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by Felix Salmon

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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 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.

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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Thomas Sjoblom of law firm Proskauer Rose LLP in Washington D.C., sent a brief notice to the SEC on Feb. 12 that he had withdrawn from representing the company and its affiliates in all matters before the commission, according to a copy of the letter filed by the SEC in the case.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 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

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> 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 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".

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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.

See more in fraud

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