
Madoff's Unsolved Mysteries

By Edward Jay Epstein *Mon, Oct 4, 2010*

On September 26, Los Angeles moneyman Stanley Chais may have taken the secret of the Ponzi artist's missing billions to his grave.

The black hole into which Bernie Madoff pumped a still unaccounted-for \$7.9 billion grew even darker on September 26 with the death of 84-year-old Los Angeles investment advisor Stanley Chais, one of only two potential witnesses to the laundering of these mystery funds.

Both Chais and another Madoff associate, Jeffry Picower, had been charged in separate fraud suits by the SEC in 2009. The government hoped they would help expose the "labyrinth of interrelated international funds, institutions, and entities of almost unparalleled complexity and breadth" into which the money vanished, as a bankruptcy trustee described it.

But neither case will ever come to trial. In two of the greatest disappearing acts in financial history, Chais died 10 days ago of a rare blood disease and Picower drowned in his own swimming pool in Florida last October, after an apparent heart attack at age 67. Each had known Madoff for 30 years or more, long before he began his Ponzi scheme.

Both men had enjoyed special access to Madoff's operation. According to the SEC complaint, Picower was told in advance of Madoff's monthly profit "targets," or the amounts with which Madoff planned to pad Picower's accounts. With this knowledge, Picower or his assistant could request higher or lower "profits" for various accounts.

Moreover, to amplify Picower's fictional profits to accommodate this siphoning off, Madoff extended him so much fictional credit that his accounts had, according to the bankruptcy trustee's analysis, a "negative net cash balance of approximately \$6 billion at the time of Madoff's arrest."

Picower collaborated by faxing Madoff backdated letters to support fabricated trades, some of which reportedly earned profits as high as 550%. As a result, Picower was able to withdraw over \$2.4 billion just between 2002 and 2008.

Like Picower, Chais worked closely with Madoff. (His name came up first on Madoff's office speed dial.) According to the SEC complaint, Chais withdrew \$1.15 billion from 60 accounts for himself, family members, and corporations in which he held interests, from funds into which he consolidated his clients' money, and from other entities. Madoff enabled him to justify such massive withdrawals by crediting him with inexplicably high phantom profits, with some accounts earning over 300% a year.

Together, Picower and Chais withdrew a total of \$7.9 billion between 1995 and 2008 from the phantom profits that Madoff allocated to them, according to the reckoning of the bankruptcy trustee.

Why were such staggering notional profits systematically credited to the Picower and Chais accounts and

then systematically and purposefully siphoned out of these accounts? Were Picower and Chais following instructions in re-depositing the billions that they withdrew?

All Ponzi schemes need an exit strategy. Unfortunately, with the deaths of Picower and Chais, we may never unravel the secret of where that money ended up.

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