MARKET MOVERS

by Ryan Avent

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Feb 19 2009 1:52am EST

Stanford Round-Up, Drug Edition

Some very interesting stories are emerging concerning Allen Stanford right now.

First up is ABC News, which is reporting that Stanford has drug ties, specifically to "Mexico's notorious Gulf Cartel":

> Authorities tell ABC News that as part of the investigation, which has been ongoing since last year, Mexican authorities detained one of Stanford's private planes. According to officials, checks found inside the plane were believed to be connected to the Gulf cartel, reputed to be Mexico's most violent gang.

Which would seem to answer the question of whether it was indeed the FBI which allegedly pushed the SEC off the Stanford case.

This is bad news for Stanford's depositors, I think. Stanford, if he has any sense, knows that he has both more to fear and more to gain from the Gulf Cartel than he has from the FBI or the SEC -- if he's going to be cooperating with anybody right now, it'll be the drug barons, and there's even a chance that they, rather than he, now have control of the SIB

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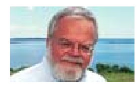

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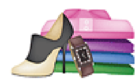

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billions. After all, they can make Stanford a very attractive offer: give up your depositors' money, and we'll create a new life for you and protect you from the Feds. Don't give up your depositors' money, and we'll kill you.

Meanwhile, Reuters has details on the way in which Stanford's lawyer, Thomas Sjoblom, removed himself from the investigation:

> Stanford Financial Group's outside lawyer, Thomas Sjoblom of law firm Proskauer Rose LLP in Washington D.C., sent a brief notice to the SEC on Feb. 12 that he had withdrawn from representing the company and its affiliates in all matters before the commission, according to a copy of the letter filed by the SEC in the case.
> In a follow-up e-mail to the SEC on Feb. 14, the lawyer added that he wanted "to disaffirm all prior oral and written representations" he and his associates had made about the companies.

February 14 was Saturday; the official SEC complaint came down on Tuesday, the first working day after Sjoblom's second email. Even the first notice from Sjoblom came long after Alex Dalmady's investigation was all over the internet. So it would seem that Sjoblom's departure wasn't the cause of the SEC going into overdrive after all.

And the Huffington Post is reporting that Stanford hasn't been paying his US taxes:

> Records show four federal tax liens against Stanford totaling more than $212 million. The liens are from 2007 and 2008.

The saddest article, however, comes from Bloomberg:

> The Antigua bank, founded by Stanford Group Co. Chairman R. Allen Stanford, attracted clients with assurances that its CDs were as safe as U.S. government-insured accounts, if not safer, investors said.

There was lots of baloney about Bankers Blanket Bonds and the like, but if you talk fast enough -- and especially if you're a trusted broker whom your clients have followed from Merrill Lynch -- it's possible to persuade people these things really are safe.

> Allen Stanford set up a network throughout the U.S. south, hiring brokers from large investment firms including UBS

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> AG and Merrill Lynch & Co. to court wealthy investors such as doctors and retirees who were not always experienced with financial products, according to two former financial advisers and clients. Stanford then set up an incentive structure to steer money into the Antigua bank.
>
> In July 2007, the company hired a team of eight executives from U.S. Trust Co. to work out of Greensboro, North Carolina, where the firm's private-client group planned to target wealthy investors, according to statement at the time. The team was made up of John Rich, Glenda Burkett, M. Jo Brooks, Ken Dimock, Anthony Monforton, Virginia Saslow and William "Wes" Watson and Suzanne Wilcox.
>
> Peter Comer, an Austin, Texas, software salesman, said he moved his money to Stanford when his Merrill Lynch brokers started working there, and invested in the offshore CDs.
>
> "Sometimes it didn't feel right," he said.
>
> "But I got assurances from my brokers," he said. "These guys who worked for Merrill and moved over to Stanford, they had reputations."

Good on Bloomberg for naming names of Stanford brokers: these people had a horrible conflict of interest -- they represented to their clients that they had those clients' best interests at heart, but never mentioned that they were getting as much as 2% commission on every CD they sold. They deserve to be named and shamed.

Finally, the Economist appreciates the Power of the Blogs:

> The SEC stepped up its probe after its Madoff mis-steps. But a bigger impetus may have been a deeply sceptical report on Stanford's investment returns, published in January by Alex Dalmady, an independent analyst. The blogosphere picked this up, and within days it was making headlines worldwide. This offers hope for those who despair of the SEC's bungling, suggesting that in the internet age forensic vigilantes and devil-may-care bloggers can, to some extent, fill the gap left by dilatory regulators and libel-constrained mainstream media.

It's worth noting that it's not just UK publications like the Economist and the FT who found themselves libel-constrained in this case. (The Economist published nothing on the subject of Stanford until the SEC filed charges

Links

against him.) US publications, too, felt much more comfortable reporting on the SEC investigation -- an undisputable fact -- than they did reporting on Stanford's finances. As one journalist told me, "you really can't call something a fraud without the evidentiary proof or the subpoena power of the regulators".

I personally felt reasonably comfortable calling Stanford a fraud when the bank reacted with surprising equanimity after I first aired my suspicions. They didn't start shouting that they *weren't* frauds -- in fact, they never addressed any of the substantive allegations at all. Instead, they just gave a bland "no comment", and didn't even threaten a lawsuit. But it's easy to guess that if I'd been forced to run my posts past a lawyer, many of them would have been severely bowdlerized before appearing.

In any case, I think that Ray Pellecchia and I have been proven right: Markopolos really would have been much better off blogging his suspicions about Bernie Madoff than going to the WSJ -- even if the WSJ had followed up on those suspicions, which of course it didn't. When it comes to uncovering financial crimes, blogs are clearly going to be playing a key role in the future.

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This was the perfect opportunity for the WSJ to demonstrate that it is a public trust, something more than a profit making enterprise and a megaphone for right wing loonies.

They had just been forced to comment on their bungling of the Madoff matter and so presumably would have been alert to further scams of the same nature.

DealBreaker
Carl Bialik
Michelle Leder
Brad DeLong
Ultimi Barbarorum

They failed totally.

By **anonymous** Posted: Feb 19 2009 09:39am ET

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Another very good offering from Mr. Salmon. His efforts are a lighthouse constantly reminding us of what we should be examining with more care and precision. On a different subject, the author has assembled a provocative and enlightening article in the March 2009 issue of Wired magazine.

By **verismo** Posted: Feb 19 2009 10:11am ET

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It seems to me Stanford wasn't a ponzi scheme, it was a money laundering operation. Take deposits 'invest them' in dirty money, pay out decent return. At 8 billion I doubt they exhausted the dirty money. Maybe it was money laundering related restrictions that ended up halting the cash flow.

By **crack** Posted: Feb 19 2009 10:44am ET

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Ugh. Stanford is making Madoff look good. After all, Bernie only stole from widows and orphans.

By **MattF** Posted: Feb 19 2009 11:16am ET

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And the house of cards keeps falling....

By **dewfish** Posted: Feb 19 2009 2:12pm ET

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Bravo Bloggers!!!!!

By **anonymous** Posted: Feb 19 2009 2:26pm ET

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Response to **anonymous** Feb 19 2009 09:39am ET

I agree

By **test123** Posted: Feb 19 2009 2:29pm ET

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If the FBI shut down this SEC investigation because it was chasing drug traffickers, that was a serious mistake. I don't endorse legalizing drugs, but there are some things more important than chasing drug criminals, such as stopping financial frauds that run into the billions.

By **alkali** Posted: Feb 19 2009 2:29pm ET

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here is what Proskauer lawyer really did, not a whistleblower but a rat on fire on a sinking ship.

For almost four hours, the SEC officials quizzed Pendergest-Holt, who in 2006 was named to the Memphis Business Journals Top 40 under 40, a ranking that honors the areas local business leaders. In the room with her was Thomas Sjoblom, an attorney with the international law firm Proskauer Rose LLP who represented the Stanford company.

Whether the testimony he heard Pendergest-Holt give that day influenced an action he took the next day is unclear. But with little explanation, Sjoblom officially quit representing Stanford Financial's affiliated companies the day after Pendergest-Holt's testimony, according to court records the SEC filed last week along with its complaint against Stanford.

Before entering private practice, Sjoblom had worked for the SEC for 20 years. From 1987 to 1999, he was an assistant chief litigation counsel in the SEC's Division of Enforcement the same division of the agency whose representatives were peppering Pendergest-Holt with questions Feb. 10.

After she was put under oath, Sjoblom immediately got down to business. Pre-empting the SEC officials, according to a transcript of the day's testimony, he asked: First of all, has there been a criminal referral in this matter?

King told him that he and his client had been provided with an SEC Form 1662. Among other things, that form reads, The commission often makes its files available to other governmental agencies, particularly United States Attorneys and state prosecutors. There is a likelihood that information supplied by you will be made available to such agencies where appropriate.

At press time, criminal charges had not yet been filed against the three executives who were the subject of SEC civil charges last week.

Sjoblom followed that up with another question about whether the SEC is currently working with the U.S. Attorney's office in the Northern District of Texas or elsewhere.

Mr. Sjoblom, I just referred you to SEC Form 1662,â€ King replied.

Objections

Sjoblom pressed on. Before Pendergest-Holt began her testimony, he brought up a question of whether the SEC had authority to probe matters related to Stanfordâ€™s banking arm, which operates on the Caribbean island of Antigua.

Sjoblom said. Next, before you start asking questions ... theres certainly an issue here whether or not the certificates of deposit are securities. So I have an objection to the purported jurisdiction of the SEC over this instrument.

Secondly, it's my view that the bank is located" Stanford International Bank is located outside the jurisdiction of the United States and there is no jurisdiction by the SEC over that bank and its product lines and, hence, over the information that, I'm sure, you're going to seek to elicit today."

Nevertheless, the testimony proceeded. The line of questioning from the SEC officials focused on filling in both personal and professional details about Pendergest-Holt.

They learned, for example, that she was about 23 years old when she joined Stanford in June 1997. They also learned enough to allege in their complaint that she trained employees below her to mislead investors.

The SEC's complaint says Pendergest-Holt supervised a group of analysts in Memphis, Tupelo and St. Croix, (U.S. Virgin Islands).

Cutting ties

The Stanford lawyer in the room while Pendergest-Holt gave her testimony, however, soon removed himself from the picture. He gave notice to the SEC Feb. 11, the day after her testimony, that his firm was no longer Stanford's counsel.

He followed that up with a Feb. 12 fax to Kevin Edmundson, the assistant regional director in the SEC's Forth Worth office, and left a voice mail message for him the next evening.

Finally, Sjoblom typed a note on his BlackBerry to Edmundson a little after 4 p.m. Saturday, Feb. 14. It read:

Kevin, this will advise the SEC, and confirm my voice message last evening, that I disaffirm all prior oral and written representations made by me and my associates ... to the SEC staff regarding Stanford Financial Group and its affiliates."

By **anonymous** Posted: Feb 22 2009 07:23am ET

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Who's behind Madoff?
By Wayne Madsen
Online Journal Contributing Writer
Feb 19, 2009, 00:21
WMR http://www.waynemadsenreport.com
-- As the Securities and Exchange Commission (SEC) announced that it had cut a deal with $50 billion Ponzi scammer Bernard Madoff whereby Madoff will neither admit nor deny fraud claims against him in a suit brought by the SEC. In return Madoff has agreed to pay civil fines and penalties levied by the SEC. The agreement has no bearing on Madoff's criminal trial.

WMR has learned that in addition to 20 million documents stored by Madoff in a warehouse in Queens that were stored without any indexing system and merely placed in boxes and strewn around the floor are millions of additional documents that were stored by Madoff in a Brooklyn warehouse that was partially flooded. A number of the Madoff documents there were destroyed by water damage.

WMR has also learned that a key element in Madoff's Ponzi scheme was Madoff Energy LLC, formed as a Delaware corporation in February 2007. Other Madoff firms in the energy arena were Madoff Energy Holdings LLC, Madoff Energy III LLC, and Madoff Energy IV LLC. There are links between these now-defunct Madoff energy entities and Texas oil and natural gas industry interests, some close to the Bushes and Dick Cheney.

WMR has also learned that the kid glove treatment given by federal authorities to Madoff, including allowing him to remain in his Upper East Side luxury town home, is because Madoff's Ponzi scheme was part of a much larger operation, one involving top officials of both the George W. Bush and Barack Obama administrations, as well as the notorious Russian-Israeli Mafia.

One of the investors in Madoff's scam was, according to the published list of Madoff "victims," was the Bank of New York (BONY) and a contrivance called the "Alternate Investment Service." BONY was the subject of a previous detailed WMR report on the activities of the Russian-Israeli mob:

"Forest Hills

By **iviewit** Posted: Feb 22 2009 07:31am ET

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