him over to authorities. Bernie was convicted of fraud, money laundering, and other related crimes, for which he was sentenced to 150 years in federal prison. Bernie Madoff died in prison on April 14, 2021, at the age of 82.

How Much Money Did Bernie Madoff Return?

In addition to being sentenced to prison, Bernie Madoff was ordered to pay yachts, and jewelry, were seized and sold by the Feds. Separately, The Bernie Madoff Victims Fund, led by Richard Breeden, has recovered and paid more than $3.7 billion to close to 40,000 victims as of September 2021.

How Did Madoff Get Caught?

Although several people alerted the SEC and other authorities of Bernie Madoff's scheme, it wasn't until he confessed to his sons that he was caught. In 2008, when Bernie could no longer accommodate investors' redemption requests, he admitted his wrongdoings to his sons, Mark and Andrew, who then turned their father over to authorities.

The Bottom Line

In 2009, at age 71, Madoff pleaded guilty to 11 federal felony counts, including securities fraud, wire fraud, mail fraud, perjury, and money laundering.[47] The Ponzi scheme became a potent symbol of the culture of greed and dishonesty that, to critics, pervaded Wall Street in the run-up to the financial crisis. Madoff, the subject of numerous articles, books, movies, and biopic miniseries, was sentenced to 150 years in prison and ordered to forfeit $170 billion in assets, but no other prominent Wall Street figures faced legal ramifications in the wake of the crisis. In April 2021, Madoff died in a federal correctional facility at age 82.

ARTICLE SOURCES ▼

PART OF

Guide to Financial Crime and Fraud

CURRENTLY READING

Who Was Bernie Madoff?

UP NEXT

5 Most Publicized Ethics Violations by CEOs

Worl

Related Terms

What Is Embezzlement?

Embezzlement is a form of fraud wherein a person or entity intentionally misappropriates assets for personal use. more

Who Is Ivan Boesky?

Ivan Boesky, stock trader, takeover arbitrageur and market manipulator, has come to symbolize the excesses of the 1980s junk bond fueled merger mania. more

What Ever Happened to ZZZZ Best?

ZZZZ Best was a carpet cleaning and restoration company that served as a front for a Ponzi scheme. more

Who Is Nick Leeson?

Nick Leeson was a trader for Barings Bank when he racked up $1 billion in trading losses in 1992, driving the venerable institution into insolvency. more

Who Is Michael Milken?

Michael Milken is a philanthropist and financier known for his investment in junk bonds as an executive at the investment bank Drexel Burnham Lambert. more

Certified Fraud Examiner (CFE)

A certified fraud examiner is a professional certification available to examiners. It is issued by the world's largest anti-fraud organization. more

Related Articles

CRIME & FRAUD

Financial Villains: Where Are They Now?

Warren Buffett

FINANCIAL ADVISOR

10 of the Most Famous Financial Advisors

HEDGE FUNDS

The 10 Biggest Hedge Fund Scandals

Stressed man desperate with financial market graphic going down.

CRIME & FRAUD

The Biggest Stock Scams of Recent Time

CRIME & FRAUD

6 Ways to Avoid an Investment Ponzi Scheme

Enron logo

CRIME & FRAUD