The Believers

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In the spring of 2007, at the Lipstick Building in midtown Manhattan, financier and philanthropist Bernard Madoff, chairman of the board of Yeshiva University's School of Business, convened a meeting of the committee searching for a new dean. A gentleman, soft-spoken, friendly and charismatic, Madoff commanded the respect of faculty as well as his fellow trustees. They didn't suspect that two floors below the pioneer of electronic trading and founding father of the NASDAQ was conducting the biggest investment fraud in modern history. Or that in 2009, Madoff would be inmate No. 61727-054, a "planetary pariah" serving a 150-year sentence at the Butner Federal Correctional Complex in North Carolina.

In The Believers, Adam LeBor, a journalist based in Budapest, provides a clear and concise account of Madoff's scam. A master of the art of "affinity fraud," LeBor reminds us, Madoff targeted his fellow Jews. He enlisted respected religious and community leaders to spread the word about Bernard L. Madoff Investment Securities, played hard to get, "reluctantly" accepted new investors and (reversing the usual appeal of the Ponzi scheme) delivered steady, above average returns of 10 percent to 12% a year, instead of spectacular profits.

His own philanthropy enhanced his credibility. A mensch, giving his time and money to charitable institutions, Madoff acquired a reputation as someone interested in the betterment of the Jewish people and society in general. His clients included Nobel Laureate Elie Wiesel and Mort Zuckerman, the real estate magnate and publisher of the New York Daily News.

Madoff's "split-strike" conversion strategy, which involved simultaneous purchases of "put" and "call" options on shares, seemed plausible to novice investors. Savvy clients who knew better, LeBor suggests, simply suspected that he didn't want to reveal how he "really" did it. Reassured by the market-beating returns he generated, year in and year out, and his policy of charging no fee for money management (because he made "enough" from commissions on share trades), they looked the other way. "There was a mystique around him," one professional told LeBor. He seemed to know everybody who was anybody on Wall Street, in the Fifth Avenue Synagogue in New York City and at the Palm Beach Country Club in Florida. And to exude - and induce - confidence.

Madoff's reputation may have prevented the Securities and Exchange Commission from investigating his operations in the 1990s. Along with many other critics, however, LeBor makes a compelling case that the scandal is evidence of systematic failures in the US governmental agencies charged with regulating financial institutions. The SEC, he points out, is understaffed and underfunded. An enforcement division of 1,000 SEC officers is responsible for monitoring 11,300 investment advisers, 4,600 mutual funds, more than 5,500 broker dealers and 676,000 registered...
representatives (in 174,000 branch offices) and 12,000 public companies. Little wonder, then, "that some frauds will inevitably fall through the cracks."

But "none of the above" explains the lack of due diligence by the SEC in the Madoff case. After all, the commission received several complaints about Madoff’s operations from Harry Markopolos, a portfolio and certified fraud examiner, who listed 29 red flags, including evidence that the split-strike strategy, to which only family members were privy, was mathematically impossible. Despite a tendency to overdramatize and a prickly personality, Markopolos had provided a specific road map to the fraud.

Riven by turf wars, however, and burdened by obsolete regulations, SEC officers in Boston and New York did not welcome advice from outsiders. They talked with Madoff, failed to discover that he produced tens of thousands of fake trading slips to record transactions that had never occurred and took no action.

And so, Bernie Madoff got away with it. For decades. When he was caught, LeBor writes, he became the most vilified man in America, a poster boy for the crimes and misdemeanors of financial institutions that caused the greatest economic crisis since the Great Depression. Zuckerman’s newspaper proclaimed that "Madoff will get punishment only when he is in hell."

LeBor's comparison of Madoff with Slobodan Milosevic, the former president of Serbia, seems over the top, but he’s probably right to characterize both men as sociopaths, with no shred of human empathy for their victims.

Wiesel, LeBor reveals, remains enraged at Madoff. For violating key tenets of Judaism, including honesty in business, and for preying on his own people. The punishment he recommends is a form of psychological torture somewhat similar to the flow of faces of victims of the Nazis at Yad Vashem. Confined to a solitary cell, Madoff would have no alternative but to stare at a screen, and on that screen, every day and every night, there should appear men and women who lost everything, or almost everything, because of him. And they would say, "Look, look what you have done to this poor lady, look what you have done to this child, look what you have done."

But, alas, as the shock wears off, LeBor predicts, Americans will resume their love affair with money and acquisition: They'll "await the next Shabbetai Zvi, who will marry not the Torah, but an investment prospectus, and lead them dancing into a bright new world."

The writer is the Thomas and Dorothy Litwin Professor of American Studies at Cornell University.