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How Madoff cast his spell

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The Wizard of Lies: Bernie Madoff and the Death of Trust, by Diana Henriques, *Times Books, RRP$30*

Three days. That's how close Bernard Madoff's $65bn Ponzi scheme came to collapsing back in November 2005. The high-profile Bayou hedge fund had collapsed and newly anxious investors were pulling money out of investment businesses such as Madoff's in droves. He owed $105m in redemption cheques but the fraudulent investment business's JPMorgan bank account had just $13m.

As Diana Henriques documents in her new book, Madoff was only able to cover the difference by pulling money from his legitimate brokerage business and by appropriating client assets to get a $95m loan. Then a timely investment from a client allowed Madoff to stay afloat and suck in billions more dollars from hedge funds round the world, creating what may well be the biggest investment scam of all time.

Yet the cash flow problem was not his only close call. *The Wizard of Lies* reveals many moments where Madoff might have been stopped. But his investors were too trusting or too greedy to ask the right questions and US regulators were too cowed and too disorganised.

In one telling moment just a few months after Madoff's 2005 cash crisis, the US Securities and Exchange Commission – tipped off by a sceptical analyst – asked the former Nasdaq chairman for a list of accounts he used to trade securities and options for the investment business. But Madoff had done no trading for the investment business in decades. So, Henriques writes, "Madoff gambled big" – and simply made up a six-page list of financial entities.

The SEC drafted letters to two of the alleged counterparties on the list but never sent them. Despite a face-to-face meeting with Madoff in which the regulators caught him telling an obvious falsehood about his options trading, the commission concluded there was no evidence of fraud and allowed the investigation to peter out.

After interviewing several of the commission investigators, Henriques concludes: "The lie was simply too large to fit into the agency's limited imagination."

Her extensive research makes clear that Madoff's blatant disregard for ethical limits started early. Just a couple of years after starting his brokerage business, he poured customer money into hot new stocks in violation of rules requiring that investments be "suitable".

When the market turned in 1962 and the new issues dropped in value, he covered up rather than confess, borrowing money from his father-in-law to buy back the investments secretly. It was a pattern that would repeat itself when the Ponzi scheme got going in earnest several decades later.

Cogent and well researched, *The Wizard of Lies* is an engaging narrative that brings together much of the information that has emerged since Madoff confessed in December 2008. Readers with only a cursory acquaintance with the Madoff scandal will find it an entertaining summary. But in the end the book proves unsatisfying on several levels.

Despite several face-to-face interviews with her slippery protagonist, Henriques was unable to pin down a precise date for the start of the fraud – Madoff insisted he was legitimate until the early 1990s, while some authorities think the falsehoods started as early as the 1970s. The author plumps for the years right after the 1987 stock market crash when some of his early big backers began pulling out their cash, but she has only circumstantial evidence for her conclusion.

The book is also testimony to the perils of writing a serious work about an event that is still unfolding. Over the past two years, so many details about the Madoff case have emerged that very little of the narrative feels truly new. Henriques conducted extensive interviews with Madoff but his answers often come across as glib or downright misleading – hardly surprising for a noted liar – and his character remains elusive. While Henriques may have been first with the questions, Madoff was later interviewed by the New York Times and the Financial Times and they beat the book to the newsstands.

At the same time, continuing inquiries and litigation related to the case hamper Henriques's efforts to answer the big remaining question: was anyone else to blame? She lays out a clear argument why Madoff's closest relatives, his sons, wife and brother, may well have been his victims rather than co-conspirators, but she soft-pedals her conclusion because the probes are not yet done. Similarly, continuing litigation filed by the bankruptcy trustee charged with recovering money for Madoff's investors may well illuminate what – if anything – Madoff's Wall Street and European counterparties knew. But those cases will take years to resolve.

Without concrete answers, Henriques is left to speculate on why Madoff was able to take in so many for so long. Her answer is prosaic. "Madoff was not inhumanly monstrous. He was monstrously human ... just like us – only more so." For her, rather than being special, Madoff is just one in a long line of schemers that will continue as long as investors continue to dream of risk-free returns. It is not a reassuring conclusion.