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Candidate session number			
Candidate name			
School name			
Examination session (May or November)	MAY	Year	2015

Diploma Programme subject in which this extended essay is registered: ENGLISH B - CAT 2 (B)

(For an extended essay in the area of languages, state the language and whether it is group 1 or group 2)

Title of the extended essay: BERNARD L. MADOFF: FROM FINANCIAL WIZARD TO SCOUNDREL TO CULTURAL ECLOUSE

Candidate's declaration

This declaration must be signed by the candidate; otherwise a mark of zero will be issued.

The extended essay I am submitting is my own work (apart from guidance allowed by the International Baccalaureate).

I have acknowledged each use of the words, graphics or ideas of another person, whether written, oral or visual.

I am aware that the word limit for all extended essays is 4000 words and that examiners are not required to read beyond this limit.

This is the final version of my extended essay.

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Supervisor's report and declaration

The supervisor must complete this report, sign the declaration and then give the final version of the extended essay, with this cover attached, to the Diploma Programme coordinator.

Name of supervisor (CAPITAL letters) _____

Please comment, as appropriate, on the candidate's performance, the context in which the candidate undertook the research for the extended essay, any difficulties encountered and how these were overcome (see page 13 of the extended essay guide). The concluding interview (viva voce) may provide useful information. These comments can help the examiner award a level for criterion K (holistic judgment). Do not comment on any adverse personal circumstances that may have affected the candidate. If the amount of time spent with the candidate was zero, you must explain this, in particular how it was then possible to authenticate the essay as the candidate's own work. You may attach an additional sheet if there is insufficient space here.

The topic of this Extended Essay and its particular analytical approach were the candidate's personal project from the outset. All along he was animated by an autonomous vision and sense of purpose that needed only some technical and structural guidance. He has explored informatively, entertainingly and often with panache an intriguing aspect of American culture, as reflected by Madoff's case, in the media, films and popular imagination. The candidate's spontaneous interest in and enthusiasm for his subject are evident throughout the essay, which as a result is a pleasure to read, unlike so many assignments that are written dutifully but without passion.

This declaration must be signed by the supervisor; otherwise a mark of zero will be issued.

I have read the final version of the extended essay that will be submitted to the examiner.

To the best of my knowledge, the extended essay is the authentic work of the candidate.

As per the section entitled "Responsibilities of the Supervisor" in the EE guide, the recommended number of hours spent with candidates is between 3 and 5 hours. Schools will be contacted when the number of hours is left blank, or where 0 hours are stated and there lacks an explanation. Schools will also be contacted in the event that number of hours spent is significantly excessive compared to the recommendation.

I spent hours with the candidate discussing the progress of the extended essay.

Supervisor's signature: _____

Date: 9th. March 2015

Assessment form (for examiner use only)

Candidate session number		
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Achievement level

Criteria	Examiner 1	maximum	Examiner 2	maximum	Examiner 3
A research question	2	2		2	
B introduction	2	2		2	
C investigation	4	4		4	
D knowledge and understanding	4	4		4	
E reasoned argument	4	4		4	
F analysis and evaluation	4	4		4	
G use of subject language	4	4		4	
H conclusion	2	2		2	
I formal presentation	4	4		4	
J abstract	2	2		2	
K holistic judgment	4	4		4	
Total out of 36	36				

Name of examiner 1: _____ Examiner number: _____
(CAPITAL letters)

Name of examiner 2: _____ Examiner number: _____
(CAPITAL letters)

Name of examiner 3: _____ Examiner number: _____
(CAPITAL letters)

IB Assessment Centre use only: B: _____

IB Assessment Centre use only: A: _____

International Baccalaureate Session of May 2015
Extended Essay

Subject: English B – Cat. 2 (b) ✓

Topic:

Bernard L. Madoff:
From Financial Wizard to Scoundrel to Cultural Icon

Research Question:

In the realm of America's culture and society, what makes convicted
con man Bernard L. Madoff an icon? ✓

Word Count : 3988 ✓

Abstract

On December 11th 2008, Bernard L. Madoff, head of one of the world's largest investment firms, is found to be responsible for a 65 billion dollar fraud, the largest in history. In this paper, I conduct an analysis of the aspect of American culture that was made explicit by Madoff's rise and fall. The focus of my argument is summed up by the following research question: In the realm of America's culture and society, what makes convicted con man Bernard L. Madoff an icon? Using a wide range of so-called cultural artifacts, including American newspapers, television programmes, magazines and films,¹ I pursue three axes of analysis. First, Madoff's ascension to a career in finance is aligned with the cultural notion of the "American dream", speaking to the nation's relationship with success and ambition. Second, I examine the ways in which Madoff has helped to shape modern-day finance and shed light on its quintessentially American culture. Third, I look at how Madoff has been a source of inspiration to American cinematography, examining two films in particular and making comparisons with another real-life con man. I effectively come to the realization that such fraudsters are more appealing than they are despicable to the American public. All in all, I conclude that Bernard L. Madoff represents many of the cultural and societal notions that Americans look up to.

¹ In addition, I draw knowledge from a personally conducted interview with a Geneva-based specialist asset manager who asked to remain anonymous. I have included a transcript of the interview as an appendix. I thank him for his generosity.

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Introduction

Author of the largest fraud in the history of finance,¹ Bernard L. Madoff sheds light on the mechanisms of human inclination. Even in the world of perpetual euphemism and needless hyperbole in which we live, he is the face of a story that lies beyond what is conceivable. Once a self-made genius, a revered financier and “one of the most powerful money men on Wall Street”,² on December 11th 2008, the day of his arrest, Madoff becomes “the most reviled thief who ever lived.”³

In the wake of his 150-year jail sentence,⁴ such has been the uproar concerning the nature and scale of his crime, and so exhaustive has been his vilification, that there is little left to add. However, the aspects of the American culture and society from which Madoff has emerged, which he has reflected and which he possibly has unearthed from the depth of the nation’s psyche, have yet to be identified.⁵

Firstly, proving the pertinence of this standpoint, Madoff’s irruption into the world of finance may be attributed to what is commonly referred to as the “American dream.” Considering a modest background, the aspiring trader’s path up to Wall Street’s preeminent ranks is all the more extraordinary. Secondly, many argue, and rightly so, that Madoff’s role in shaping the modern market was nothing short of pivotal. Most importantly, it appears that his infamous confidence trick is a result of the culture, one of irrationality and insatiable

¹ Diana B. Henriques and Zachery Kouwe, “Prominent Trader Accused of Defrauding Clients,” The New York Times 11 Dec. 2008 [Online], 8 Jan. 2015 <http://www.nytimes.com/2008/12/12/business/12scheme.html?_r=0>

² Jerry Oppenheimer, Madoff with the Money (New Jersey: John Wiley & Sons, 2009) XII

³ Oppenheimer XV.

⁴ Steve Fishman, “Bernie Madoff, Free at Last,” The New York Magazine 6 Jun. 2010 [Online], 8 Jan 2015 <<http://nymag.com/news/crimelaw/66468/>>

⁵ James Surowiecki, “Do the Hustle,” The New Yorker 13 Jan. 2014 [Online] 8 Jan. 2015 <<http://www.newyorker.com/magazine/2014/01/13/do-the-hustle>>

greed, that he helped to bring about.⁶ Thirdly, it is clear that these cultural trends are mirrored and shamelessly glamorized, by works of American cinematography. *oh*

As fate would have it, Madoff unwittingly exposed the latent defects of the society for which he is a pioneer. His instant fall from grace and subsequent doom are reminiscent of a Greek tragedy. Like an Aristotelian hero, Madoff, despite being destined to greatness, has a tragic flaw that leads to his destruction. My counter-intuitive, but nonetheless pertinent thesis would be therefore that Madoff is, within the context of America's culture and society, an icon.

*Biographical focus more
than does not work in
a group 2 essay - However,
the approach as shown
here is appropriate &
quite plausible showing
good understanding of
the requirements*

*good context - ✓
significance noted -*

2

⁶ Diana. B Henriques, The Wizard of Lies: Bernie Madoff and the Death of Trust (New York: St. Martin's Griffin, 2012) XXII *✓*

Madoff's Rise and Fall: A Shattered American Dream

Born in Brooklyn, New York, the American writer and historian, James Truslow Adams,¹ was the first to state that the American dream is “that dream of a land in which life should be better and richer and fuller for everyone, with opportunity for each according to ability or achievement.”² The American novelist, Thomas Clayton Wolfe, complements his thought: “So, then, to every man his chance – to every man, regardless of his birth, his shining, golden opportunity – to every man the right to live, to work, to be himself, and to become whatever thing his manhood and his vision can combine to make him – this, seeker, is the promise of America.”³ Wolfe died in 1938.⁴ On April 29th of the same year, in Brooklyn, a man unknowingly about to fulfill Wolfe’s vision, Bernard Lawrence Madoff, is born.⁵

Bernard Madoff did not walk into New York’s financial elite through “the burnished gates that were always open to the prep school graduates from Manhattan’s silk-stocking neighborhoods.”⁶ Yet what caused his “meteoric rise from a poor boor boy in a middle class Queens”⁷ to the reins of Wall Street? In the 1990s, Madoff’s paternal grandfather, a Jewish immigrant from Eastern Europe, worked as tailor in the Bronx. Madoff’s parents, Ralph Madoff and Sylvia Munter, “married in 1932, when New York City was still in the vicious grip of Depression.”⁸ The young Bernie Madoff attended public school and liked to

good first integration

¹ Howard G. Schneiderman, The Epic of America (New York: Little Brown & Company, June 1931) [About the Author]

² James Truslow Adams, The Epic of America (New York: Little Brown & Company, June 1931) 214-215

³ Thomas Clayton Wolfe, You Can’t Go Home Again (New York: Scribner; Reprint Edition, October 2011) 508

⁴ Wolfe [About the Author]

⁵ Henriques 31.

⁶ Henriques 30.

⁷ Oppenheimer XV.

⁸ Henriques 30.

spend time at the nearby beaches of Long Island's south shore, acquiring solid swimming skills.

However, behind this seemingly peaceful décor, the Madoffs faced the menace of serious financial insecurity.¹ In 1951, when Bernard was just under thirteen years old, his father's goods manufacturing business went broke, primarily due to the Korean War's upward pressure on raw material prices. Bernie's mother was cornered into a clerical job at a local blood bank to "help support the family."² Subsequently to the failure of his father's second business attempt, a tax lien threatened the family home.³

*relevance?
details*

In the late 1950s, scouring the confines of Wall Street, Madoff senior established a one-man brokerage firm named Gibraltar Securities and registered it with the Securities and Exchange Commission. On account of his dubious financial record, he registered the business in his wife's name.⁴ Although presumably insignificant, this was, in addition to a pervasive climate of difficulties, an "early lesson in deceit for a son determined to be more successful than his father."⁵ As a teenager, Madoff came across as a normal, attractive and somewhat ingenious teenager. In order to shield himself from the unsettling anxiety of his family's uncertainties, Madoff immured himself "in a shell of quiet confidence and reassuring competence."⁶ In high school, Madoff was a decent competitor in the swim team but, reputedly, not a show-off. As a student, he showed indifference and yet achieved passable scores with enough ease to get into college.⁷

Amid the heightening prosperity of the 1950s, Madoff's father encouraged him to go to law school. Speaking for a generation that had endured the hardships of the Great Depression, the Madoffs considered the stock market neither as a granter of status, nor as a

¹ Henriques 31.

² Henriques 31.

³ Henriques 31.

⁴ Henriques 31.

⁵ Henriques 31.

⁶ Henriques 32.

⁷ Henriques 32.

guarantee of financial security. Despite vanished fortunes, the Wall Street Crash of 1929 had left behind dormant but persistent dreams of an alluring, generous financial world.¹ In November 1959, Bernie enrolled at a college in Alabama, “a low-cost choice for his cash-strapped parents.”² After a single semester, only out of desire to get back together with his girlfriend, Ruth Alpern, Madoff enrolled at Hofstra University, an incongruous vector for virtuoso investor.³

To further assuage his father’s ambitions, he applied to Brooklyn Law School. Nevertheless, upon the arrival of his acceptance letter, his life projection has already shifted. Madoff pictured “a career working for himself on Wall Street.”⁴ Yet, the paternal sermon urged him, if only implicitly, to be his own boss, and this advice he was poised to implement.⁵

“If investing on Wall Street seemed unwise, working there looked like a remote possibility at best for kids like Bernie Madoff in the 1950s.”⁶ According to regulatory ledgers, on January 19th 1960, Madoff junior launched, allegedly with the money that he had made as a lifeguard, his own brokerage firm: Bernard L. Madoff Investment Securities.⁷ A young yet vengefully ambitious man had founded a small Wall Street trading firm at the age 22.⁸ Press analysts are evocative of his precociousness (see footnote).⁹ By the early 1980s, Madoff is at the helm of “one of the four largest securities firm in the United States.”¹⁰

This is all his then father

¹ Henriques 32.

² Henriques 34.

³ Henriques 34.

⁴ Henriques 34.

⁵ Henriques 33.

⁶ Henriques 33.

⁷ Henriques 34-35.

⁸ Alice DuBois, et al. “Founds a Wall Street Trading Firm,” The New York Times 29 Jun. 2009 [Online], 8 Jan. 2015

<http://www.nytimes.com/interactive/2009/06/29/business/madoff-timeline.html?_r=0>

⁹ “The boy from Queens, New York, who saved \$5,000 from selling sprinkler systems and then working as a lifeguard on Long Island, and used the money to set himself up as a trader of penny stocks.” “The Madoff Files,” The Independent 29 Jan. 2009 [Online], 8 Jan. 2015 <<http://www.independent.co.uk/news/business/analysis-and-features/the-madoff-files-bernie-billions-1518939.html>>

¹⁰ Joseph Kahn, “4 Leading Securities Firms Join Forces to Back Primex,” The New York

In a 2009 *New York Times* article titled “The Talented Mr. Madoff”, echoing the well-known fictitious con artist Tom Ripley, the defining reason behind this astronomical rise is reiterated. It is by cultivating his undeniable charm that Madoff was able to maintain an endless flow of investors from across the globe. The article states: “Bernard L. Madoff was an affable, charismatic man who moved comfortably among power brokers on Wall Street and in Washington.”¹ Moreover, insofar as the insouciant milieu that he had seduced is concerned, Madoff understood the importance of appearances (see footnote).² In 1989, according to the *New York Times*, Madoff’s trading firm accounted for more than 5 percent of the trading volume on the New York Stock Exchange. Bernie himself was ranked among the highest paid individuals in Wall Street according to the magazine *Financial World*.³ In 2008, at the heart of the worst financial crisis since the Great Crash of 1929, funds and investors alike considered “Madoff to be the safest asset of their portfolio.”⁴

Madoff’s fall – “a financial Pearl Harbor” - was like his rise: instant.⁵ On December 10th 2008,⁶ Madoff discloses the fraud to his wife, Ruth, and to his sons, Andrew and Mark, one of who has committed suicide two years later, on December 11th 2010.⁷ In Madoff’s own words, it was all “one big lie” and “basically a giant Ponzi scheme.”¹

Times 14 Sep. 1999 [Online], 8 Jan. 2015 <<http://www.nytimes.com/1999/09/14/business/4-leading-securities-firms-join-forces-to-back-primex.html>>

¹ Julie Creswell and Landon Thomas Jr., “The Talented Mr. Madoff,” *The New York Times* 24 Jan. 2009 [Online], 8 Jan. 2015

<<http://www.nytimes.com/2009/01/25/business/25bernie.html>>

² “a winning financier who had all the toys: the penthouse apartment in Manhattan, the shares in two private jets, the yacht moored off the French Riviera.” Creswell and Thomas.

³ Alice DuBois, et al. “Madoff, the Market Maker,” *The New York Times* 29 Jun. 2009 [Online], 8 Jan. 2015 <http://www.nytimes.com/interactive/2009/06/29/business/madoff-timeline.html?_r=0>

⁴ Hal Lewis, *Ripped Off: Madoff and the Scamming of America*, History Channel, New York, 44 mins. 16 May 2009.

⁵ Lewis.

⁶ Henriques 8.

⁷ Sean Gardiner, “Madoff’s Son Is Found Dead in Apparent Suicide,” *The Wall Street Journal* 12 Dec. 2010 [Online], 8 Jan. 2015

<<http://www.wsj.com/articles/SB10001424052748703518604576013273744399388>>

The most plausible thesis explains Madoff's implosion in the following way: If the Ponzi unraveled, it is because investors, "rattled by the financial crisis", were repulsed by the financial market, regardless of the investment form, and started to "take money out faster than Mr. Madoff was able to bring fresh cash in the door."²

In a development that sends shockwaves across the globe, on December 11th, Madoff is arrested at his Manhattan home by federal agents and charged in what turns out to be "the largest fraud in Wall Street history, a Ponzi scheme whose cost over 20 years was put at 65 billion dollars."³ From "financial wizard" to "con man," his status change is instant. Interestingly, the "con man" – a quintessential American notion - was born with William Thompson, a man who most likely shared many of Madoff's attributes.⁴ In an 1849 *New York Herald* publication titled "Arrest of the Confidence Man," Thompson is said to have been "traveling about the city [...], that is, he would go up to a perfect stranger in the street, and being a man of genteel appearance, would easily command an interview [...]: 'have you confidence in me to trust me with your watch until to-morrow?'; the stranger at this novel request, supposing him to be some old acquaintance not at that moment recollected, allows him to take the watch, thus placing 'confidence' in the honesty of the stranger, who walks off laughing..."⁵

¹ Amir Efrati, et al. "Top Broker Accused of \$50 Billion Fraud," *The Wall Street Journal* 12 Dec. 2008 [Online], 8 Jan. 2015 <<http://www.wsj.com/articles/SB122903010173099377>>

² Alice DuBois, et al., "Recession Squeezes the Fraud," *The New York Times* 29 Jun. 2009 [Online], 8 Jan. 2015 <http://www.nytimes.com/interactive/2009/06/29/business/madoff-timeline.html?_r=0>

³ Alice DuBois, et al., "Arrested on Charges of Running a Giant Ponzi Scheme," *The New York Times* 29 Jun. 2009 [Online], 8 Jan. 2015 <http://www.nytimes.com/interactive/2009/06/29/business/madoff-timeline.html?_r=0>

⁴ James Surowiecki, "Do the Hustle," *The New Yorker* 13 Jan. 2014 [Online] 8 Jan. 2015 <<http://www.newyorker.com/magazine/2014/01/13/do-the-hustle>>

⁵ "Arrest of the Confidence Man," *The New York Herald* 8 Jul. 1849 [Online] 8 Jan. 2015 <<http://chnm.gmu.edu/lostmuseum/lm/328/>>

Therefore, fostered by technology and the appetite of a success-driven society, it can be argued that Madoff is the product of an evolutionary spirit that began with the “Confidence Man”, a watch thief, in 1849.

*on
good background*

Madoff's Contributions: Father of Modern-day Finance, Son of its Culture

The moral of the financial fable that is Madoff is neatly summed up by the maxim of the great economic thinker, E. F. Schumacher: "Infinite growth of material consumption in a finite world is an impossibility."¹ If it is germane to a discussion on Madoff, it is because its meaning speaks to why his deceitful house of cards was doomed to collapse. Many still wonder how Madoff was able to sustain such a gigantic Ponzi scheme for so long.² Since pyramid schemes rely on a power-of-two rule, in case all investors decide to leave, it requires the schemer to attract a number of new investors, that is equal to the square of the number of those already involved, to repay them.³ Therefore, it is the implacable logic of simple mathematics that had Madoff destined for failure. Nevertheless, the influence of the media has lead most people to overlook the fact that Bernard Madoff is a victim of himself. This is why Diana B. Henriques, *The New York Times*' columnist and Madoff's biographer, asserts that he is a product of the world he helped to create (see footnote).⁴

this is different from a Ponzi scheme

good show this

Inasmuch as the principle of his scheme is in no way new to white-collar crime, Madoff's legacy is also one of financial innovation. As a matter of fact, it can be argued that Madoff contributed to the shaping of modern-day finance.⁵ As Ms. Henriques put it, he helped to set in motion the "most revolutionary changes since the ticker tape a century before", the first system able to transmit stock information over a strip of paper that moreover

¹ E. F. Schumacher, Small is Beautiful: A Study of Economics as if People Mattered (New York: Vintage, 1993) 98

² Holman W. Jenkins Jr., "Put Madoff In Charge of Social Security," The Wall Street Journal 17 Dec. 2008 [Online], 8 Jan. 2015 <<http://www.wsj.com/articles/SB122947442947812429>>

³ U.S. Securities and Exchange Commission (SEC), "Pyramid Schemes," The Office of Investor Education and Advocacy, 2015 [Online], 8 Jan. 2015 <<http://www.sec.gov/answers/pyramid.htm>>

⁴ "Madoff's construction of the biggest Ponzi scheme in history was enabled by the Wall Street he helped he had helped to build." Henriques, XXII.

⁵ "He played a prominent in shaping the modern market, from computerized NASDAQ trading to the mystique of hedge funds to the proliferation of specious derivatives." Henriques, XXII.

symbolizes the popular frenzy that was a precursor of the Great Crash of 1929.¹ In the 1980s, Madoff was a frontrunner in Wall Street's technological mutation.² As the man "who brought automation to the over-the-counter marketplace," he was regarded as a pioneer in electronic trading.³ As ironic as it may now sound, by developing a screen-based trading mechanism, Madoff thus instituted "visibility and transparency" in the financial market.⁴

Furthermore, according to a Geneva-based fund manager who asked to remain anonymous, not only he was respected: Madoff is thought to have had a clairvoyant understanding of the financial industry.⁵ The fact that he was considered an authority by both investors and regulators testifies to this.⁶ In 1990, his nomination as the head of the world's second largest exchange platform makes his status official: Madoff becomes the non-executive chairman of Nasdaq, the electronic stock market operated by the National Association of Securities Dealers.⁷ According the *New York Times*, *a posteriori*, it is clear, that his "Wall Street rise was built on the visionary belief that stocks could be traded electronically by people who never saw each other."⁸

Most importantly, through exploitation of its human inner workings, Madoff brought light to the culture of modern-day finance.⁹ It must be stressed that the omnipotence of Madoff's apparent investment performance was due to its regularity, not to promises of colossal returns. Regardless of market volatility, Madoff was unfailing in the delivery of

¹ Charles D. Kirkpatrick and Julie Dahlquist, Technical Analysis: The Complete Resource for Financial Market Technicians (New Jersey : FT Press, 2010) 202

² "Wall Street's Electronic Experiment," The New York Times 16 May 1982 [Online], 8 Jan. 2015 <http://www.nytimes.com/interactive/2009/06/29/business/madoff-timeline.html?_r=0>

³ Lewis

⁴ Lewis

⁵ Specialist Asset Manager Based in Geneva (anon), Personal interview, 3 Jan. 2015.

⁶ Specialist Asset Manager Based in Geneva

⁷ Alice DuBois, et al. "Becomes Chairman of Nasdaq" The New York Times 29 Jun. 2009 [Online], 8 Jan. 2015 <http://www.nytimes.com/interactive/2009/06/29/business/madoff-timeline.html?_r=0>

⁸ Alice Dubois, et al. "Becomes Chairman of Nasdaq"

⁹ Henriques XXII

wisdom?

returns worth approximately one percent of the value of an investor's portfolio per month.¹ As whistleblower Harry Markopolos attempted to signal to the Securities and Exchange Commission, such consistent returns of investment, whether stocks are in the "green" or in the "red," can only be achieved in the "black" through illegal practice. Markopolos invoked two scenarios to explain Madoff's performance: either a form of insider trading called front-running, or a Ponzi scheme. Nevertheless, most probably on account of his unquestionable status of "financial wizard," all the red flags waved by multiple suspicions were ignored (AS).²

Amid the unanswered questions in which Madoff is still shrouded, psychology is the key to clarification. When confronted with Madoff, investors were torn between two considerations that one encounters not only in the merciless world of finance: "This is too good to be true" and "This is too good to miss."³ As the Madoff case reminds us, one is inclined to surrender to the second. Furthermore, it is by functioning like a "cult"⁴ that Madoff's investment firm induced the necessary gravitational field to attract funds from across the globe. Madoff devoted himself to projecting of a high degree of apparent elitism. It was a by-invitation-only symposium for the gods. Again, Madoff very consciously struck the right chords of human psychology: "If I can get in, it will mean that I am one of the chosen few."⁵ For many eminent members of the financial elite, Madoff was a paternal, not to say "godlike" figure.⁶ In addition, through the reversal of this balance of power, clients being willing slaves and Madoff a truthful master, investors docilely subjected themselves to one

¹ Geneva-based Specialist Asset Manager

² Geneva-based Specialist Asset Manager

³ Lewis

⁴ Adam Lebor, How America Fell For Bernard Madoff's \$65 Billion Investment Scam, (London: Phoenix, 2010) XIII

⁵ Geneva-based Specialist Asset Manager

⁶ Geneva-based Specialist Asset Manager

tacit policy: “Don't ask, don't tell.”¹ In short, “the talented Mr. Madoff”² infused a sense of “mystique” and “played hard to get.”³ “It is the simplest way to understand how Bernard Madoff persuaded thousands of investors to pour billions of dollars into his investment scam.”⁴

More generally speaking, Madoff is the living proof of the reliance of finance on the weaknesses of human nature. To a large extent, the electronic revolution and relentless euphoria, both of which Madoff fueled, have magnified this phenomenon.⁵ First, risk is undertaken under the mask of opacity. It is the obscurity of financial terms that dilutes the uneasy sentiment associated with risk. The fact that Madoff was thought to obtain such metronomical returns by practicing a strategy known as “split-strike conversion” illustrates this principle.⁶ Although investors did not understand it, none of them asked what it consisted in. Similarly, “no one asks how an atom is split or how an airplane can fly.” Yet, chemistry is studied and airplanes are flown.⁷ As a matter of fact, it must be understood that some accepted to invest with Madoff only to spare them from the embarrassment of having to admit their ignorance. Very few people, even among the regarded spheres, really comprehend the complexity of financial instruments.⁸ At the cost of economic pandemics, as Madoff goes to show, this creates the conditions for systemic insouciance.⁹

¹ Geneva-based Specialist Asset Manager

² Julie Creswell and Landon Thomas Jr.

³ Scam of the Century? Bernie Madoff and \$50 Billion Heist, CNBC, 45 mins. 18 Dec. 2008.

⁴ Lebor XIII.

⁵ Henriques XXII.

⁶ Geneva-based Specialist Asset Manager

⁷ Marcela Gaviria and Martin Smith, The Madoff Affair, PBS, Massachusetts, 56 mins, 12 May 2009

⁸ Geneva-based Specialist Asset Manager

⁹ Stephen Labaton and Jackie Calmes, “Obama Proposes a First Overhaul of Finance Rules,” The New York Times 13 May 2009 [Online], 8 Jan. 2015

<<http://www.nytimes.com/2009/05/14/business/14regs.html>>

Second, finance is driven by the following postulate: emotion is stronger than reason.¹ ✓
Among the countless examples that can be given are the reactions of credit default swaps, a type of product, to the emission of negative outlooks – an indication of a future downgrade – by credit rating agencies, which evaluate an entity’s capacity to service its debt. Evidence indicates that the product gains more value than when it is actually downgraded by one of the rating agencies.² In other words, financial markets react more strongly to negative perspectives than to the actual occurrence of negative results.³ This speaks to the notion of unreasonable emotion that Madoff’s scheme has made explicit.⁴

Finally, as suggested by “America’s cyclical love-hate relationship with Wall Street,”⁵ American finance cultivates its ambivalence. On the one hand, some would argue that financial innovation has led to a culture of Stakhanovism, seeking continuous productivity, and Pavlovian conditioning of the investors. On the other hand, as Madoff goes to show, market sentiment is what governs of Wall Street, not the diktat of numbers. All in all, it is clear that Madoff, instiller of financial innovation, endowed with an aura of infallible insight, to a large extent created, pulled and exposed the cultural strings of modern-day finance.⁶

Good argument

¹ Geneva-based Specialist Asset Manager

² Rosario Di Stefano, Notation des pays souverains : Une analyse de leur impact et pertinence (Genève, Haute École de Gestion de Genève, 13 mai 2013) 31-32

³ Geneva-based Specialist Asset Manager

⁴ Geneva-based Specialist Asset Manager

⁵ Henriques 35.

⁶ Geneva-based Specialist Asset Manager

Madoff's Influence: Reflections in the Mirror of American Cinematography

Progenitor of the rules of dramaturgy, Aristotle wrote, in 335 B.C: "A poet should prefer probable impossibilities to improbable possibilities."¹ Madoff was a probable impossibility. As a result of the fraud's scale and the 180-degree shift in public perception, before and after its implosion, Madoff's life is a fresco of human penchants and dynamics.² This makes it a source of inspiration to American cinematography, which mirrors the culture for which Madoff is an allegory.³ In the hands of the Hollywood's *crème de la crème*, the film milieu transposes Madoff's legacy into America's collective imagination.

Released in July 2013, "Blue Jasmine," written and directed by Woody Allen, is a comedy drama starring Cate Blanchett, Alec Baldwin and Sally Hawkins. It follows the destitution of Jasmine French, played by Blanchett, an Upper East Side socialite, after her husband has fallen in public disgrace for an unspecified financial crime.⁴ The film displays distinct "parallels to the Madoff case", most notably to the "trajectory of his wife", Ruth Madoff, who physically resembles Blanchett.⁵ Through the fictitious counterpart of Ruth, the devastation that Madoff must have brought to his family is conveyed in "Blue Jasmine."⁶

Madoff's biographer, Diana B. Henriques, goes further, arguing that the "family level" of the fraud is "Shakespearian in some of its dynamics."⁷ Interestingly, in a *New York Times*

¹ Aristotle, Aristotle's Poetics, Translated by S. H. Butcher (New York: Hill and Wang, 1961) XXIV

² Henriques XIX.

³ Surowiecki

⁴ Blue Jasmine, dir. Woody Allen, writ. Woody Allen, perf. Cate Blanchett and Alec Baldwin, Sony Pictures Classic, 2013.

⁵ Melena Ryzik, "Desperate Times Call for Her: Cate Blanchett Has Front-runner Oscar Status," The New York Times 12 Feb. 2014 [Online], 8 Jan. 2015

<<http://www.nytimes.com/2014/02/13/movies/awardsseason/cate-blanchett-has-front-runner-oscar-status.html>>

⁶ Ryzik

⁷ Lewis

interview, Blanchett says, regarding Jasmine, that she turned to Richard II for inspiration:¹ “You have somebody who’s experiencing a gulf between the role and the title of king, and who he is as a man.” Blanchett is obviously implying a quest for identity whereby Madoff’s family, including Madoff himself, must have faced such a “gulf” between their association with the fraud and who they actually are as humans. In short, “Blue Jasmine,” stands for the culture of humanization that inspires the Madoff scandal, as far as the fraudster’s family goes.²

Released in December 2014, directed by Martin Scorsese, “The Wolf of Wall Street” is a biographical comedy starring Leonardo DiCaprio. Inspired by the memoirs of real-life American fraudster, Jordan Belfort, it is the uninhibited tale of an archetypical, not to say deified, con man who operates a stock fraud in the midst of debauchery.³ More importantly, it is striking to note the resemblance of Belfort with Madoff. From middle-class backgrounds, both began modestly, yet became resounding figures of American finance.⁴ Both relied on their perceived trustworthiness and their inherent magnetism to attract investors. Moreover, both are prototypes of self-indulgent, reckless egotism. Contrarily to Belfort, however, as unbelievable as it may sound, Madoff was not after personal enrichment.⁵ Striving to maintain a sterling reputation, Madoff was after recognition, not wealth.⁶ In other words, Madoff is not a thief, let alone the “most reviled thief who ever lived.” The requirements of a Ponzi scheme

interesting
but only
one makes
opinion
and he's
anonymous

¹ Ryzik

² Allen

³ The Wolf of Wall Street, dir. Martin Scorsese, writ. Terence Winter, perf. Leonardo DiCaprio, Paramount Pictures, 2013.

⁴ “At 23, Jordan Belfort was peddling meat and seafood door-to-door on New York’s Long Island and dreaming of getting rich. Looking for a product with more fat in it, Belfort found steaks. Steaks, stocks – from a hustling salesman’s point of view, what’s the difference? Today, Belfort’s two-year old Stratton Oakmont brokerage, operating out of Lake Success, N.Y., specializes in pushing dicey stocks on gullible investors. And while the product may be as perishable as meat and fish, the margins do appear quite handsome.”

Roula Khalaf, “Steaks, stocks – What’s the difference?” Forbes 14 Oct. 1991 [Online], 8 Jan. 2015

⁵ Geneva-based Specialist Asset Manager

⁶ Geneva-based Specialist Asset Manager

and the fact that he has is no way reflected the excess that is characteristic of Scorsese's film attest to this fundamental difference.¹

Lastly, both continue to arouse considerable interest after their arrest. In 2014, thanks to the rights to Scorsese's cinematographic adaptation and, more importantly, hugely popular conferences, Jordan Belfort has produced more net worth than what his fraudulent brokerage firm generated in one year.² The sociological implication of this is that fraudsters like Madoff and Belfort are perceived as more fascinating than despicable. More importantly, Scorsese's adaptation makes it ever so clear that Madoff and Belfort do not sell stocks or investment advice. They sell the dream that is associated with financial success. They market the illusion of the seemingly open window into the American dream which they both incarnate.³

Although one might thus ask if this outcome is - given that they are recognized fraudsters - irrational or cleverly demagogic, Madoff once again offers a defining trait of American culture, one that is born out of high hopes and despotic charm. Similarly, in Oliver's Stone "Wall Street: Money Never Sleeps", Michael Douglas, starring as Gordon Gekko, a fictitious Wall Street magnate formerly convicted for insider trading, poses an incisive question: "Money. Do you like her?"⁴ This accounts for the eroticization of money that developed societies have distilled. However, as Gekko rightly articulates in the film: "Money is not the prime asset in life. Time is."⁵ In that case, Madoff, with the prospect of 150 years in a federal prison, is the richest man alive.

¹ Geneva-based Specialist Asset Manager

² Ashley Lee, "Wolf of Wall Street's' Jordan Belfort Says He'll Earn More From Speaking Tour Than Stock-Trading" The Hollywood Reporter 19 May 2014 [Online], 8 Jan. 2015 <<http://www.hollywoodreporter.com/news/wolf-wall-streets-jordan-belfort-705602>>

³ Scorsese

⁴ Wall Street: Money Never Sleeps, dir. Oliver Stone, writ. Allan Loeb and Stephen Schiff, perf. Micheal Douglas and Shia LaBeouf, 20th Century Fox, 2010.

⁵ Stone

Conclusion

If Greek tragedian Sophocles were still alive, a *tyrannos* is what he would consider Bernard L. Madoff to be: an absolute, yet illegitimate ruler, who was not inherently destined to power.¹ Born in middle-class Queens, bruised by his father's financial insecurity, the con man rose to become a "Wall Street legend."² Harnessing the nation's culture of success and ambition, he thereby conquered the "American dream".

Moreover, a pioneer in electronic trading, Madoff created the world from which he fell and unwittingly denounced its latent defects. For those who hold financial regulators to be effectively powerless, Madoff is the world's best alibi. Father of modern-day finance, his career sheds light on a culture of unquenchable thirst and irrational desire, one that extends beyond America's borders.

The legal battles aiming to recover losses worth 20 billion dollars have obtained extraordinary payouts to the fraudster's victims, amounting to 17 billion dollars, which bears no comparison with previous Ponzi schemes.³ In the the likely hypothesis that the 2008 financial crisis would have left them poorer, one could therefore argue that investors were better off with Madoff than without him. In this light, Bernard L. Madoff is a savior, not a traitor.

¹ Aristotle, Aristotle's Poetics, Translated by S. H. Butcher (New York: Hill and Wang, 1961) XII

² Diana B. Henriques and Zachery Kouwe, "Wall Street Legend Arrested on Fraud Charges," The New York Times 12 Dec. 2008 [Online], 8 Jan. 2015

< <http://www.nytimes.com/2008/12/12/business/worldbusiness/12iht-scheme.4.18640890.html?pagewanted=all>>

³ "Bernie Madoff trustee returns \$355 million more to investors," The Wall Street Journal 9 Feb Dec. 2015 [Online], 9 Jan. 2015

<<http://www.wsj.com/articles/APa4d320e50c3a4578ac40652eb09e5081>>

Furthermore, Madoff's legacy carries the weight of a burning issue: How can financial fraud be avoided? In 1934, President Franklin Delano Roosevelt appointed Joseph Patrick Kennedy, a Wall Street speculator and the father of John Fitzgerald Kennedy, as the first chairman of the Securities and Exchange Commission (SEC), Wall Street's watchdog. Accused of having arranged for a fox to supervise a hen house, Roosevelt allegedly answered that only a con man can stop other con men.¹ Why not Bernard L. Madoff?

good pt

Speaking to America's cultural rapport with the many con men who followed the 1849 "Confidence Man", like those who will follow Bernard L. Madoff, an edifying take on the Madoff case would thus conclude "that con artists, for all their vices, represent many of the virtues that Americans aspire to. Con artists are independent and typically self-made [...]. The American economy wasn't built just on good ideas and hard work. It was also built on hope and hype."² The world's most famous con man was endowed with precisely such an aura, which outshines his vices and leaves his *hutzpah* undiminished. In the eyes of Aristotle, Bernard L. Madoff is a hero. The inclination to profit from the foibles of human nature is both his fatal flaw and his glory. In the realm of America's culture and society, convicted con man Bernard L. Madoff remains an icon.

an excellent
read - well written,
researched and
presented -
this shows real
talent & exceeds
expectations for
language B EE

¹ Henri, Schwamm, "Finance : Peut-on éviter les fraudes ?" Le Temps 11 Feb. 2009 [Online], 8 Jan. 2015 < http://www.letemps.ch/Page/Uuid/6a37afde-f7bc-11dd-95fa-1614f4337eb5/Finance_peut-on_éviter_les_fraudes >
² James Surowiecki, "Do the Hustle," The New Yorker 13 Jan. 2014 [Online] 8 Jan. 2015 <<http://www.newyorker.com/magazine/2014/01/13/do-the-hustle>>

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Appendix

- Why was Madoff more believable than others?

In the world of Investments Management the notion of competitive edge can comprise a vast array of concepts. Among them, privileged information has a special status. Totally illegal in absolute terms and in front of the law, some people thought that Madoff was somehow allowed to use privileged information. Due to his position as the head of a large S&P and Nasdaq stocks brokerage house, some investors' theory was that he could anticipate trends by analyzing the flow of buy and sell orders received from clients. Although by doing this Madoff would have made himself guilty of Front running (executing trades on behalf of the feeder funds before clients orders, but based on the trends such client orders would have triggered). But because what he was supposedly trading was called Option Structure (the famous split strike conversion) and not directly stocks, he could get away with it. Although more exotic justifications allowing Madoff to hypothetically use privileged information have been invoked, including the one that was making Madoff an employee of the CIA...

- What was Madoff attractive?

Regularity : one percent of the value of an investor's portfolio per month, irrespectively of market volatility. A whistleblower, Harry Markopolos, justified this with two scenarios: either a form of insider trading called front-running, or a Ponzi scheme. But a "financial wizard," is trusted. Suspensions were not taken seriously.

- How would you describe the thought process that an investor most likely went through when confronted to Madoff?

There is a strong psychological dimension to the Madoff case: "If I can get in, it will mean that I am one of the chosen few." For the financial elite, Madoff was "godlike" figure. "Don't ask, don't tell." Is also very important. It is important to mention that actually few people have actually physically met Madoff. A lot of the mystic has been built by keeping Madoff out of the picture. Justifying his interest in offering feeder funds for free to Fairfield and others by the increase in trading volume his brokerage house would benefit from these feeders... So here we are... the perfect scheme... Access to a lucrative special situation offered by someone whom actually his happy enough with incremental trading volume it brings to his original business. Why wouldn't you take advantage of it...

- Did investors understand how Madoff was supposedly producing those returns?

The obscurity of financial terms dilutes the uneasy sentiment associated with risk. The fact that Madoff was thought to obtain such returns by practicing "split-strike conversion" illustrates this. Knowledge is power, and therefore in this world of Investments Management, the last thing a supposed professional wants to show is his ignorance on a matter, so no one asked, everyone remained quiet about how it actually worked... and if it is not clear if Madoff anticipated to use that flaw or weakness of the human being, it is obvious that it helped the propagation of the scheme. It is striking to realize that most, if not all, major trading entities known for their competences in derivatives trading (including Societe General, Goldman Sachs and others) of which equity linked options are part of, have systematically refused to enter into business relationship with Madoff on the fund side of his business. Some had even officially disclosed their suspicion of a potential fraud already in the late 90's...

- How could investors be so irrational in thinking that Madoff could perform positively indefinitely?

In finance, emotion takes over reason. 'Buy on the rumors, sell on the news.' As Madoff show us, the feeling within the market, or market sentiment, is what steers Wall Street. Numbers, data, performance, charts, results publications... They are not as influential. Since Madoff's investors had categorized their investments in these feeders as safe, if not even as safe haven, it would have been time to think about selling when it would stop making them money, thinking they had plenty of time before it would even start losing money. No one sells at the top...