

Experts: Bernard Madoff case sparking confidence crisis among investors

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For months Palm Beachers have watched their investments fail just like everyone else. But to a certain extent, the chaos on Wall Street felt removed from a tropical paradise where money seems to sprout from palm fronds.

That all changed last week when federal authorities arrested longtime New York trader and part-time local Bernard L. Madoff, 70, on suspicion of scamming his clients, his neighbors and his friends out of an estimated \$50 billion through an elaborate Ponzi scheme.

This betrayal, if proved true, is a monumental blow to investors' trust in Wall Street, their financial advisers and even themselves, experts say.

Charles W. "Chuck" Ranson Jr., managing director of investor learning group Tiger 21's Florida region, calls last week's developments a "game changer" for investors.

"This is not Merrill Lynch, this is not Goldman Sachs," Ranson said. "This is an individual guy, but an individual who had the most amazing credibility: a senior officer of the board of directors of NASDAQ, an honored colleague by the securities associations over the years. This is truly a situation that you want to disbelieve. But it's true, evidently."

Federal agents arrested the founder of Bernard L. Madoff Investment Securities LLC Thursday and charged him with securities fraud, a crime punishable by up to 20 years in prison. The Securities and Exchange Commission followed up with a civil complaint against Madoff and his company.

Earlier this week, the investment firm's Web site promised Madoff's personal interest "in maintaining an unblemished record of value, fair-dealing and high ethical standards."

But by Saturday, www.madoff.com was reduced to a black background with a paragraph announcing a United States district judge has appointed an attorney as receiver of the firm's assets.

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The judge's emergency order Friday freezing Madoff's assets is just a beginning step in the years of criminal and civil litigation ahead.

The "interwoven spiderweb" of the people Madoff is said to have betrayed entangles — just to start — investors through his registered investment advisory board, investors through hedge funds, investors through feeder funds and investors through Madoff's registered advisory board, Ranson said.

"This will be one of the largest legal messes of the investment advisory business in history," Ranson said.

In Palm Beach and beyond, investors knew of "Bernie" Madoff through word-of-mouth and recommendation.

It is also likely people were lulled into a false sense of security by Madoff's reports of high returns, making them willing to be more hands-off investors, said David J. Cooper, professor of economics at Florida State University.

"If everything seems to be going well, you say, 'Great. He must be doing a good job. I don't need check it out carefully.' But just because he says he's getting a high return doesn't mean you should believe it," Cooper said.

Cases like Madoff's can create significant reversals of consumer confidence detrimental to the entire nation, said Brad Klontz, a Hawaii-based financial psychologist.

"These types of scandals, when they break, can spark a crisis in themselves," Klontz said.

Both those betrayed and those who hear of such betrayal might become overly cautious with their investments and others might not invest at all, causing a rippling effect through the financial markets, Klontz said.

Victims of financial scandals may also adapt their personal lives to cope with the resulting anxiety in a variety of different ways, said Keith Whitaker, a Boston-based doctor of social thought who works with Calibre financial advisers to apply psychological principles to wealth management.

Some victims refuse to read their financial statements or watch television or read newspapers, Whitaker said. Others try to take control by learning everything they can about the situation and calling a financial adviser day and night.

And there are those who just become angry and blame others, Whitaker said.

What's so damaging about Madoff's alleged crime is that it undermines trust in others and even trust in oneself, Whitaker said.

"If someone who was seen as a wise counselor only turns out to be misleading and even betraying those people who trusted in him, that's a real serious blow, and it then leads to the deepest levels, you could say, of mistrust, which is 'Can I even trust myself? Can I trust my judgment of not only the system but the people I look to for guidance?'" Whitaker said. "And

that's a very, very hard spot to be in, because if you can't trust yourself, it becomes very hard to make wise decisions."

Whitaker advises that those struggling with physical and mental distresses from such losses tap into the methods they used previously to overcome challenges and realize what is and is not within their control.

"Then you will be in a much better place to make judgments about putting your trust in other people or in institutions," Whitaker said.

Madoff's example does not extend to all investments and investment advisers, and there are still plenty of good opportunities for careful investors, Cooper said.

"Buyer beware is really good advice," he said. "When you invest with somebody, to some degree there's always risk. There's a lot more risk if you're not checking paperwork. The important thing is to be an informed investor."

— *Daily News City Editor Michael Kaiser contributed to this report.*

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