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The Man Who Figured Out Madoff's Scheme

Tells 60 Minutes Many Suspected Madoff Fraud; Says SEC Is Incapable Of Finding Fraud

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(CBS) *This story was first published on March 1, 2009. It was updated on June 10, 2009.*

Later this month, Bernard L. Madoff will be sentenced for what is believed to be the largest financial fraud in history. He will most likely spend the rest of his life behind bars. Yet there is still much we don't know about the scam, which involved by some account a fraud of more than \$50 billion. Investigators are still trying to figure out who all was involved and where the money went.

But the proof that it happened can be found in the ruined lives of thousands of victims. The one person who knows the most and is willing to talk about it is Harry Markopolos, the man who figured out Madoff's scheme before anyone else.

Markopolos sat down with **60 Minutes** correspondent Steve Kroft earlier this year for his first television interview

Until a few months ago, Harry Markopolos was an obscure financial analyst and mildly eccentric fraud investigator from Boston who most people would never notice on the street.

But today he enjoys an almost heroic status, pursued by journalists and movie producers, and honored by colleagues as the man who went to the Securities and Exchange Commission and blew the whistle on Bernie Madoff and his \$50 billion fraud.

But he seems uncomfortable with the attention, and knows that he is no hero. "I stand before you a 50 billion dollar failure," he said at an event.

Asked how many times he sent materials to the SEC, Markopolos told Kroft, "May 2000. October 2001. October, November, and December of 2005. Then again June 2007. And finally April 2008. So five separate SEC submissions."

"And in spite of all of the things that you did, it still ended up in disaster?" Kroft asked.



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Harry Markopolos, a financial investigator,

describes the warning signs that should have alerted others to suspect Bernie Madoff.



VIDEO The Man Who Knew

Harry Markopolos repeatedly told the Securities and Exchange

Commission that Bernie Madoff's investment fund was a fraud. He was ignored, and investors lost billions of dollars. Steve Kroft reports.

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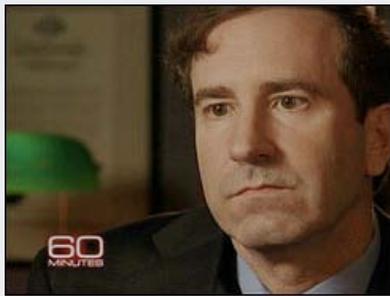
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Harry Markopolos (CBS)



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Madoff's Victims

A look at some of Bernard Madoff's famous clients.



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"There's nothing to be proud about in this case. I feel horrible about the result. It's been a total disaster for the victims," Markopolos replied.

It began a decade ago, when Markopolos was working for a Boston investment firm. His boss told him that Madoff, a former chairman of the NASDAQ stock exchange, was running a huge unregistered hedge fund that was producing incredible returns. He wanted Markopolos to reverse-engineer its trading strategy and revenue streams so the firm could duplicate Madoff's results.

"He had the patina of being a respected citizen. One of the most successful businessmen in New York, and certainly, one of the most powerful men on Wall Street. You would never suspect him of fraud. Unless you knew the math," Markopolos told Kroft.

"I mean, you're like a math guy, right?" Kroft asked.

"I've taken all the calculus courses, from integral calculus through differential calculus, as well as linear algebra. And statistics, both normal and non-normal," Markopolos said.

Asked how long it took him to figure out something was wrong, Markopolos said, "It took me five minutes to know that it was a fraud. It took me another almost four hours of mathematical modeling to prove that it was a fraud."

It was the performance line that Markopolos said caught his attention. "As we know, markets go up and down, and his only went up. He had very few down months. Only four percent of the months were down months. And that would be equivalent to a baseball player in the major leagues batting .960 for a year. Clearly impossible. You would suspect cheating immediately."

"Maybe he was just good," Kroft remarked.

"No one's that good," Markopolos said.

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by thurston2001 June 15, 2009 1:02 PM EDT

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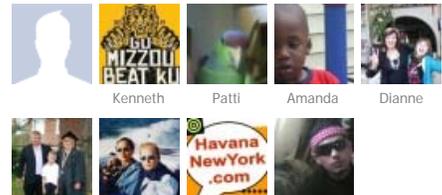


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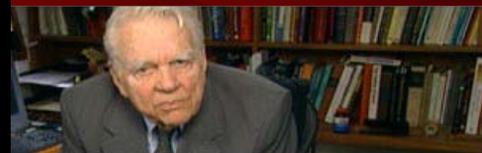
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by wyo1943 June 15, 2009 7:17 AM EDT

Old Hebrew saying: A fool and his money MUST part.....

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by juwboy June 15, 2009 5:33 AM EDT

jincstress:

A tiny fraction of 1% of the world's Jews lost money in Madoff's scheme but you describe it as a "financial holocaust".

Clearly, English is not your first language.

Why don't you go back where you came from?

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Please, those of you with glass bellybuttons...go optic.

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by tugar04 March 13, 2009 11:05 PM EDT

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JUST HOW BERNIE MADOFF GOT AWAY WITH IT ALL, FOR SO LONG...

With all these holdings and monies, and the wife (Ruth Madoff) not having any viable evidence as to how she acquired such wealth, I don't see why Madoff's victims cannot get a substantial portion of their losses back.

Folks, all of this happened because of numerous: "De-Regulations" that took place under Ronald Reagan. And Bill Clinton was kept so busy with the Monica Lowinski business that he had no time to keep an eye on most of the gov'ts business during his last years in office. Then George Bush came along and further relaxed many of the laws enforced by the fed gov't. He even contracted out a great deal of the work that was done by gov't employees to private contractors, who botched up things more times than not, for the people they were being paid to service.

BUT MADOFF KNEW HE HAD NOTHING TO FEAR FROM THE SEC under the Bush Administration. And if anyone even thought to go to the SEC with their suspicions, they got nowhere. Because Madoff had officials at the SEC eating out of his hands. And that should be investigated as well, because our gov't is supposed to work for us, (rich or poor), but work.

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(CBS) Markopolos said there were only two plausible explanations: either Madoff was using insider information to rack up the huge profits or he was running a giant Ponzi scheme.

"So either way, he was doing something illegal?" Kroft asked.

"Either way, I knew he was going to go to prison," Markopolos replied.

In May 2000, Markopolos took his suspicions about Bernie Madoff to the Boston office of Securities and Exchange Commission.

Asked if he had any financial motive, Markopolos said, "Yes. He was a competitor of mine in 2000 to 2004, while I was still in the industry. And when someone's competing on your playing field, who's a dirty player, you want him tossed off the field."

He also thought he might be eligible for a sizable reward if the fraud involved insider trading, but that turned out not to be the case.

"In your first letter to the S.E.C. back in 2000, you're a little tentative. You say, 'Look, I have no hard evidence, no smoking gun,'" Kroft remarked.

"In 2000, it was more theoretical. In 2001, it was a little bit more real. By 2005, I had 29 red flags that you just couldn't miss on. By 2005, the degree of certainty was approaching

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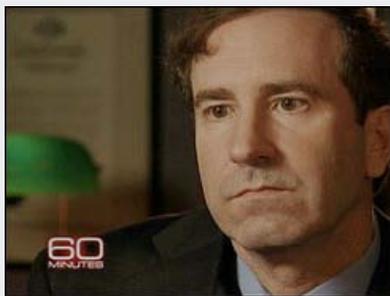


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Harry Markopolos repeatedly told the Securities and Exchange

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Harry Markopolos (CBS)



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100 percent," Markopolos explained.

Over time and with some simple math calculations, Markopolos concluded that for Madoff to execute the trading strategy he said he was using he would have had to buy more options on the Chicago Board Options Exchange than actually existed, yet he says no one he spoke to there remembered making a single trade with Bernard Madoff's fund.

"I would talk to the people I had trading relationships with and ask, 'Did you have a trading relationship with Mr. Bernard Madoff?' And they all said, 'No. We don't think he's for real,'" Markopolos said.

He said he found no one who ever had traded with Madoff. "And I traded with some of the largest equity derivatives firms in the world."

And that's because Madoff's investment fund never actually made any trades, at least going back to 1993, and probably further - a fact confirmed at a meeting of Madoff investors by the trustee charged with liquidating Madoff's assets. No one knew the depth of the fraud but a lot of people had questions.

"Who else figured this out besides you?" Kroft asked.

"I would say that hundreds of people suspected something was amiss with the Madoff operation. If you look at who the victims were not, you'll notice that the major firms on Wall Street had no money with Mr. Madoff," Markopolos said.

"I'm quoting from the letter to the Securities and Exchange Commission, red flag number 20. 'Madoff is suspected of being a fraud by some of the world's largest, most sophisticated financial services firms.' And then you list some of the firms," Kroft said. "The biggest firms on Wall Street. And conversations with people high up in those firms."

"That is correct. And the SEC ignored that," Markopolos said. "All the SEC had to do was pick up the phone. They never did."

"If you had executives at the biggest investment houses on Wall Street that knew something was wrong, why do you think they didn't go to the SEC?" Kroft asked.

"Because people in glass houses don't throw stones. And self regulation on Wall Street doesn't work," Markopolos said.

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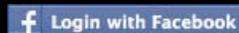
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VIDEO A .960 Batting Average? Harry Markopolos, a

(CBS) In January 2006 the New York office of the Securities and Exchange Commission finally opened a case file to look into Markopolos' allegations about Bernie Madoff. Despite uncovering evidence that Madoff had misled them about his investment activities, the SEC closed the case 11 months later without ever opening a formal investigation. The staff said there was "no evidence of fraud."

"What I found out from my dealings with the SEC over eight and a half years is that their people are totally untrained in finance; they're unschooled; they're un-credentialed. Most of them are just merely lawyers without any financial industry experience," Markopolos said.

"Well, if the people there aren't trained in securities work, what are they trained in?" Kroft asked.

"How to look at pieces of paper that the securities laws require. They can check every piece of paper perfectly and find misdemeanors, and they'll miss all the financial felonies that are occurring because they never look there," Markopolos replied. "Even when pointed to fraud, they're incapable of finding fraud."

No one at the SEC would talk to **60 Minutes** on the record about Markopolos' allegations. But one person who seemed to have had a high opinion of the agency was Bernie Madoff.

"I'm very close with the regulators so I'm not trying to say that what they do is bad. As a matter of fact, my niece just married one," Madoff said in 2007.

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VIDEO **The Man Who Knew**

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Commission that Bernie Madoff's investment fund was a fraud. He was ignored, and investors lost billions of dollars. Steve Kroft reports.



Harry Markopolos (CBS)



PHOTO ESSAY **Madoff's Victims**

A look at some of Bernard Madoff's famous clients.



- Watch the entire video of Bernie Madoff participating at a roundtable discussion at The Philoctetes Center in New York in October 2007
- Madoff Customer List
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Besides his niece's husband, who left the SEC last year, Madoff had longstanding ties to agency and was called upon to give advice. At a 2007 meeting of a non-profit group called The Philoctetes Center, he seemed to think the SEC was doing a great job.

"In today's regulatory environment, it's virtually impossible to violate rules. This is something that the public really doesn't understand. But it's impossible for a violation to go undetected, certainly not for a considerable period of time," Madoff said.

[Click here](#) to watch the full video of the 2007 meeting at The Philoctetes Center.

But don't try to tell that to The Philoctetes Center. Its main benefactor, the and Betty and Norman Levy Foundation, was fully invested in Madoff.

It is one of dozens of charitable organizations that have been devastated or wiped out. [Madoff's customer list](#), single spaced with small type, is 162 pages long with victims running the gamut from Hollywood royalty to a carpenters' pension fund in Syracuse, New York.

Shelly Ludlow was forced to put her mother in a Medicaid-assisted living facility while she packed up their apartment to move in with a friend. All because of Bernie Madoff.

"Our whole life has been turned upside down by this man that sits in his penthouse and smirks," Ludlow said.

The same day in February, 70 miles away, Len and Marge Forrest were leaving the house they just sold in Setauket, Long Island and were preparing to drive to South Florida to sell their condo there. They had their money with Madoff for 30 years and lost an eight-figure family fortune two days before his 80th birthday.

Len Forrest told Kroft he thinks they had enough money to live on for 60 days.

Asked if he knows other people who are in the same situation, Forrest told Kroft, "Oh yes, We have a lot-unfortunately. And I think probably the thing that tears me up more than anything is the fact that I recommended Madoff to a number of people .And they lost their money, and I'll never stop feeling responsible for that. They were all close family and friends."

Forrest and his friends thought they part of a small exclusive group of investors lucky enough to have a connection with Bernie Madoff, and because they thought they were making 12 percent a year, they were not inclined to ask a lot of questions. Harry Markopolos called it the classic affinity scam.

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by [thurston2001](#) June 15, 2009 1:02 PM EDT

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the American people has been spared from knowing about them. Why you ask? If I did not know better.....somebody does not like us.

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by wyo1943 June 15, 2009 7:17 AM EDT

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by juwboy June 15, 2009 5:33 AM EDT

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A tiny fraction of 1% of the world's Jews lost money in Madoff's scheme but you describe it as a "financial holocaust".

Clearly, English is not your first language.

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June 14, 2009

The Man Who Figured Out Madoff's Scheme

Tells 60 Minutes Many Suspected Madoff Fraud; Says SEC Is Incapable Of Finding Fraud

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(CBS) "An affinity scam is when you prey on groups that are similar in nature to yourself. So I'm Greek. If I was gonna run an affinity scam, I would run it on the Greek American community here," Markopolos explained. "Bernie was Jewish, so he ran it on the Jewish community in the United States. But that wouldn't get him enough customers, 'cause he always needed new money to keep the scheme going."

Over time, Madoff extended his reach from New York to Palm Beach, Fla., where he enlisted hundreds of wealthy clients, many of them recruited from his own country clubs. And he also made connections that gave him entree to Europe, and the hedge funds capital of America, Greenwich, Conn.

It was in Greenwich that Bernie Madoff made some of his biggest deals with large investment firms that were willing to feed him billions of dollars of their clients' money to manage. And in return, Bernie Madoff agreed to pay the so-called feeder funds a fortune in annual fees. The largest of the feeder funds was the Fairfield Greenwich Group.

"How much money did Fairfield make off Bernie Madoff every year?" Kroft asked Markopolos.

"Hundreds of millions of dollars," he replied.

"If you're a feeder fund or a fund of funds thing, what's your responsibility? What are you supposed to do for those hundreds of millions of dollars?" Kroft asked.

"You're supposed to identify the world's best hedge funds



VIDEO In His Own Words

At this 2007 meeting of a non-profit group called the Philoctetes Center, Bernie Madoff seemed to think the SEC was doing a good job!

VIDEO A .960 Batting Average? Harry Markopolos, a

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financial investigator, describes the warning signs that should have alerted others to suspect Bernie Madoff.



VIDEO
The Man Who Knew
Harry Markopolos repeatedly told the Securities and Exchange

Commission that Bernie Madoff's investment fund was a fraud. He was ignored, and investors lost billions of dollars. Steve Kroft reports.



Harry Markopolos (CBS)



PHOTO ESSAY
Madoff's Victims
A look at some of Bernard Madoff's famous clients.



- Watch the entire video of Bernie Madoff participating at a roundtable discussion at The Philoctetes Center in New York in October 2007
- Madoff Customer List
- Fairfield Greenwich Statement

managers and invest only in them. And you're supposed to make sure they're not running Ponzi schemes," Markopolos said.

"The real steroids here were the feeder funds. That's what made it an international Ponzi scheme," attorney David Boies told Kroft.

Boies, one of the most prominent lawyers in the country, is representing Fairfield Greenwich investors, who lost nearly \$7 billion when Madoff went under. They are suing the firm for gross negligence, claiming it failed to investigate Madoff thoroughly or monitor his activities as it promised to do in its marketing materials.

"Analysis of portfolio composition, portfolio stress testing, risk management, asset verification. Do you think that really happened?" Kroft asked.

"No. We know it didn't happen. Because we know all they did was turn the money over to Bernie Madoff. And they did that for 20 years," Boies said. "They essentially did nothing except lose their investors' money. And enjoy very luxurious lifestyles from the money they took out."

Walter Noel, one of the founding partners of Fairfield Greenwich, declined to talk to *60 Minutes* and was reportedly lying low with his wife at their compound on the private island of Mustique. But in a statement to *60 Minutes*, his firm said it too was a victim of Bernie Madoff, that it had placed too much trust in his "then-impeccable...reputation" and in the fact that there had been "multiple reviews of Madoff by the SEC."

[Click here](#) to read the full Fairfield Greenwich statement.

In the end, Harry Markopolos had been right about Bernie Madoff. He would be going to prison, but not because of anything that Markopolos or the SEC did. In a bad economy, Madoff's lies simply collapsed under their own weight.

"No one was investigating Mr. Madoff at the end," Markopolos said.

"So he turned himself in before anybody, in a position of authority, began a serious investigation?" Kroft asked.

"That's typically how the SEC does it," Markopolos said. "They come in after the crime has been committed, they toe-tag the victims, count the bodies, and try to figure out who the crooks were after the fact, which does none of us any good."

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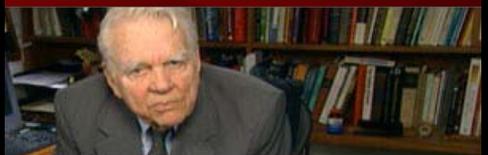
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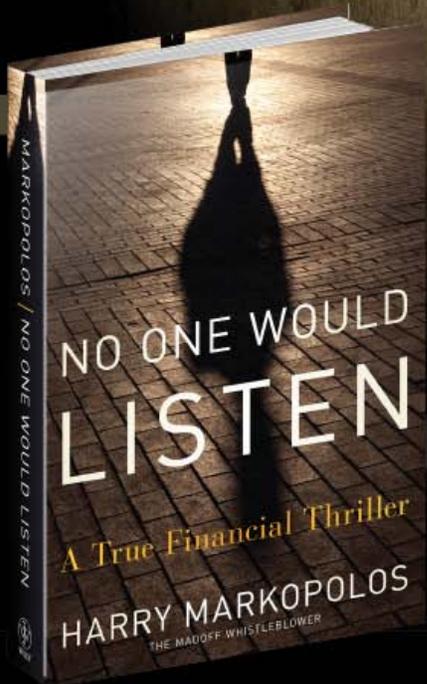
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