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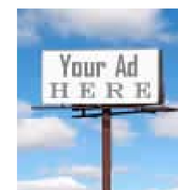
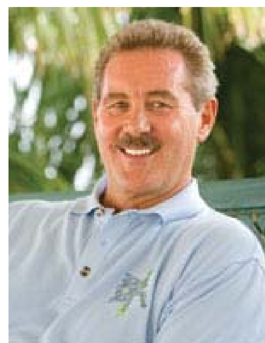


The Sir Allen Stanford Story: The Emperor Has No Clothes Revisited

In a scheme going back over 20 years, it appears that Stanford's "Banks" were nothing more than a ponzi scam, bilking investors for billions -- atleast $8 billon and counting -- but it took a smart Venezuelan analyst named Alex Dalmady to cry out that the emperor had no clothes, setting off a chain of events that within two weeks would lead to the collapse and closure of affiliated banks in Caracas, Canada, Colombia, Peru, Ecuador and Antigua.



By Russ Dallen
Latin American Herald Tribune staff

In the early days of America, a banker was discussing how he came to be so rich. “Well, I didn’t have much else to do, so I rented an empty store and painted “BANK” on the window. The first day I was open for business, a man came in and deposited $100. The second day another fellow came in and deposited $250, and so along about the third day, I got confidence enough in the bank to put in a hundred myself.”

The story unraveling around billionaire Sir Robert Allen Stanford may echo that allegorical piece of history, as Stanford searched to give an aura of legitimacy to what was never more than an unregulated off-shore bank in a Caribbean tax haven. And not to be outdone by his predecessor Bernard Madoff – the press has already taken to calling him a mini-Madoff and although, the Security and Exchange Commission (SEC) suit is only mentioning the $8 billion in Stanford International Bank at the moment -- Stanford Financial Group claims to have $50 billion “under advisement.”

But that, like so much else about Stanford, may just turn out to be more bluster. Searching for a veneer of respectability for his institution and the gravitas that a long history conveys, Stanford’s marketing team, in addition to trying to link him to Stanford University founder Leland Stanford, tried to portray that Stanford’s group of companies had been around since his grandfather in 1932. The truth is rather more mundane.

In the mid-1980s, favorable laws in the British colony of Montserrat made it relatively easy and profitable for individuals to establish and operate private banks there. In 1985, Stanford formed Guardian International Bank, Ltd in Montserrat, and subsequently in 1987, Stanford Financial Group Inc. in Montserrat.

At the end of 1987, Guardian International Bank’s deposits totalled only $2 million, but by the end of 1989, Stanford had $55.5 million in deposits, and reached $100 million by November 1990, according to the FBI and the Monserrat and British governments. But because Montserrat became a haven for offshore banks in the 1980s that were engaging in “disreputable banking practices”, the British government began calling on the Montserrat government to crack down. The Montserrat Government then began restricting the activity of foreign-owned banks and by 1991 precluded direct ownership of banks by foreigners, forcing Stanford and others to leave.

With Montserrat forcing him out, Stanford looked for another place with lax regulation where he could stably continue to build his offshore banking empire. He chose Antigua, 40 miles to the northeast, where Vere “Papa” Bird had steered the island to independence from Britain in 1981 and was revered for having shaken off the imperial yolk. It was a wise choice, as the politically all-powerful Bird family ended up holding power for almost 3 decades and were very welcoming to Stanford and his money. The successive father and son Bird team were busy realigning Antigua from a poor sugar-growing economy to a potentially rich haven for offshore banks, internet gambling and -- to the dismay of US and UK authorities -- money laundering, and Stanford was delighted to help. With the $100 million already reportedly in Guardian International Bank, Stanford bought a foothold by purchasing the Bank of Antigua in December 1990, which like most of the country, was in poor financial shape, and moved his operations to the island. He then secured from the Bird administration a license for Stanford International Bank in Antigua.

The symbiotic relationship proved

profitable for the Birds and for Stanford. By 1994, when Stanford bought out his father's half of the bank to become its sole shareholder, Stanford Financial reported that it had $350 million in assets. Over the next decade in Antigua, Stanford built airports and cricket grounds, harbors and hospitals. Stanford came to be the second largest employer in the nation of 75,000 – behind only the government. Money piled into his Stanford Financial Group entities from around the world, to the point that his company website now claims that they have over $50 billion under management.

His presence and power became so pervasive that people took to calling the island Stanfordville, and by 2008, Stanford was knighted as Sir, Forbes ranked him the 205th richest American with an estimated net worth of $2.2 billion and World Finance magazine named him their 2008 Man of the Year. But the tale of how a small residential property developer from the small-town of Mexia, Texas – Mexia's other famous export being Anna Nicole Smith -- came to be the billionaire owner of Antigua's largest local and offshore banks, its biggest newspaper and the regional airline, not to mention large swathes of the 170 square mile twin-island state is a tale of chutzpah and gumption with an all encompassing layer of bunkum.

All that, however, came crashing to an end on February 17th, when US Marshalls showed up at the doors of the Stanford Group towers in Houston, Texas -- ironically not far from the former Enron towers -- with a temporary restraining order from US District Judge Reed O'Connor, charging Stanford with "a massive, ongoing fraud", freezing Stanford's assets and appointing a receiver to take control of his Stanford International Bank.

It was a move with repercussions around the world, as depositors heard the word "fraud" and rushed to pull their money from their local Stanford entities. Within days, Stanford Banks collapsed or were rapidly shut down, raided or intervened by the governments in Antigua, Peru, Ecuador, Panama, Venezuela, Colombia, and Canada. The collapse, though long expected, came suddenly.

Shady Deals in Sunny Islands

Though the weather is wonderful, most people do not set up banks in the Caribbean for the climate. Lax registration is what lures bankers -- and fraudsters -- and lax oversight for tax avoidance is what brings investors. They both get what they pay for, and Stanford was willing to pay a lot.

As the hundreds of millions invested and deposited in Stanford Financial from the U.S. and Latin America continued to grow, Stanford put the money to work buying goodwill, friends and control in Antigua – cementing his power as well as his holdings. He financed the construction of a new hospital and developed the $100

million Airport Village, which turned the area around V.C. Bird International Airport where both of his banks are headquartered – Stanford International Bank and the Bank of Antigua -- into a small city, including a four-star hotel, five-star restaurant and cricket stadium. When Hurricane George devastated the island, Stanford granted the government a $5 million interest-free loan to be used for reconstruction. By the 1999 elections, Michael Allen in the Wall Street Journal reported him as "a major contributor to the recent re-election campaign of Prime Minister Lester Bird and the biggest banker on the island." That same year, Stanford was made an Antiguan citizen.

''What we had was a leveraged buyout of Antiguan regulation by a private-sector person,'' Jonathan Winer, former deputy assistant secretary of state for narcotics and law enforcement in the Clinton administration told a Philadelphia Inquirer investigation at the time.

At the same time as he solidified his power and influence in Antigua, Stanford's skyrocketing offshore activities – which, according to his website at the time, reportedly controlled $9 billion in 1999 -- began to increasingly come to the notice of U.S. officials concerned that Antigua's lack of banking laws threatened the U.S. because they held the potential to make Antigua a haven for drug smugglers, terrorists and others seeking to hide their funds. Faced with just such a charge in 1999, Stanford willingly turned over $3 million from his bank after federal agents found it had come from a drug cartel in Mexico.

To combat this threat to his growing empire posed by U.S. regulators, Stanford first had the Antigua government enact anti-money laundering legislation in the Money Laundering Prevention Act 1996. When that was unsuccessful in deterring U.S. criticism, in 1998 Stanford had the government create a new board to oversee the offshore financial sector – the Financial Services Regulatory Commission (FSRC) -- and had himself named as one of the triumvirate. The fox was in charge of the chicken coop.

The U.S. government was shocked by the conflict of interest and duplicity, and issued an

advisory to U.S. banks – at that time, only the second one in history specifically targeting a foreign country -- to scrutinize all financial transactions routed into or out of Antigua and Barbuda for evidence of money laundering. The United Kingdom issued a similar advisory soon after.

Faced with the sanctions, Antigua and Stanford backed-down and the Bird government replaced the him on the FSRC with public officials, but in a nod to Stanford, appointed his lawyer Errol Cort to the post of Attorney General and Minister of Justice (Cort currently serves as Minister of Finance, and Donna S. Cort is listed as "Accounting Manager" in the Management Section of the Bank of Antigua's 2007 Annual Report). By 2000, the Financial Action Task Force (FATF) declared Antigua fully cooperative in the fight against money laundering.

Priming the Pumps

Having been successful in dodging the first salvo of the threats of a U.S. regulatory bullet to his growing financial empire, Stanford realized that he had to replicate his Antigua political largesse and start spreading the wealth around to U.S. lawmakers. And spread it, he did.

According to the non-partisan Center for Responsive Politics, from 1999 to 2008, Stanford Financial spent $7.2 million on lobbying activities and campaign donations and its employees and its political action committee gave $2.4 million to federal candidates since 2000. The list of who got money reads like a "Who's Who" of US politics. And, in a sign that he realized his financial empire was in danger of collapsing as markets around the world crumbled, Stanford spent $2.2 million lobbying in 2008 alone.

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It provided an opportu- Stanford investment model

Sir Allen Stanford, left, and Senator Barack Obama.

Like rats deserting a sinking ship, in the wake of the SEC's fraud charges against Stanford on the 17th, Senator after Senator and Congressman after Congressman has come out saying they are returning the money Stanford gave them. Senators Chris Dodd (Chairman, Senate Banking Committee, $27,500), Bill Nelson ($45,900), John McCain ($28,150), and even President Barack Obama ($4,600, but $31,750 firmwide) have all announced that they will be donating the money that Stanford gave them to charity. On the House side, Representative Charles Rangel, Chairman of the House Ways and Means Committee and who sponsored legislation that limited IRS audits in the Caribbean – where Stanford was having $100 million IRS back-taxes problems -- said he would be donating the $10,800 he received to charity.

Even the family of Vice President Joe Biden has been forced to offer to return $2.7 million to the receiver that Stanford had invested in a co-branded investment fund owned by Biden's son and brother. The fund has offered to turn over the $2.7 million investment it received from Mr. Stanford's firm in 2007 to a court-appointed receiver in the SEC's civil fraud case involving Mr. Stanford, according to Paradigm's attorney, Marc X. LoPresti. The $50 million fund was jointly branded between the Bidens' Paradigm Global Advisors LLC and a Stanford Financial Group entity and was known as the Paradigm Stanford Capital Management Core Alternative Fund. Stanford-related companies marketed the fund to investors and also invested about $2.7 million of their own money in the fund, according to a lawyer for Paradigm. Paradigm Global Advisors is owned through a holding company by the vice president's son, Hunter, and Joe Biden's brother, James.

U.S. politicians were not alone in their rapid about-face on Stanford. The former President of Switzerland, Adolf Ogi, who only a year before had joined Stanford's International Advisory Board, resigned. Even the Queen of England piled on in the public disavowal, according to the Financial Times.

As if that wasn't bad enough, the primary charity that Stanford sponsors to raise money for St. Judes Children Hospital – for which he has raised and donated millions of dollars -- Eagles for St. Jude, removed all mention of him and his company from their website, even though Stanford Financial Group created the program. (The Eagle is the symbol of Stanford Financial, which all Stanford employees were required to wear on their jackets as a lapel pin.)

The Madoff Effect

Which brings this tragic tale back to how Sir Allen Stanford -- who descended onto Lord's Cricket Ground in London with a chest full of $20 million in helicopter with his name

emblazoned on the side (which later turned out to be rented with the name temporarily pasted on) fell so low from so high. That portion of the story begins in December when it emerged that Bernard Madoff was really running nothing more than a $50 billion Ponzi scheme. Diligent analysts began looking around for who would be the next to fall.

Alex Dalmady is the financial analyst who emerges as the fugleman in this part of the story, as he was the first, on February 2, to point out that the emperor had no clothes in his "Duck Tales" report for Veneconony, Venezuela's leading consultant and publisher on financial, political, and economic issues. After analyzing Stanford International Bank last month, Dalmady concluded that Stanford had feathers, quacked, waddled and had webbed feet. That is, after all of the tests that he could come up with, Dalmady concluded that Stanford International Bank was the same kind of duck as Madoff -- a fraud and Ponzi scheme.

The most alarming and prescient parts of Dalmady's work concerns his analysis of Stanford's stated returns, investments and balance sheets. Regarding the returns that Stanford claimed, Dalmady noted that the bank kept stating remarkably consistent returns of over 11%, even though the markets crashed and bubbled throughout the decade. In 1995 and 1996, Stanford even reported identical returns of 15.71%, a remarkable achievement considering the bank's "diversified investment portfolio."

In addition, Dalmady pointed out that rather than being in liquid, secure investments, the money appeared to be invested in a resort developer, three lame motion pictures, a golf club manufacturer, a golf course, an auction house and a restaurant in Memphis. "These are small companies which could not represent a large portion of the bank's assets and frankly looking at their nature, look more to be a millionaire's "toys" than investments," concluded Dalmady.

But Dalmady was not done. Madoff had been audited by a no-name auditor with a Long Island storefront. Likewise, Stanford -- with his billions of dollars and various banking entities, including the Bank of Antigua -- was being audited not by KPMG or PriceWaterhouseCoopers, but by a small local firm. What Dalmady didn't know at the time, was that the day after the 73 year old auditor signed off on Stanford's 2008 accounts in January, he died.

The Tipping Point

From this point, and in a testament to the interconnected power of the world, things began to unravel quickly for Stanford. Soon after Dalmady's report was released, a post appeared in Conde Nast's Portfolio.com written by Felix Salmon, which Seeking Alpha picked up and then Business Week and then the ball really started rolling. Media around the world looking for the next Madoff began picking up on the story, and upon hearing the news, alarmed investors rapidly began asking for their money back.

Meanwhile, for Stanford, headaches were multiplying. In December, Pershing, the clearing broker and division of the Bank of New York which held Stanford Group's U.S. accounts, refused to send any more wires from client accounts at Stanford's U.S. registered stock-brokerage Stanford Global Capital to Stanford International Bank, because Pershing had not gotten answers to questions about Stanford International Bank's "transparency." Pershing had been trying to get an independent report regarding Stanford International Bank's financial condition since the collapse of Bear Stearns in the Spring of 2008.

According to the SEC, between 2006 and December 12, 2008, when they stopped sending funds, Pershing sent 1,635 wire transfers, totaling approximately $517 million, from approximately 1,199 customer accounts to Stanford International Bank.

But the funds were not just coming from the U.S. unit. Stanford International Bank sold more than $1 billion in CDs per year between 2005 and 2007, of which their sales to U.S. investors was only a small part. Stanford International Bank's deposits increased from $3.8 billion in 2005, to billion in 2006, and $6.7 billion in 2007.

But as the international press snowballed, panicked investors clamored for their money back and Stanford imposed a "two month moratorium" on CD redemptions, instructing Stanford Group advisers that the bank would not honor redemption requests from clients. At the same time, according to the SEC, Stanford International Bank sought to remove over $178 million from the accounts.

On Tuesday, February 10, five representatives of the SEC took the testimony of Stanford's chief investment officer, Laura Pendergest-Holt, in the SEC's office in Fort Worth, Texas. The SEC's testimony of Pendergest-Holt lasted nearly four hours, and she was accompanied by Stanford International Bank's U.S. lawyer, Thomas Sjoblom of Proskauer Rose.

Then, the next day, in a move that set the legal world afire, Stanford's lawyer Sjoblom notified the SEC that he was withdrawing as counsel. Three days later, Sjoblom advised the Commission that he and his law firm "disaffirm all prior oral and written representations" regarding Stanford Financial Group and its affiliates" -- a move under the brand new Sarbanes-Oxley law's"noisy withdrawal" rule that then allows the lawyer to reveal private client information that would have previously been confidential and protected by lawyer-

client privilege.

The SEC Acts

Three days later, on February 17th, the SEC filed suit against Stanford, raiding and seizing his offices, freezing the bank's assets and alleging "a massive, ongoing fraud", echoing and adding meat to many of the same charges that Dalmady had revealed two weeks earlier, namely:

- "Stanford's historical returns are improbable, if not impossible."

  "For almost fifteen years, Stanford represented that it has experienced consistently high returns on its investment of deposits (ranging from 11.5% in 2005 to 16.5% in 1993). Since 1994, SIB claims that it has never failed to hit targeted investment returns in excess of 10%. And, SIB claims that its "diversified portfolio of investments" lost only $110 million or 1.3% in 2008. During the same time period, the S&P 500 lost 39% and the Dow Jones STOXX Europe 500 Fund lost 41 %.

  Stanford's historical returns are improbable, if not impossible. After reviewing Stanford's returns on investment over ten years, a performance reporting consultant hired by Stanford characterized the performance as "not possible -- almost statistically impossible." Further,
  in 1995 and 1996, Stanford reported identical returns of 15.71%, a remarkable achievement considering the bank's "diversified investment portfolio."

- Stanford Reports Blatantly False Returns

  "Stanford told investors that they had positive returns for periods in which actual clients lost substantial amounts. For example, in 2000, actual client returns ranged from negative 7.5% to positive 1.1 %. In 2001, actual client returns ranged from negative 10.7% to negative 2.1 %. And, in 2002, actual client returns ranged from negative 26.6% to negative 8.7%. These return figures are all gross of SCM advisory fees ranging from 1% to 2.75%. Thus, Stanford's claims of substantial market out performance were blatantly false. (e.g., a claimed return of 18.04% in 2000, when actual investors lost as much as 7.5%).

  "And, as early as November 2006, Stanford investment advisers began to question why their actual clients were not receiving the returns advertised in pitch books. In response to these questions, Stanford hired an outside performance reporting expert, to review certain of its performance results. In late 2006 and early 2007, the expert informed Stanford that its performance results for the twelve months ended September 30, 2006 were inflated by as much as 3.4 percentage points. Moreover, the expert informed Stanford managers that the inflated performance results included unexplained "bad math" that consistently inflated the performance results over actual client performance. Finally, in March 2008, the expert informed Stanford managers that the performance results for 2005 were also inflated by as much as 3.25 percentage points."

- A Commission Structure Making Whistleblowing Unlikely

  "Financial advisers receive a 1% commission upon the sale of the CDs, and are eligible to receive as much as a 1% trailing commission throughout the term of the CD. Stanford promoted this generous commission structure in its effort to recruit established financial advisers to the firm. The commIssion structure also provided a powerful incentive for Stanford financial advisers to aggressively sell CDs to United States investors, and aggressively expanded its number of financial advisers in the United States. In 2007, Stanford paid more than $291 million in management fees and commissions from CD sales, up from $211 million in 2006."

- Only Two People Overseeing The Money

  "Stanford International Bank is operated by a close-nit circle of Stanford's family, friend and their confidants. For example, Davis was Stanford's college classmate at Baylor University in the 1970s. SIB's Board of Directors includes Davis, Stanford, Stanford's father James A. Stanford, and O.Y. Goswick, a Stanford family friend from Mexia, Texas, whose business experience includes

> cattle-ranching and car sales. SIB's investment committee, which is purportedly responsible for the management of the bank's multi-billion dollar portfolio of assets, is comprised of Stanford, Stanford's father, Davis, Goswick and Laura Pendergest-Holt. Pendergest-Holt, who became acquainted with Davis at their church in Baldwin, Mississippi, joined Stanford Financial Group in 1997, after graduating from Mississippi State University with a master's degree in mathematics. Prior to joining SFG, Pendergest-Holt had no experience in the financial services or securities industries. Based on these relationships, and the fact that Stanford is the sole shareholder of SIB and SGC, it appears that Stanford is subject to little or no independent oversight.
>
> These improbable results are made even more suspicious by the fact that, contrary to assurances provided to investor, at most only two people -- Stanford and Davis -- know the details concerning the bulk of Stanford's investment portfolio.
>
> In short, approximately 90% of Stanford's claimed investment portfolio resides in a "black box" shielded from any independent oversight. "

Rose Romero, Regional Director of the SEC's Fort Worth Regional Office, added, "We are alleging a fraud of shocking magnitude that has spread its tentacles throughout the world."

In the wake of the charges against his bank, Stanford himself was nowhere to be seen and the press went into a feeding frenzy searching for the latest Madoff. During the fevered hunt for the billionaire, financial network CNBC reported that Stanford had tried to hire a jet to get out of the country, but that his credit card had been declined, and he didn't have enough cash on hand to pay for it.

In an interview for his listing in their 2008 Richest Americans Ranking, Forbes had asked Stanford how much money kept in his wallet.

“$200,” was the reply.

Apparently, he had believed his own marketing and, like that banker of yore, made the mistake of putting his own money in the bank too.

Stanford International Bank Receiver in Antigua Says Statements to 28,000 Clients to Go Out at Month-End

SEC Complaint Filed in the Stanford Case

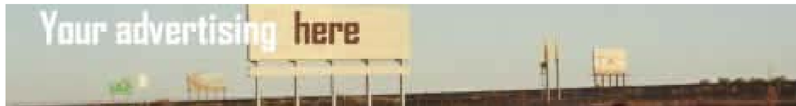
SEC Memorandum of Law Filed in the Stanford Case

Venezuela bans Stanford Executives From Leaving the Country

Venezuela Takes Control of Local Stanford Bank Operations

SEC Charges Stanford with Multi-Billion Dollar Fraud

The article that started it all: Veneconomy's Duck Tales, by Alex Dalmady



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