



LAW

# Madoff Victims Investigated

Criminal Probe Expands to High-Profile Investors Who Say They Were Stung

By AMIR EFRATI

Updated May 18, 2009 11:59 p.m. ET

The criminal investigation into who knew about Bernard L. Madoff's massive fraud has expanded to include some of his highest-profile investors, according to people familiar with the matter.

Jeffry Picower and Stanley Chais, two philanthropists who invested heavily with Mr. Madoff, and Carl Shapiro, one of the money manager's oldest friends, are among at least eight Madoff investors and associates being scrutinized by the U.S. attorney's office in Manhattan, these people said.

Federal investigators have gathered evidence they think will show that Messrs. Picower and Chais told Mr. Madoff how much in returns they wanted. Their accounts soon would reflect those amounts, people familiar with the investigation said.



Prosecutors are continuing to probe Madoff family members and employees, but the investigation now



Carl Shapiro, a Madoff friend, is among at least eight individual investors being scrutinized by the U.S. attorney's office in Manhattan. *LUCIEN CAPEHART PHOTOGRAPHY*

targets the victims of the fraud, both directly and through their foundations. Mr. Madoff pleaded guilty in March and is set to be sentenced in June.

Aiding investigators is their discovery that Mr. Madoff was a "meticulous" record keeper who kept correspondence between some clients and the firm, said people familiar with the probe.

Prosecutors haven't charged any Madoff investors with criminal wrongdoing. A lawyer for Mr. Picower, 67 years old, said his client wasn't complicit in the fraud and suffered losses in the billions. A lawyer for Mr. Chais, 82, a money manager who channeled West Coast clients to Mr. Madoff's firm, said he was unaware of a criminal probe of Mr. Chais and his client didn't have knowledge of Mr. Madoff's Ponzi scheme. Mr. Chais "has cooperated fully" with investigators, the lawyer said. A representative for Mr. Shapiro, 96, said Mr. Shapiro had no knowledge of the fraud.

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Messrs. Picower and Chais already have been accused of seeking fictitious gains in civil lawsuits brought against

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MADOFF FRAUD CASE »

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principal they deposited for themselves, family members and foundations, the lawsuits allege.

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Messrs. Picower and Chais have denied the claims, either directly or through their lawyers. A lawyer for Mr. Madoff declined to comment on Mr. Picard's allegations or the criminal probe of investors.

Prosecutors are now weighing whether the actions and evidence cited in the civil lawsuits rise to the level of criminality, according to people familiar with the matter. More broadly, they are reviewing records to see if certain longtime investors had special access to Mr. Madoff, as well as whether they got specific returns in a manner that suggests they knew the returns were a fraud.

Among the other Madoff investors and associates whose account records and other information kept by the Madoff firm are being scrutinized by the government for signs of complicity, according to people familiar with the matter: Frank Avellino, a Florida accountant who ran an investment fund that channeled client money to Mr. Madoff; Noel Levine, a real-estate investor who works out of a two-room office located next door to where Mr. Madoff ran his fraudulent investment operation, on the 17th floor of the Lipstick Building in Manhattan; and Palm Beach investor Robert Jaffe, a son-in-law of Mr. Shapiro who referred potential investors to Mr. Madoff.

None of these people have been accused of criminal wrongdoing by the government.

A lawyer for Mr. Avellino declined to comment. Mr. Levine, 89, said he had no knowledge of fraud and that he and his family lost millions of dollars. A spokesman for Mr. Jaffe said he had no knowledge of the fraud.

A spokeswoman for the U.S. Attorney's office, which has brought criminal charges against only Mr. Madoff, 71, and his outside auditor, declined to comment. The auditor, David Friebling, who also had investments with Mr. Madoff, is out on bail. His lawyer has declined to comment.

It's unclear why Mr. Madoff would allegedly have given some investors such high returns and why some investors allegedly made requests for specific gains. Mr. Picard's lawsuit against Messrs. Picower and Chais doesn't speak to possible motive, only alleging that the defendants knew or should have known they were

them by Irving Picard, an attorney at Baker & Hostetler LLP who is trustee in the bankruptcy liquidation of Mr. Madoff's firm, Bernard L. Madoff Investment Securities LLC. As part of his effort to recover assets for Mr. Madoff's victims, Mr. Picard alleged that Messrs. Picower and Chais sought -- and then received -- better returns than thousands of other Madoff investors.

In some cases, their returns reached 300% or 950% a year, Mr. Picard has alleged. The two men made withdrawals from Mr. Madoff's firm of more than \$6 billion in supposed profits above and beyond the

principal they deposited for themselves, family members and foundations, the lawsuits allege.

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"reaping the benefits" of "manipulated purported returns, false documents and fictitious reports."

Originally from the New York City borough of the Bronx, Mr. Chais for many years lived as a money manager in Beverly Hills, Calif. He invested substantial client funds with Mr. Madoff. He now lives in New York.

Accounts of Mr. Chais and his family averaged annual returns of 40% with Mr. Madoff, and as much as 300%, Mr. Picard alleged. Mr. Chais also requested fictitious losses from Mr. Madoff's firm, apparently to offset gains he made through other investments in order to avoid taxes, Mr. Picard alleged. Mr. Chais's foundation, wiped out in the scandal, had \$178 million in assets as of 2007.

In a letter to clients about Mr. Picard's suit, Mr. Chais said it was filled with "inaccuracies." Eugene Licker, a lawyer for Mr. Chais, said Mr. Chais is extremely ill, suffering from a blood disorder.

Mr. Picower, who lives in Palm Beach, Fla., and Manhattan, is a lawyer, accountant and investor who led buyouts of health-care and technology companies. Mr. Picower's foundation, heavily invested with Mr. Madoff, at one point stated its investment portfolio was valued at nearly \$1 billion.

Mr. Picower and his wife, Barbara, had two dozen accounts with Mr. Madoff and received annual returns of more than 100% in 14 instances, reaching as high as 950%, Mr. Picard alleged.

Correspondence between Mr. Picower or one of his employees and the Madoff firm suggests complicity, Mr. Picard alleged. In May 2007, for example, a foundation employee named April Freilich requested gains on Mr. Picower's behalf, according to the suit. The Madoff firm then recorded purported trades in his account as having occurred in January and February 2006, according to the lawsuit. That and similar moves in May 2007 netted Mr. Picower \$55 million in fictitious gains, the suit alleged.

William Zabel, a lawyer for Mr. Picower, his wife and his foundation, said they were "totally shocked" by Mr. Madoff's fraud and "were in no way complicit in it." He said they and their foundation, now closed, lost billions of dollars. Mr. Zabel, who also represents Ms. Freilich, declined to comment on her behalf.

Federal investigators are reviewing evidence that they think suggests Mr. Shapiro also knew his returns were fraudulent, according to people familiar with the matter. Unlike Messrs. Picower and Chais, Mr. Shapiro, a women's clothing entrepreneur, was never in the finance business. He is one of Mr. Madoff's oldest friends and biggest financial backers and helped Mr. Madoff start his investment firm in 1960.

In 1971, Mr. Shapiro sold a clothing brand for about \$20 million. Over the years, that sum grew to hundreds of millions of dollars and some say more than \$1 billion, the vast majority of it from Mr. Madoff, according to people close to Mr. Shapiro.

Mr. Shapiro personally lost an estimated \$400 million from the fraud, including \$250 million invested with Mr. Madoff 10 days before the fraud collapsed, said people familiar with the matter. His foundation lost more than \$100 million.

—Robert Frank contributed to this article.

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LIAM DANIELS

I know nothing about investments, but if I give you a dollar every year and you give me back two, I am gonna like it at first. Then I am gonna ask myself how you do it. Then I will have to make a choice on whether I want your returns or not anymore, for something is clearly wrong.

Waterboard him, put the confession on youtube. It ought to have more impact on the "investment world" than any other act or piece of legislation ever passed. End of story.

Jun 14, 2009



chris decker

If you want to see something interesting look at the IRS 990 filings for Picower Foundation. The documentation shows a long term stock strategy and nothing close to the Madoff split-strike strategy. Despite the stealing, I think these guys all tried to justify the stealing by giving it away. These foundations like Shapiro and Picower did a lot of good but it was with other people's money. Now all the beneficiaries will have to return the money including such institutions as MIT (Picower) and the Harvard affiliated hospitals (Shapiro). Note, the 990's also show where the money paid out went annually. While people like Picower might have been stealing it was highly unlikely it was directly through the foundations. Picower sketchy background and actions were cited in a 2002 Forbes article; wouldn't doubt that he was involved. [http://www.forbes.com/forbes/2002/1014/068\\_print.html](http://www.forbes.com/forbes/2002/1014/068_print.html)

Also even back in the early 90's when A&Bienes accountants were running their scam millions were being paid out. While all the A&B investors not only got all their investments back they must have also been paid their returns prior to that either via being reinvested or direct. Over \$400 mil was returned to investors that had been generating approx. 13-18% annual returns for at least 5-10 yrs prior implying \$millions would have had to be gathered from others. Thus Madoff was already running a large Ponzi scheme by 1992. The SEC was clearly asleep at the wheel at the time because they never bothered to audit the actual returns that had been paid out to these investors.

May 25, 2009

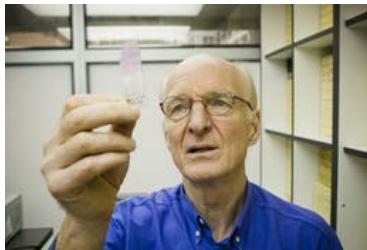
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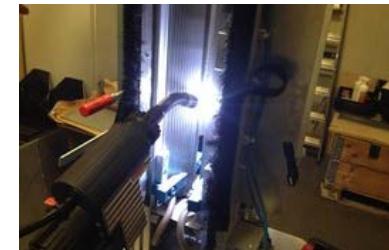


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