COMPARATIVE EXAMINATION ON INVESTMENT SCAMS FACTORS WITH FRAUD TRIANGLE AND FRAUD ELEMENTS TRIANGLE ANALYSIS

(Case Study of Charles Ponzi Investment Scheme and Bernard Madoff Investment Scheme)

A THESIS

Presented as a Partial Fulfillment of the Requirements
to Obtain the Bachelor Degree in Accounting Department

By:

Fidelia Salsabila

Student Number: 13312049

DEPARTMENT OF ACCOUNTING
INTERNATIONAL PROGRAM
FACULTY OF ECONOMICS
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YOGYAKARTA

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A BACHELOR DEGREE THESIS

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Defended before the Board of Examiners
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DECLARATION OF AUTHENTICITY

Hereby I declare the originality of the thesis; I have not presented someone else's work to obtain my university degree, nor I have presented someone else's words, ideas or expressions without any of the acknowledgments. All quotations are cited and listed in the bibliography of the thesis. If in the future this statement is proven to be false, I am willing to accept any sanction complying with the determined regulation or its consequence.

Yogyakarta, May 2nd, 2018

Fidelia Salsabila

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بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

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Fidelia Salsabila

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ABSTRACT

Investment fraud is something that is increasingly prevalent and increasingly continues to claim many victims. The challenges of economic progress in the world is that at it had impact on the increasing number of fraud behaviors that occured on organizations, companies, and individuals. The focus of this research was on the case study used in the case of investment fraud by Bernard Madoff and Charles Ponzi. The purpose was to recommend ways that could be developed in preventing the society or potential investors becoming victims of investment fraud.

This research used qualitative methods to obtain a clear, detailed, and in-depth description of the problem under research whereby the sample and the data source are document literature and video both discussing the case studies of Bernard Madoff and Charles Ponzi as a whole, discusses one of the scopes in the case studies of Bernard Madoff and Charles Ponzi, or the literature and video documents that discussed a bit about the case studies of Bernard Madoff and Charles Ponzi. Data collection methods were done by documentation methods, as well as data analysis using literature review and video review or content analysis techniques. Testing was done by increasing the perseverance.

The results of this research after it is analyzed and compared with causal factors and the factors of way Bernard Madoff and Charles Ponzi committed their offenses, shows that there were still many differences of causal factors between the two case studies, but there were also many similarities in the factors of way both cases committed their offenses. Thus, the researcher presented recommendations to the society or potential investors to prevent future investment fraud.

Keywords: Investment fraud, Bernard Madoff, Charles Ponzi, Fraud triangle, Fraud elements triangle.

ABSTRAK

Penipuan investasi merupakan suatu hal yang kian marak dan semakin terus menelan banyak korban. Tantangan atas kemajuan perekonomian di dunia pada umumnya telah berdampak pada semakin banyaknya perilaku fraud yang terjadi di berbagai organisasi, perusahaan, maupun individual. Fokus penelitian ini terletak pada studi kasus yang digunakan dalam kasus penipuan investasi oleh Bernard Madoff dan Charles Ponzi. Tujuannya untuk merekomendasikan cara yang dapat dikembangkan dalam mencegah masyarakat atau calon investor menjadi korban penipuan investasi.

Penelitian ini menggunakan metode kualitatif untuk mendapatkan gambaran yang jelas, rinci, dan mendalam atas masalah yang diteliti dimana sampel dan sumber datanya berupa dokumen literatur dan video baik yang membahas mengenai studi kasus Bernard Madoff dan Charles Ponzi secara menyeluruh, membahas salah satu cakupan dalam studi kasus Bernard Madoff dan Charles Ponzi, ataupun dokumen literature dan video yang membahas sedikit mengenai studi kasus Bernard Madoff dan Charles Ponzi. Teknik pengumpulan data menggunakan teknik dokumentasi, serta analisis data menggunakan literature review dan video review atau teknik analisis isi. Pengujian dilakukan dengan peningkatan ketekunan.

Hasil penelitian ini, setelah melakukan analisis dan membandingkan faktor penyebab dan faktor cara Bernard Madoff dan Charles Ponzi melakukan pelanggaran mereka, menunjukkan bahwa masih terdapat banyak perbedaan faktor penyebab antara kedua studi kasus tersebut namun juga terdapat banyak persamaan pada faktor kedua kasus tersebut dalam melakukan pelanggaran mereka, sehingga peneliti memberikan rekomendasi bagi masyarakat atau calon investor dalam pencegahan penipuan investasi kedepannya.

Kata kunci: Penipuan investasi, Bernard Madoff, Charles Ponzi, Segitiga kecurangan, Segitiga elemen kecurangan.

CHAPTER I

INTROUCTION

1.1 Background of The Study

Financial crime and fraud have probably existed since the beginning of commerce. The use of rudimentary biometrics thousands of years ago as a means of identifying trusted traders. The inference being that untrustworthy market participants have existed since man began to trade. What may be the first public company financial statement fraud at the British East India Company in the late 1600s. The shortcomings of the modern corporation including the erosion of shareholder value due to waste from fraud and abuse (Woodward et al., 2003; Keay, 1992; Robins, 2007; Adam Smith (1776) as cited in Dorminey, Fleming, Kranacher, & Riley, 2012).

Fraud cases caused worse impact to economy world widely. One of the biggest case is the case involving world's giant energy company in United States of America, Enron in 2002. Fraud committed by the company resulted in losses $50 billion, investor suffer loss $32 billion and thousands of employees of Enron losses their pension fund about $1 billion (Oktaviani, Karyawati, & Arsyad, 2014).

Related with this, Rezaee (2005) as cited in Amara, Amar, and Jarboui (2013) also stated that the global economy considers a series of economic and financial crises caused a distrust of markets, investors and public opinion vis-àvis the company accounts. Here, it suffices to highlight the fact that Enron corporation, a former United States energy commodity and service company, has caused a loss of 70 Trillion dollars for all its social partners. Thus, the aforementioned loon has brought about ensuing economic crisis which has spread to all globally emerging plans. As a case in point, scandals that were widely publicized were cases of WorldCom, Parmalat, Ahold etc.

There is no "typical" victim of fraud. Professional scam artists go where the money is, which means that if you have money to invest, you're vulnerable to fraud. Most successful scams are built on trust. Scam artists often start off by asking seemingly harmless questions about your health, family or hobbies. For example, they may find out that you're worried about not having enough money to retire on. They then use what they've learned to target their sales pitch to your specific situation (Canadian Securities Administrators, 2007).

According to Albrecht, Albrecht, Albrecht, and Zimbelman (2011), investment fraud is any fraud that is related to stocks, bonds, commodities, limited partnerships, real estate, or other types of investments. In investment fraud, perpetrators usually make fraudulent promises or misstatements of fact to induce people to make investments. Investment frauds are often set up as Ponzi schemes. Investments frauds can occur within or outside business organizations. An example of investment fraud in a business was the loans made by General Motors Acceptance Corporation (GMAC) to a Long Island, New York, automobile dealer:

> John McNamara, a wealthy car dealer, conned $436 million from GMAC. He first set up a company, Kay Industries, to produce invoices showing he was buying vans. The vans didn't exist. Then he sent inventories to GMAC to get a 30-day loan, worth about $25,000, for each van. Over seven years, he got $6.3 billion in loans, and he used most of the money to pay off old loans. He paid back a total of $5.8 billion over the seven years. He pocketed $436 million—about 7 percent of the total loans—and invested it in real estate, gold mines, oil businesses, and commodities brokerages.

While GMAC thought it was loaning money to a legitimate car dealer, it was really investing in a classic Ponzi scheme (a scheme in which early investments are repaid with subsequent investments; see previous discussion). The only difference between this investment scam and one that is perpetrated outside an organization was that this investment scheme had only one investor, GMAC.

Scammers may be difficult to recognize, because they constantly alter their disguises. A primary goal of this report is to provide insight into the disguises con men use to perpetrate their standard fraud schemes and to recruit victims who may be retirees, members of the military, college students, the unemployed, homebuyers, investors, low-income families, and others. Cloaked in a new disguise, con men appeal to the individual's weak spot: a desperate shortage of money before payday, a need to earn more than the yield on their certificate of deposit, a need to pay medical bills (Blanton, 2012a).

According to Auditor of Public Accounts: Commonwealth of Virginia (2011), to better assess risk, prevent, and detect fraud, it is important to understand what motivates people to commit fraud. The fraud triangle illustrates the three basic elements that allow fraud to occur. Auditor of Public Accounts: Commonwealth of Virginia (2011) also stated that the fraud triangle divided into three elements as shown below:

The first element needed for fraud is opportunity. Simply put, it’s the ability to commit fraud. Employees have the opportunity if they have access to assets and information that allows them to conceal their fraudulent activities. While employees need access to perform their jobs, that access can provide the employee with opportunity. Committing fraud through use of one’s position normally happens when internal controls are weak or nonexistent, or where there is poor management oversight. Opportunities to commit fraud can increase due to layoffs and staffing shortages when they weaken or eliminate internal controls.

The second element of the fraud triangle is pressure. Desperate people do desperate things. Pressure comes in many forms, both financial and non-financial. Individuals may have personal financial issues such as high medical bills or past-due mortgages. Others gamble or have addictions that may compel them to commit fraud. For some, it is simply the desire for a lifestyle they couldn't afford otherwise. Lastly, unrealistic goals and deadlines can also provide incentives for employees to commit financial reporting fraud.

The final fraud triangle element is rationalization. Rationalization occurs when an employee justifies why they commit fraud. For example, a person who faces losing their home might say "I deserve to have a nice home." Employees who have not received pay increases might say "I'm just making up for being under paid. I haven't had a raise in years." Sometimes, an employee will rationalize theft as "borrowing." Other times, individuals may believe that "the company deserves it" for the way they treat customers or employees.

Strong fraud prevention procedures are more important than fraud detection; because by the time most organizations detect a fraud, they have already suffered financial loss and damage to their reputation. While management can take some steps to reduce pressure on employees, it cannot control all pressures or prevent rationalization. Opportunity is the key fraud triangle element which management can control (Auditor of Public Accounts: Commonwealth of Virginia, 2011).

1.2 Problem Formulation

This research aims to answer the following problem:

1. How do Bernard Madoff and Charles Ponzi perpetrated their offense and what are the differences?

The researcher wants to analyze on how both Bernard Madoff and Charles Ponzi did the investment scams. Researcher also wants to compare and discuss about the differences of method, technique, and situation between the Bernard Madoff and Charles Ponzi case.

2. What are the factors that caused Bernard Madoff and Charles Ponzi cases?

   In this research problem, the researcher wants to discuss about the factors that make Bernard Madoff and Charles Ponzi did the investment scams and why Bernard Madoff and Charles Ponzi did the scams by analysis using the fraud triangle theory.

3. How does someone prevent people from becoming the victim of investment fraud?

   In this research problem, the researcher wants to discuss what actions of potential investors can take to prevent further investment fraud and what to do to eliminate investment fraud action factors.

1.3 Research Objectives

The purpose of this study is to:

1. Analyze and compare motivational factors in the fraud cases of Bernard Madoff and Charles Ponzi by using fraud triangle.
2. Analyze and compare the fraud case of Bernard Madoff and Charles Ponzi using the fraud element triangle.

3. Analyze the act to prevent people from becoming the victim of investment fraud.

1.4 Research Contributions

This research is expected to contribute to various parties, such as:

1. For further research

   This research is expected to increase knowledge and insight on how to analyze the fraud triangle and fraud element triangle, and also can be a reference material to conduct further research.

2. For the investor

   This research aims at providing relevant information as a basis for investment scam prevention and can be a reference before deciding to invest the money. It is expected that the investor would be more careful when investing the money.

3. For regulators and/or commission

   This research is expected to be one of the references to detect effectively and efficiently fraud, especially in investment fraud cases.

1.5 Systematics of Writing

In preparing this thesis, it consists of five chapters that are interconnected between chapter one and other chapters and arranged in detail to provide an overview and facilitate discussion. The systematics of each chapter can be explained as follows:

CHAPTER I : INTRODUCTION

The first chapter of this research contains background of the study concerning the causes of this research. This chapter also discusses the notions of investment fraud and fraud triangle. The problem formulation was made based on the background. Furthermore, it discusses about the research objectives, research contributions, and systematics of writing.

CHAPTER II : REVIEW OF RELATED LITERATURE

The second chapter of this study encompasses the literature review that is used as the basis of research. This chapter also discusses about the nature of fraud, fraud triangle and fraud elements triangle, investment fraud, and previous research.

CHAPTER III : RESEARCH METHOD

The third chapter of this study focuses on the method used in the implementation of this research. The things described in this chapter is the introduction, type of research, research process, data sources and data collection method, data analysis method, and testing the validity data.

CHAPTER IV : DATA ANALYSIS AND DISCUSSION

The fourth chapter of this research explains about the result of findings and discussion regarding the research analysis.

CHAPTER V : CONCLUSION AND RECOMMENDATIONS

The fifth chapter of this research is the closing section which gives conclusion regarding the whole research process, research limitations, and recommendations for further research.

CHAPTER II

REVIEW OF RELATED LITERATURE

2.1 Literature Review

In this literature review, the researcher discusses about four sub-chapters, which are nature of fraud, fraud triangle and fraud element triangle, investment fraud, and previous research.

2.1.1 Nature of Fraud

Fraud is a generic term and embraces all the multifarious means which human ingenuity can devise, which are resorted by one individual to get an advantage over another by false representations. There is no definite and invariable rule that can be laid down as a general proposition in defining fraud, as it includes surprise, trickery, cunning and unfair ways by which another is cheated. The only boundaries defining it are those which limit human knavery (Albrecht et al., 2011).

According to Ernst & Young (n.d.), Albrecht et al. (2006), ISA 240 (n.d.), Albrecht (2004), Rezaee (2010), Hopwood (2008), Kranacher (2011), KPMG (2011) as cited in Aris et al., (2013), Fraud is deception. Fraud is the intentional use of deceit, a trick or some dishonest means to deprive another money, property or legal right'. In a fraudulent action, there is an element of intentional false representation, which is acted upon the victim to the victim's damage. However, most authors conclude fraud as involving the use of intentional deception or harm to obtain an unjust or illegal advantage. Thus, an act that is legal but unjust, for example, not giving full disclosure of a takeover with the intention of concealing significant information from the shareholders that may jeopardize their interests and can be considered as a fraudulent act.

Fraud is an intentional act by one or more individuals among management, employees or third parties who produce errors in financial reporting. Fraud can also be seen as misrepresentation, storage or negligence of a truth for the purpose of manipulating the financial harm of the company or organization that also includes embezzlement, theft or any attempt to steal or unlawfully obtained, abuse or harm assets of an organization (asset misappropriation). Fraud has grown rapidly over the last few years and the trend for the company in a professional manner, owning to a fraud against the financial pressures in his personal life as well as a boost in his own heart (Adenji, 2004 and ICAN, 2006 as cited in Manurung & Hadian, 2013)

Albrecht et al. (2011) stated that fraud is different from unintentional errors. If, for example, someone mistakenly enters incorrect numbers on a financial statement, it is not fraud because it was not done with intent or for the purpose of gaining advantage over another through pretense. But, if in the same situation, someone purposely enters incorrect numbers on a financial statement to trick investors, it is fraud. One of the most common types of fraud today is where investors are promised to have greater investment funds and then they are paid by a premium or interest from money that is paid by subsequent investors.

This popular fraud scheme is also known as a Ponzi scheme. It was named after Charles Ponzi who perpetrated a large scam in the early 1900s.

Table 2.1 Types of Fraud

Type of Fraud	Perpetrator	Victim	Explanation
Employee embezzlement	Employees of an organization	The employer	Employees use their positions to take or divert assets belonging to their employer. This is the most common type of fraud.
Vendor fraud	Vendors of an organization	The organization to which the vendors sell goods or services	Vendors either overbill or provide lower quality or fewer goods than agreed.
Customer fraud	Customers of an organization	The organization which sells to the customers	Customers do not pay, pay too little, or get too much from the organization through deception.
Management fraud (Financial statement fraud)	Management of a company	Shareholders and/or debtholders and regulators (taxing authorities, etc.)	Management manipulates the financial statements to make the company look better than it is. This is the most expensive type of fraud.
Investment scam and other consumer fraud	Fraud perpetrators — all kinds	Unwary investors	These types of frauds are committed on the Internet and in person and obtain the confidence of individuals to get them to invest money in worthless schemes.
Other (Miscellaneous) types of fraud	All kinds — depends on the situation	All kinds — depends on the situation	Anytime anyone takes advantage of the confidence of another person to deceive him or her.

Source: Albrecht et al. (2011)

As mention by Albrecht et al. (2011) fraud is classified into six types as summarized in Table 2.1 and they are discussed the in following paragraph.

First, employee embezzlement is the most common type of occupational fraud. As stated previously, in this type of fraud, employees deceive their employers by taking company assets. Embezzlement can be either direct or indirect. Direct fraud occurs when an employee steals company cash, inventory, tools, supplies, or other assets. It also occurs when employees establish dummy companies and have their employers pay for goods that are not actually delivered. With direct fraud, company assets go directly into the perpetrator's pockets without the involvement of third parties. Indirect employee fraud, on the other hand, it occurs when employees take bribes or kickbacks from vendors, customers, or others outside the company to allow lower sales prices, higher purchase prices, non-delivery of goods, or the delivery of inferior goods. In these cases, payment to employees is usually made by organizations that deal with the perpetrator's employer, not the employer itself.

Second, vendor fraud which is extremely common in the United States, comes in two common forms: (1) fraud perpetrated by vendors acting alone, and (2) fraud perpetrated through collusion between buyers and vendors. Vendor fraud usually results in either an overcharge for purchased goods, the shipment of inferior goods, or the non-shipment of goods even though payment was made.

The third type of fraud is customer fraud. When customer fraud takes place, customers do not pay for goods purchased or they get something for nothing. For example, consider the bank customer who walked into a branch of a large bank one Saturday morning and convinced the branch manager to give her a $525,000 cashier's check, even though she had only $13,000 in her bank account. The manager believed that she was a very wealthy customer and did not want to lose her business. Unfortunately for the bank, she was a white-collar thief, and she proceeded to defraud the bank of over $500,000. In another customer fraud, six individuals sitting in a downtown Chicago hotel room pretended to be representatives of large corporate customers, made three calls to a Chicago bank, and had the bank transfer nearly $70 million to their accounts in another financial institution in New Jersey. Once the money was transferred to New Jersey, it was quickly transferred to Switzerland, withdrawn, and used to purchase Russian diamonds.

Fourth, management fraud often called financial statement fraud, is distinguished from other types of fraud both by the nature of the perpetrators and by the method of deception. In its most common form, management fraud involves top management's deceptive manipulation of financial statements. To illustrate management fraud, consider John Blue, the CEO for a fast-growing music store chain. The company was opening new stores almost monthly. The company had loyal customers and was famous for its low prices. When the company went public, shares of the stock soared. Unfortunately, the new shareholders did not know that the chain was selling the music below cost and was actually losing money on each item sold. John and the other executives hid the losses by inflating inventories and recording fictitious revenues. The scam eventually unraveled when a top accountant reported the fraud. When the word leaked out, shares of the company's stock became worthless overnight.

Fifth, investment scams and other consumer frauds. Closely related to management, fraud is investment scams. In these scams, fraudulent and usually worthless investments are sold to unsuspecting investors. Telemarketing fraud falls into this category, as does the selling of worthless partnership interests and other investment opportunities. In addition, Charles Ponzi is regarded as the father of investment scams. Unfortunately, he has not lacked imitators. His form of deception is extremely common today.

Table 2.2 Distinctions Between Civil and Criminal Cases

	Criminal Case	**Civil Case**
Purpose	To right a wrong	To obtain a remedy
Consequences	Jail and/or fines	Restitution and damage payments
Burden of Proof	"Beyond a reasonable doubt"	"Preponderance of evidence"
Jury	Jury must have 12 people	May consist of fewer than 12 persons
Initiation	Determination by a grand jury which has sufficient evidence that exists to indict	Filing of a claim by plaintiff
Verdict	Unanimous verdict	Parties may stipulate to a less than unanimous verdict
Claims	Only one claim at a time	Various claims may be joined in one action

Source: Albrecht et al. (2011)

Furthermore, Albrecht et al. (2011) stated that when people commit fraud, they can be prosecuted criminally and/or civilly. Table 2.2 above provides the detail information of the differences between civil and criminal cases. To succeed in a criminal or civil prosecution, it is usually necessary to show that the perpetrator acted with intent to defraud the victim. This is best accomplished by gathering evidential matter. Evidential matter consists of the underlying data and all corroborating information available.

Criminal law is the branch of law that deals with offenses of a public nature. Criminal laws generally deal with offenses against society as a whole. They are prosecuted either federally or by a state for violating a statute that prohibits some type of activity. Every state and the federal government have statutes prohibiting a wide variety of fraudulent and corrupt practices. A variety of statutes cover fraudulent activity. Usually, when perpetrators are convicted, they serve jail sentences and/or pay fines. Before perpetrators are convicted, they must be proven guilty "beyond a reasonable doubt." Juries must rule unanimously on guilt for the perpetrator to be convicted. Sometimes fraud perpetrators and other criminals plead guilty without being tried in order to seek more lenient sentences. These guilty pleas are usually accompanied by a willingness to help prosecutors in their investigations of other perpetrators (Albrecht et al., 2011).

Civil law is the body of law that provides remedies for violations of private rights. Civil law deals with rights of individuals. Civil claims begin when one party files a complaint against another, usually for the purpose of gaining financial restitution. The purpose of a civil lawsuit is to compensate for harm done to another individual. Unlike criminal cases, juries in civil cases consist of 12 jurors but may have as few as six jurors. The verdict of the jury does not need to be unanimous. Civil cases are often heard by judges instead of juries. To be successful, plaintiffs in civil cases must only prove their case by the "preponderance of the evidence." In other words, there only need slight more evidence supporting the plaintiff than supporting the defendant. On both civil and criminal proceedings, the parties often call expert witnesses to give their opinion on matters thought to be too technical for the jurors or judge to understand. Fraud examiners and accountants are often used as experts in fraud cases to compute and testify to the amount of damages. When fraud is committed, criminal prosecution usually proceeds first (Albrecht et al., 2011).

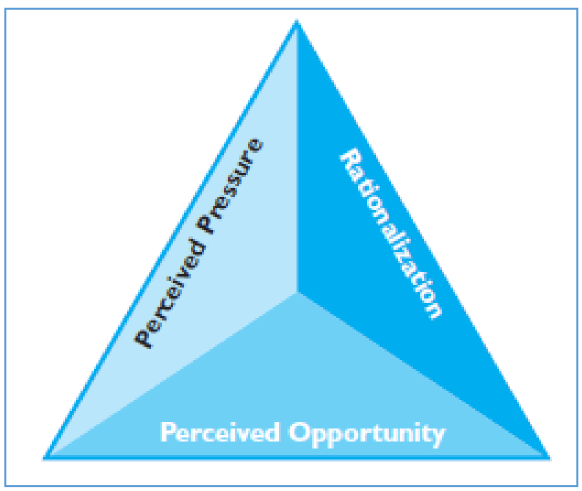
2.1.2 Fraud Triangle and Fraud Elements Triangle

In this research, the researcher used the theory of fraud triangle and theory of fraud elements triangle. The fraud triangle theory is proposed as a guide to analyze the causal factors of accounting fraud, while the theory of fraud elements triangle is proposed as a researcher's guidelines to analyze how the perpetrators committed accounting fraud.

2.1.2.1 Fraud Triangle

Figure 2.1 below describes a fraudulent triangle that illustrates the three conditions causing the misuse of accounting. According to Cressey (1953), Albrecht et al. (2006), Kapp and Heslop (2011) as cited in Aris et al. (2013), fraud theory stated that there are three conditions that must exist if fraud occurred which are popularly known as the Fraud triangle as shown below. The conditions are pressure (or motivation); opportunity to commit fraud; and rationalization.

Figure 2.1 Fraud Triangle



Source: Albrecht et al. (2011)

The first condition is pressure (or motivation) to commit fraud, where a fraud perpetrator may have pressure to commit fraud, such as pressure to attract external financing at a low cost or firms are constrained by debt covenants; or firms raising new debt; or equity capital (Dechow et al., 1996; Efendi et al., 2007 as cited in Aris et al., 2013).

Pressure can include almost anything including lifestyle, economic demands, and others – others include financial and non-financial terms. According to SAS No. 99, there are four common types of conditions on the pressure that can lead to cheating. The condition is financial stability, external pressure, personal financial need and financial targets (Manurung & Hadian, 2013).

The motive manifests itself in the form of an un-shareable pressure, which may or may not be financial. The perpetrator may have a gambling or drug problem that requires cash – a problem that he may feel he cannot seek help for. Cressey as cited in Bonita (2015) found that generally non-shareable financial pressures are those that carry some stigma in the perpetrator's mind. Other examples include failed investments, extramarital affairs, or the desire to live beyond one's means. Non-financial pressures include the desire to "get even" with an employer over a perceived inequity or to be successful due to peer pressure from one's family and friends (Bonita, 2015)

Albrecht et al. (2011) stated that fraud can be perpetrated to benefit oneself or an organization. Employee fraud, in which an individual embezzles from his or her employer, usually benefits the perpetrator. Management fraud, in which an organization's officers deceive investors and creditors by manipulating financial statements, is most often perpetrated to benefit an organization and its officers. Most fraud experts believe that the pressures can be divided into four main groups: (1) financial pressures, (2) vices, (3) work-related pressures, and (4) other pressures.

Studies suggest that approximately 95 percent of all frauds involve either financial or vice-related pressures. Common financial pressures associated with fraud that benefits perpetrators directly include the greed, living beyond one's means, high bills or personal debt, poor credit, personal financial losses, unexpected financial needs. This list is not exhaustive, and these pressures are not mutually exclusive. However, each pressure in this list has been associated with numerous frauds. Many individuals have committed fraud because they were destitute. Financial pressures can occur suddenly or be long term. Unfortunately, very few fraud perpetrators inform others when they are having financial problems. Financial pressure is the most common type of pressure to commit fraud. Usually, when management fraud occurs, companies overstate assets on the balance sheet and net income on the income statement. They usually have pressure to do so because of a poor cash position, receivables that are not collectible, a loss of customers, obsolete inventory, a declining market, or restrictive loan covenants that are being violated (Albrecht et al., 2011).

Closely related to financial pressures are motivations created by vices such as gambling, drugs, alcohol, and expensive extramarital relationships. As an example of these vices motivating a person to commit fraud, consider one individual's confession of how gambling led to his dishonest acts. Vices are the worst kind of pressures to commit fraud. Examples include female employees who embezzled because their children were on drugs and they could not stand to see them go through withdrawal pains. Other examples involve “successful” managers who, in addition to embezzling from their companies, burglarized homes and engaged in other types of theft to support their drug habits (Albrecht et al., 2011).

While financial pressures and vices motivate most frauds, some people commit fraud to get even with their employer or others. Factors such as getting little recognition for job performance, having a feeling of job dissatisfaction, fear of losing one’s job, being overlooked for a promotion, and feeling underpaid have motivated many frauds (Albrecht et al., 2011).

Once in a while, fraud is motivated by other pressures, such as a spouse who insists on an improved lifestyle or a challenge to beat the system. Most of us face pressures in our lives. We have legitimate financial needs, we make foolish or speculative investments, we are possessed by addictive vices, we feel overworked and/or underpaid, or we are greedy and want more. We sometimes have a difficult time distinguishing between wants and needs. Indeed, the objective of most people in a capitalistic society is to obtain wealth. We often measure success by how much money or wealth a person has. If you say you have a very successful relative, you probably mean that he or she lives in a big house, has a cabin or a condominium, drives expensive automobiles, and has money to do whatever he or she wants. To some people, being successful is more important than being honest. If they were to rank the personal characteristics they value most in their lives, being successful would rank higher than having integrity. Psychologists tell us that most people have a price at which they will be dishonest. Individuals with high integrity and low opportunity need high pressure to be dishonest. Most of us can think of scenarios in which we, too, might commit fraud. If, for example, we were starving, we worked in an environment where cash was abundant and not accounted for, and we really believed that we would repay the money taken to feed ourselves, we might commit fraud (Albrecht et al., 2011).

The second leg is perceived opportunity to commit the fraud undetected. Weak or missing internal controls are enabling factors. Perception to remain undetected is a key. The organization may have detective internal controls but if the perpetrator is not aware of that, the fraud will not be prevented. Employees will not commit a fraud if they believe they will not be able to get away with it (Bonita, 2015).

A poor corporate governance structure is one of the example of the existence of an opportunity to commit fraud. Corporate governance has been recognized as one of the controls to address the risk of management override, where a higher incidence of fraud is partly due to greater opportunities associated with a poor governance structure. Studies on corporate governance find an association between corporate governance practices and occurrences of fraudulent acts in firms. Prior research discovers that firms with manipulated earnings are those that have less independent boards and have the same person as chairman and CEO whereas CEO is the founder or chairman and dominant management (Hogan et al., 2008; Beasley, 1996; Dechow et al., 1996; Farber, 2005; McMullen and Raghunandan, 1996; Loebbecke et al. 1989 as cited in Aris et al., 2013).

The situation is an opportunity to allow cheating to go on. Opportunities are created by the internal control weaknesses. Of the three fraud risk factors (pressure, opportunity and rationalization), chances are the basic things that can happen at any time. Thus, it requires monitoring of organizational structure starting from the top. According to SAS 99 in Manurung and Hadian (2013), the chances of financial statement fraud can occur in three categories of the condition. The condition is the nature of the industry, ineffective monitoring and organizational structure (Manurung & Hadian, 2013)

According to Albrecht et al. (2011), a perceived opportunity to commit fraud, conceal it, or avoid being punished is the second element of the fraud triangle. At least six major factors increase opportunities for individuals to commit fraud within an organization. The following list of these factors is not exhaustive, but it provides a sufficient number of settings to illustrate the role of opportunities in the fraud triangle. (1) Lack of controls that prevent and/or detect fraudulent behavior. (2) Inability to judge the quality of performance. (3) Failure on discipline fraud perpetrators. (4) Lack of access to information. (5) Ignorance, apathy, and incapacity. (6) Lack of an audit trail. Those factors are stated by Albrecht et al. (2011) that will be discussed one by one as follow:

First, controls that prevent and/or detect fraudulent behavior. Having an effective control framework is probably the most important step an organization can take to prevent and detect employee fraud. The organization that established the common internal control framework that most businesses subscribe to is the Committee of Sponsoring Organizations (COSO). While COSO identifies several elements of an organization's internal control framework such as the control environment, the accounting system, and control activities (procedures). Second, inability to judge quality of performance. If someone pay constructor to construct a fence, he can probably examine the completed job and determine whether or not the quality of work meets their specifications and is consistent with the agreed contract. If, however, someone hire a lawyer, a doctor, a dentist, an accountant, an engineer, or an auto mechanic, it is often difficult to know whether they are paying an excessive amount or receiving inferior service or products. With these kinds of contracts, it is easy to overcharge, perform work not needed, provide inferior service, or charge for work not performed.

Third, failure to discipline fraud perpetrators. An individual who commits fraud and is not punished or is merely terminated suffers no significant penalty and often resumes the fraudulent behavior. Fraud perpetrators are usually individuals who command respect in their jobs, communities, churches, and families. If they are marginally sanctioned or terminated, they rarely inform their families and others of the real reason for their termination or punishment. On the other hand, if they are prosecuted, they usually suffer significant embarrassment from having family, friends, and business associates know about their offenses. Indeed, suffering humiliation, more than any other factor, deters future fraud activity by fraud perpetrators. Because of the expense and time involved in prosecuting, many organizations merely dismiss dishonest employees, hoping to rid themselves of the problem. What these organizations fail to realize is that such action is rather shortsighted. While they may rid themselves of one fraud perpetrator, they have sent a signal to others in the organization that fraud perpetrators do not suffer significant consequences for their actions. Indeed, lack of prosecution can give others a "perceived opportunity" that, when combined with pressure and rationalization, it can result in additional frauds in the organization. Perceived opportunity is removed when there is a high probability that perpetrators will be punished, not just discovered.

Fourth, lack of access to information. Many frauds are allowed to be perpetrated because victims do not have access to information possessed by the perpetrators. This is especially prevalent in many of the large management frauds that have been perpetrated against stockholders, investors, and debt holders. Most investment scams and management frauds are dependent on the ability to withhold information from victims. Individuals can attempt to protect themselves against such scams by insisting on full disclosure, including audited financial statements, a business history, and other information that could reveal the fraudulent nature of such organizations. Certain employee frauds are also allowed to be perpetrated because only offenders have access to information.

Fifth, ignorance, apathy, and incapacity. Older people, individuals with language difficulty, and other “vulnerable” citizens are often fraud victims because perpetrators know that such individuals may not have the capacity or the knowledge to detect their illegal acts. Frauds called pigeon drops are specifically designed to take advantage of elderly victims. In such thefts, perpetrators often pose as bank examiners trying to catch dishonest bankers, or they may use some other scheme to get elderly or non-English-speaking customers to withdraw money from banks. When these customers leave the bank with their money, the perpetrators grab the money and flee instead of examining it as promised, knowing the elderly person has no chance to catch them. Many investment scams are also designed to take advantage of elderly victims. In the AFCO fraud case, a real estate investment scam, elderly victims were convinced to take out mortgages on their homes. A financially prudent person would recognize that the perpetrators could not possibly pay the mortgage payment and pay 10 percent interest plus a brand-new car. However, many elderly victims found the offer too good to refuse. As a result, several hundred elderlies, retired citizens invested a total of over $39 million in the AFCO scam. Many scams prey on elderly or uneducated victims. Various consumer frauds such as prime bank fraud, pyramid scams, internet fraud, phone scams, chain letters, modeling agencies, telemarketing fraud, and Nigerian scams are all crimes of persuasion that try to get victims to unconsciously invest money.

Sixth, lack of an audit trail. Organizations go to great lengths to create documents that will provide an audit trail so that transactions can be reconstructed and understood. Many frauds, however, involve cash payments or manipulation of records that cannot be followed. Smart fraud perpetrators understand that their frauds must be concealed. They also know that such concealment must usually involve manipulation of financial records. When faced with a decision about which financial record to manipulate, perpetrators almost always manipulate the income statement, because they understand that the audit trail will quickly be erased.

The third condition is rationalization by the perpetrator of the fraud. Fraud will not be committed if the perpetrator is unable to justify his fraudulent act. Fraudster may rationalize that any behavior that creates advantage for him in a competitive environment is tolerable and justified even though the act may create a disadvantage for the competition. Some of the common rationalizations for smaller business concerns are: owners to bend the rules a little in order to be successful; or they are unfairly disadvantaged due to their size. Thus, compromising ethical standards is considered acceptable behavior; or an unethical decision is taken as a short-term solution to develop the business (Jackson et al., 2010 as cited in Aris et al., 2013).

Most employees who commit fraud are first-time offenders, not career criminals (KPMG, 2011 as cited in Bonita, 2015). Generally, they view themselves as honest, law-abiding citizens. Thus, to commit fraud they need a rationalization that allows them to maintain this image of themselves. They must be able to justify their actions as something other than criminal. They need to find a morally acceptable excuse as to why their fraud is not a crime, which helps them to avoid guilty feelings and makes it easier to commit their crime.

Common rationalizations include: “I am only borrowing the money and will return it as soon as possible”; “This company would fall apart without me, so I deserve this and I am taking no more than is rightfully mine”; “Nobody is getting hurt”; “People would understand if they knew how much I needed this”; or “Everybody does it.” (Bonita, 2015).

Rationalization that is, the attitude, the character or set of ethical values that allow certain parties to commit acts of fraud, or different people in an environment that makes them quite hit rationalize fraudulent actions. Rationalization is part of the fraud triangle which is the most difficult to measure (Skousen et al., 2009 as cited in Manurung & Hadian, 2013).

Albrecht et al. (2011) stated that nearly every fraud involves the element of rationalization. Most fraud perpetrators are first-time offenders who would not commit other crimes. In some way, they must rationalize away the dishonesty of their acts. Common rationalizations used by fraud perpetrators include the following: (1) The organization owes it to me, (2) I am only borrowing the money and will pay it back, (3) Nobody will get hurt, (4) I deserve more, (5) It is for a good purpose, (6) We will fix the books as soon as we get over this financial difficulty, (7) Something has to be sacrificed—my integrity or my reputation. (If I do not embezzle to cover my inability to pay, people will know I cannot meet my obligations and that will be embarrassing because I am a professional.)

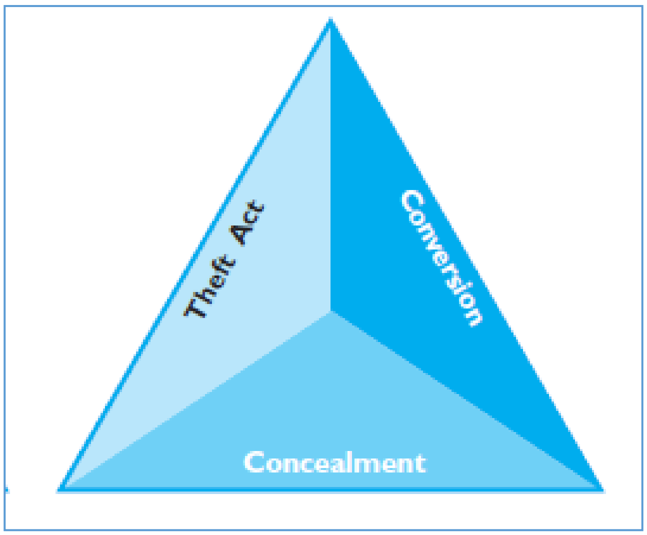
Certainly, there are countless other rationalizations. These, however, are representative and serve as an adequate basis to discuss the role of rationalization in the perpetration of fraud. It is important to recognize that there are very few, if any, people who do not rationalize. We rationalize being overweight. We rationalize not exercising enough. We rationalize spending more than we should. And unfortunately, many of us rationalize being dishonest. We rationalize our dishonest acts in order not to feel guilty. This same sort of rationalization often allows the perpetration of fraud. Usually, fraud involves lying to someone else. However, fraud always involves the fraud perpetrator lying to him- or herself that what they are doing is justifiable (Albrecht et al., 2011).

2.1.2.2 Fraud Elements Triangle

It is important to know that a fraud investigator needs some way to coordinate the fraud investigation. Some investigations are extremely large, and conducting the various investigative steps in the wrong order or doing them inappropriately can lead to a failed investigation as well as other problems (Albrecht et al., 2011).

Investigation involves investigating the various elements of each of these triangles. In focusing on the fraud triangle, investigators search for perceived pressures, perceived opportunities, or rationalizations that others have observed or heard. Focusing on the fraud element triangle (showed in figure 2.2 about Fraud Elements Triangle) is a little more complicated.

Figure 2.2 Fraud Elements Triangle



Sources: Albrecht et al. (2011)

Theft act investigative methods involve efforts to catch the perpetrator(s) in the embezzlement act or to gather information about the actual theft acts. Concealment investigative methods involve focusing on records, documents, computer programs and servers, and other places where perpetrators might try to conceal or hide their dishonest acts. Conversion investigative methods involve searching for ways in which perpetrators have spent or used their stolen assets (Albrecht et al., 2011).

2.1.3 Investment Fraud

A wide variety of investment frauds have one thing in common: they sell something – a company, product, or security – that either does not exist or will not live up to the financial return being promised. Madoff's $50 billion scheme was fundamentally has no difference with Charles Ponzi's promises in the 1920s. Both deceived people believe that something new was being offered. But investors failed to realize that their money was used illegally to support the scammer's personal lifestyle and pay high "returns" to earlier investors to perpetrate the scam. The Ponzi schemes collapsed, as they always do, when new investors stopped supplying money. "Pump-and-dump" scams occur when con men send out inflated and inaccurate information about a company's stock owned. Sham report is forcing profit rise of a company or business prospects encourage naive investors to rush in and buy stock. When they do, the fraudster sells his shares for a large gain, depressing the price and leaving those who were defrauded with losses on their shares. Fake or dubious investment companies sell securities supported by a hot new consumer product, technology, or business opportunity. Scammers often capitalize on news events such as a natural disaster or stock market decline, going to great lengths to create an appearance of the company which is real. High-yield investment fraud is especially popular when stock and bond-market returns and yields on certificates of deposit are low. Con men claim the securities. They sell possess of impossible combination of low risk and very high returns (Blanton, 2012).

Investment fraud is not only spread throughout the people, but the victims come from all part of life. It does not matter if the victims are rich or poor, financially literate or not, young or old - they are all vulnerable to investment fraud (BCSCn, 2012 as cited in Lokanan, 2014). From the limited systematic research available, the risk factors that are associated with investment fraud victimization are not confined to a particular subset of investors. According to Blum (1972) as cited in Lokanan (2014), there were 24 individuals who were deceived through investment fraud and he found that the median age of the victims was between "60 to 69 ...disproportionately female, predominantly widowed, and deeply religious". They were also "predominately lower middle class and somewhat less educated than the city average". Ganzini, McFarland & Bloom (1990) as cited in Lokanan (2014) stated that their study of 77 victims of a Ponzi fraud scheme in Oregan found that 83 percent earned more than $20,000... Eighty-seven percent were married at the time of the interview. The average age was 53, and 88 percent were between 40 and 65 years of age. Forty-eight percent were female. Sixty percent had some college education, and 33 percent were somewhat or very religious.

What is clear from the extant literature is that there is no clear and consistent pattern on what risk factors are associated with the vulnerable investor (Lokanan, 2014).

According to Canadian Securities Administrators (2007), investment scams are divided into five types as follow:

First, exempt securities scam. Exempt securities, on their own, are not scams. They are sold by companies that are allowed to sell the securities without filing a prospectus. The scam usually starts when you get an unsolicited pitch to invest in a promising business that is about to offer shares to the public. You may be told that this investment is only available to very wealthy people, but an exception can be made for you, all you have to do is sign some paperwork. This paperwork usually involves lying about how much money you make. Exempt securities are risky, and you could lose all of your investment. If you have to lie about how much money you have before you can invest, you are likely taking on a risk you can’t afford.

Second, forex scam. These scams often find their victims through ads placed in newspapers or on Internet sites. The ads look legitimate and offer you an exciting opportunity to invest your money on the foreign exchange (forex) market. You will be told that the person investing your money has a great track record and you will be promised a high return. What usually happens is that your money is not invested in anything, but simply is stolen by the scam artist. If your money is invested in the forex market, you may not have been told that the investment is very risky. Either way, you’re likely to lose some or all of your money.

Third, offshore investment. In this type of scam, the fraudster will promise you a high return from an investment in an offshore market. They will often tell you that the investment is a great way to avoid taxes. What you may not know is that once your money is sent to another country and is in someone else's control, you may not be able to get it back. The promised high return comes with a high risk that you'll lose your entire investment. If the promised tax savings are a scam, you could also end up owing the government money in back-taxes, interest and penalties.

Fourth, pension scam. If someone tells you there is a way to take the money out of your locked-in retirement account without paying tax, it's likely a scam. In most cases, you can't take money out until you reach a certain age. Also, there are often limits to how much money you can take out each year, and you will pay tax on the money you withdraw. If you hear about a tax loophole that will let you access your funds early, talk to a qualified, independent tax expert before you invest.

Fifth, the "pump and dump". In a typical pump and dump scam, you receive an e-mail or phone call promoting an incredible deal on a low-priced stock. What you do not know is that the person or company contacting you owns a large amount of this stock. As more and more investors buy shares, the value skyrockets. Once the price hits a peak, the scam artist sells their shares and the value of the stock plummets. You are left holding worthless stocks.

There are so many examples of investment scams. Related with examples, Stephenson (2014) mentioned that there are ten famous investment scams cases as follow:

1. Charles Ponzi (securities exchange company). The term “Ponzi scheme” is named after Charles Ponzi’s famous pyramid scheme. Ponzi infamously promised returns of 50% in 45 days, which were actually paid with by funds from new investors. The scheme eventually failed in 1920 leaving 5 banks and all investors ruined, the latter of which were able to only recoup 30% of their initial investment. Charles Ponzi made $20 million through his pyramid scheme, equal to $222 million in 2011.
2. Bernard Ebbers (WorldCom). CEO Bernard Ebbers grew WorldCom to the 2nd largest telecommunications company in the US through acquisitions of smaller companies. While the acquisitions left the company in debt, Ebbers continued to exaggerate assets of the company by $11 billion dollars. Stocks eventually plunged from $64 per share to $1, with shareholders losing around $100 billion. In 2005, Ebbers was convicted of fraud and conspiracy for false accounting practices.
3. Jordan Belfort (Stratton Oakmont). Stratton Oakmont was a pump-and-dump firm in the 90s where brokers would drive up the price of stocks and then Belfort and his partners would cash out causing the stock to plummet in value. He hired hundreds of ambitious brokers to cold call unsuspecting

people, selling worthless stocks. In 1998, Belfort was indicted for securities fraud and money laundering.

4. James Pau Lewis Jr. (Financial Advisory Consultants). Lewis used a pyramid scheme to cheat investors over 20 years. He relied on referrals from his clients to gain new investors with the promise of high returns. On the 22nd of December 2003, the SEC filed a complaint alleging that Lewis had committed securities fraud. Records showed that he used investor funds for trading in foreign currency, purchasing luxury automobiles, and expensive jewelry. In 2006, he was convicted of money laundering and mail fraud.

5. Michael De Guzman (Bre-X Minerals). Michael de Guzman, an employee of Bre-X Minerals, claimed he had found gold in the jungles of Borneo. From 1993 to 1996 he produced thousands of core samples containing gold. The company's stock, which was valued at a penny before the discovery, catapulted Brie-X Mineral's value to $6 billion. Eventually the Indonesian government became suspicious. They revoked 45% of Bre-X's control of the mine, leaving the rest to Freeport McMoran who, after much drilling, could not find a flake of gold. As a result, Bre-X's stock plunged to zero.

6. Sam Israel III (Bayou Hedge Fund Group). Israel lied to his investors promising that their $300 million investment would turn into $7.1 billion in 10 years. In 1998, when the returns were lower than promised, Israel

created fraudulent accounting reports to make it appear that the investments were growing. He escaped authorities and was only found after appearing on America's Most Wanted.

7. Joesph Nacchio (Qwest Communications International). Nacchio is the mastermind behind a $3 billion financial fraud scheme which allowed him to benefit from inflated stock prices and insider trading. He earned $52 million selling stocks. He knew were going to plummet. After the SEC sued successfully, Qwest Communications International in 2007, Nacchio was convicted on 19 counts of insider trading. He was also ordered to return the $52 million in illegal stock trading and was fined $19 million.

8. Barry Minkow (ZZZZ Best Inc.). In December 1986, at the age of 19, Minkow took his carpet cleaning business public, reaching a market capitalization of over $200 million. He created tens of thousands of fraudulent documents and sales receipts to make it appear like he was building a multi-million-dollar corporation. Suspicious overages on client bills led to an investigation uncovering Minkow's fraudulent revenue numbers. Minkow was convicted of 57 felonies.

9. Kenneth Lay and Jeffrey Skilling (Enron). Enron's founder Kenneth Lay, lost $74 billion dollars from investors when he exaggerated the health of his company. Enron's stock plummeted from $90 per share to less than $1 within 1 year. Once the 7th largest company in America, worth $68 billion, Enron ended in 2001 when the company filed for bankruptcy. Lay was

indicted on 11 counts of security fraud and related charges but died on vacation while awaiting his court sentence.

10. Bernie Madoff (Bernard L. Madoff Investment Securuties LLC). Madoff sent fake balance statements to every investor so that it appeared their money was doing well and multiplying. As the markets crashed, investors began pulling out their investments and Madoff could not provide it. Investors were tricked out of $65 billion through Madoff's Ponzi scheme. This is famously known as the biggest Ponzi scheme ever.

As an addition there are several investment scam cases that occurred in Indonesia. According to Yudha (2017), investment fraud which done by Dina Yuanita and her husband (CV Kebun Emas Indonesia) were successfully disclosed by the police. They commit investment fraud by offering gold investment to potential investors. CV Kebun Emas Indonesia has also managed to generate profits up to billions of rupiah. The company is on the list of 80 investment scams or illegal companies released by the Financial Services Authority or Otoritas Jasa Keuangan (OJK) in 2017. The company began to attract potential investors funds, raise investors' money, often make presentations to potential investors in various hotels, by means of lure of gold investment. Then investors are promised interest about five percent each month. Many people are interested in this investment. They handed over the money to this company, investors receive money from the promised interest rate for three months, after six months, it is stalled. Apparently, this company has been using ponzi scheme, meaning new investor money used to pay interest to the old investor.

Another example of investment case in Indonesia was conducted by Wahyu Kusumo Aribowo **(**PT InLife Indonesia). According to Aliya (2017)**, i**nvestment of InLife is an investment program with a minimum capital of Rp 1,000,000 within a period of seven days with a commission of 15-25%, received every seven days at 15% plus initial fund and will be directly transferred to investor's account. Thus, the total funds to be received within a period of seven days amounted to Rp 1,150,000. InLife's investment profits manage funds in three business areas: Stocks, Mutual Funds, Bonds and Money Market (in collaboration with several foreign companies), Housing, Home-Store and Land Plots, Precious Metals, Forex, Exports and Imports. PT InLife Indonesia on its website has included the logo, Financial Services Authority or Otoritas Jasa Keuangan (OJK), Bappebti, Bapepam-LK, and the Investment Coordinating Board or Badan Koordinasi Penanaman Modal (BKPM) without permission. In addition, they also claim that PT Inlife Indonesia obtained operating license from Bapepam-LK. Whereas based on information obtained by Task Force Investments or Satgas Waspada Investasi, PT InLife Indonesia is not registered in OJK, Bappebti or BKPM.

2.1.4 Previous Research

The following table is compiled by the researcher containing information about previous researches that has a relationship with the research and will be further discussed.

Author	Title	Year	Type	Conclusion
Daniel T. H. Manurung and Niki Hadian	Detection Fraud of Financial Statement with Fraud triangle	2013	Journal Article	The variables used in the theory of variable fraud triangle, Financial Stability proxied by asset growth rate (AGROW) has a positive effect on financial statement fraud, proxied by Financial Target Ratios Profitability (ROA) has a positive effect on financial statement fraud, Finance Effectiveness Ratio proxied by the Board Commissioner (LEV) has a positive effect on financial statement fraud and External Pressure proxied by Leverage Ratio (BDOUT) has a negative effect on financial statement fraud. Detecting financial statement fraud with the perspective of the fraud triangle financial stability, financial targets, and external pressures are good, proven simultaneously have a positive impact on the financial statements whereas deception financial effectiveness in proxied with the commissioners have a negative impact on the financial statements fraud proxied by earnings management.

Mark Lokanan	The Demographic Profile of Victims of Investment Fraud	2014	Journal Article	Even though victims of investment scams can be from all walks of life, the IDA study shows that scam artists target some of the most vulnerable people in society. The vulnerable investor in the IDA study can be described as someone who is interested in securing his or her financial future. Those most vulnerable are investors who are retired and have limited investment knowledge. Older Canadians (50+) are all too often, the ones commonly victimized by securities breaches. Their vulnerability is fueled by promises of high returns and low risks in investment schemes that lure them to invest in products they hardly know anything about.
Nooraslinda Abdul Aris, Rohana Othman, Siti Maznah Mohd Arif, Normah Omar, and Mohamad Affendi Abdul Malek	Fraud, Ethics and Psychology: Understanding Ways of Mitigating Fraud in Organizations	2013	Journal Article	The research explores the interconnection between frauds, ethics and psychology. Evidently, fraud is hazardous to many organization especially the small businesses. As fraud is costly, it may harm not only the organization, but as well impact the society and economy. Thus, it is a need to tackle the issue from ethical point of view since the perpetrator is human who is greedy and demand luxurious way of life at the expense of others. Thorough understanding of the fraudster may provide

				organization ways in fraud prevention and detection efforts.
Kimberly Blanton	The Rise of Financial Fraud	2012	Journal Article	Fraud has surged on the internet that used by scammers to solicit large numbers of potential victims with greater ease. Fraud is expected to continue rising in the future, as the growing population of elderly baby boomers, who have substantial assets, increasingly experience cognitive decline. The pervasiveness of fraud makes it incumbent on individuals to be wary of scams. Individuals who are knowledgeable about the standard fraud strategies and are able to recognize some of the disguises used by scammers can better protect themselves.
Bonita Kramer	Trust, but Verify: Fraud in Small Businesses	2015	Journal Article	This paper summarizes pertinent facts that repeatedly show small businesses which are most vulnerable to fraud and suffer a disproportionate median loss when compared to larger businesses. External audits by Certified Public Accountants cannot be relied upon to detect fraud. Owners, managers, and advisors are strongly encouraged to have knowledge of how fraud can affect their organizations in order to prevent or detect fraud and avoid the devastating effect. It can be obtained on the small business's viability.

Grace Mui and Jennifer Mailley	A tale of two triangles: comparing the Fraud triangle with criminology's Crime Triangle	2015	Journal Article	In this paper, the Fraud Triangle and Crime Triangle were mapped together, and a questionnaire was proposed to allow for an enhanced analysis of a fraud event. This questionnaire can be used to identify gaps in the organization's current fraud risk management strategies. Further, it can be used as a starting point to design fraud prevention and detect strategies that address the environment where fraud can be perpetrated.
Clinton Free	Looking through the fraud triangle: a review and call for new directions	2015	Journal Article	Three under-researched issues are identified: rationalization of fraudulent behaviors by offenders; the nature of collusion in fraud; and regulatory attempts to promote whistle-blowing. These topics highlight the perspective of those directly involved in fraud and draw together issues that have interested researchers in other disciplines for decades with matters that are at the heart of contemporary financial management across the globe.
Jack Dorminey, A. Scott Fleming, Mary-	The Evolution of Fraud Theory	2012	Journal Article	This paper revisits the Fraud triangle, highlighting recent findings and contemporary thinking in the anti-fraud community to develop a meta-model of fraud for use in accounting instruction and research. The importance of the Fraud triangle is particularly important as a model for assessing

JoKranacher, and Richard A. Riley, Jr.				the risk of fraud, but it is only one component of an overall audit risk assessment plan. Explicit reference on the auditor's responsibility in identifying the risks of material misstatement arised from fraud. Identifying fraud risk is a significant element of assurance services, and necessitates a model reflecting the current thinking surrounding the fraud event. To enhance our understanding of the fraudster's motivations and improve the anti-fraud community's ability to prevent, deter, detect, investigate, and remediate fraud, researchers and practitioners have offered insights beyond the Fraud Triangle. These insights are summarized in this manuscript and presented in a meta-model, providing a foundational resource for educators and researchers pursuing the study of fraud. Key aspects of the meta-model include instructional benefits in the classroom and an empirical approach from a research standpoint.

CHAPTER III
RESEARCH METHOD

3.1 Introduction

This chapter is to explains the research methods used in conducting the research. In addition, this chapter also describes the methods used in data collection and the methods used in data analysis. Therefore, in this section, the researcher discusses about the type of research, data source and data collection method, data analysis method, and testing the validity data.

3.2 Type of Research

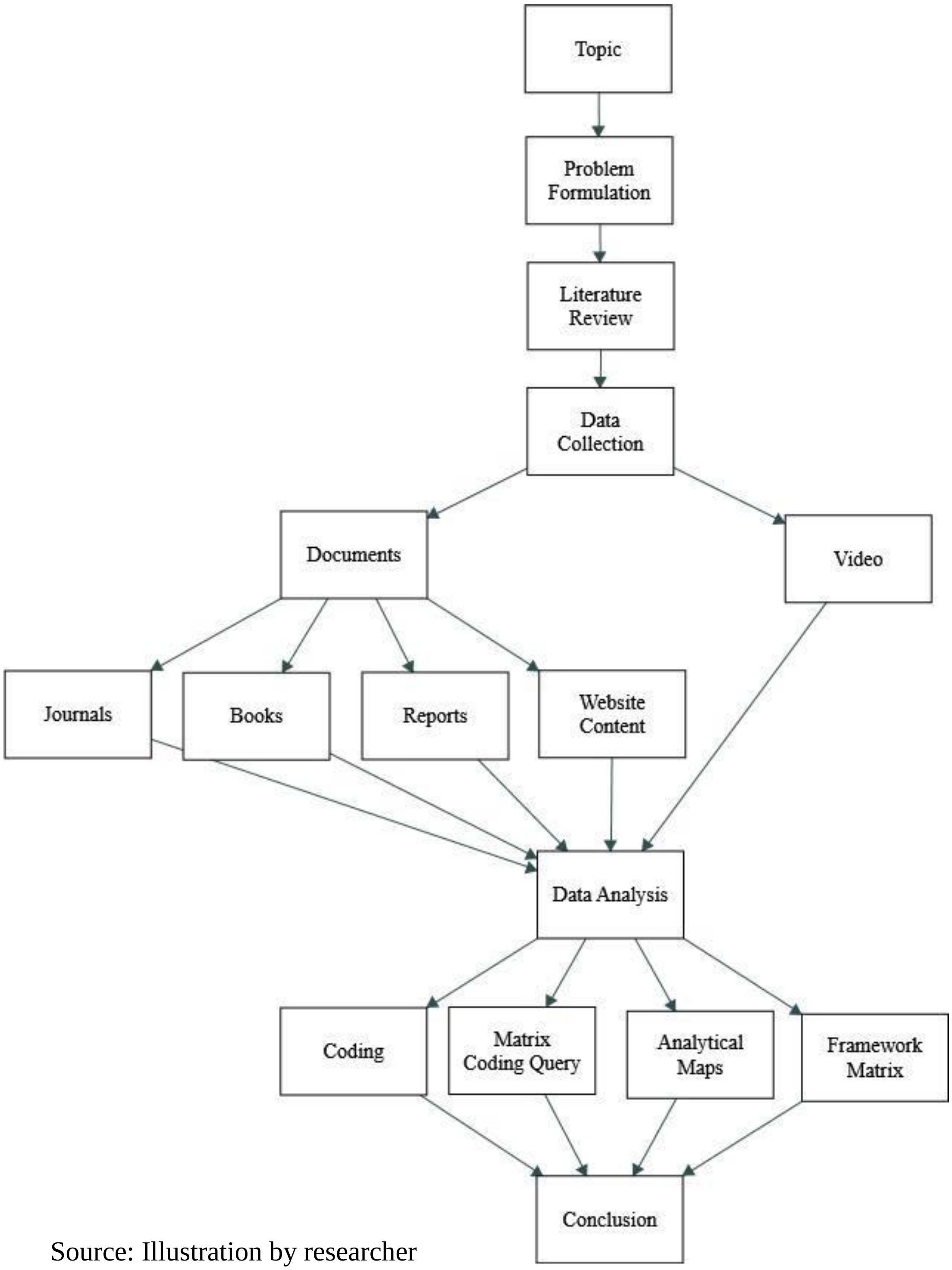
This research is classified as a qualitative research by doing case study. It is used to gain an understanding of underlying reasons, opinions, processes, and motivation of accounting fraud by comparing between two cases. According to Leavy (2014) qualitative research is a way of learning about social reality. Qualitative approaches to research can be used across the disciplines to study a wide array of topics. In the social and behavioral sciences, these approaches on research are often used to explore, describe, or explain social phenomenon; unpack the meanings people's ascription to activities, situations, events, or artefacts; build a depth of understanding about some aspect of social life; build "thick descriptions" of people in naturalistic settings; explore new or under researched areas; or make micro–macro links (illuminate connections between individuals–groups and institutional and/or cultural contexts).

According to Woodside (2010), case study research is an inquiry that focuses on describing, understanding, predicting, and/or controlling the individual (i.e., process, animal, person, household, organization, group, industry, culture, or nationality). Any combination of the following purposes may serve as the major objective of case study research: description, understanding, prediction, and control. However, we propose that deep understanding of the actors, interactions, sentiments, and behaviors occurring for a specific process through time should be seen as the principal objective by the case study researcher. Deep understanding in case study research includes: (1) knowledge of ‘‘sensemaking’’ processes created by individuals and (2) systems thinking, policy mapping, and systems dynamics modeling.

3.3 Research Process

The research process from the beginning of the research to completion is illustrated in Figure 3.1 follows:

Figure 3.1 Research Process



Source: Illustration by researcher

The first step of this research was the researcher look for the research topics from the previous research. The researcher decided to discuss about case study of investment fraud. From the predefined topic, the researcher determined the problem formulations to be discussed in the study. The researcher chooses to discuss about how and why investment fraud case may occur.

From all of the investment fraud cases, researcher decided to choose the case of Charles Ponzi and Bernard Madoff as the objects of research. The case of Charles Ponzi was chosen because this case was a pioneer case of investment fraud that used a ponzi scheme. While the case of Bernard Madoff was chosen because this case is the largest investment fraud case which committed over decades.

3.4 Data Sources and Data Collection Method

After the process of finding the topic, looking for the problem formulation, and did the literature review, the researcher started to collect the data. The data that the researcher used in this research was by secondary data. Saunders, Lewis, & Thornhill (2016) stated that secondary data is data that were originally collected for some other purpose. They can be further analyzed to provide additional or different knowledge, interpretations or conclusions.

The data collection method that the researcher used in this research was through document studies and video. The researcher used several documents and videos that related with the both Bernard Madoff and Charles Ponzi cases as the data collection to be analyzed. Documents were used as the main source of this research. According to Saunders et al. (2016) documents are data that, unlike the spoken word endure physically (including digitally) as evidence allowing them to be transposed across both time and space and reanalyzed for a purpose different to that for which they were originally collected.

In this research, researcher used document studies by reviewing general documents such as journals, books, formal documents/reports by government/institution/council and website content that were directly related to research problems. While the video collected data that the researcher used was by the videos from the relevant sources and related with the both Bernard Madoff and Charles Ponzi cases. The list of data sources used in this research is shown in the Appendix 1.

3.5 Data Analysis Method

After performing data collection, the researcher performed data analysis to answer the problem formulation. Data analysis is one of the most elusive processes in qualitative research, perhaps because it is a backstage, behind-the-scenes, in-your-head enterprise. It was not because there were no models to follow. It was just that each project is contextual and case specific. The unique data collected from the unique research design must be approached with the unique analytic signature. It is truly a learning-by-doing process (Leavy, 2014). In this research, the researcher used inductive analysis techniques by Computer

Assisted Qualitative Data Analysis Software (CAQDAS), namely NVivo 11 to perform the data process. NVivo is a software used for processing qualitative data in the form of text, audio data, video, and images. The researcher analyzed those data documents and video by doing coding, making matrix coding query, maps, and framework matrix.

Coding is the process of labelling of data using a code that symbolizes or summarizes the meaning of that data (Saunders et al., 2016). According to Tracy (2013), coding refers to labeling and systematizing the data. Coding can be accomplished by using a variety of materials – paper and colored pencils, an Excel spreadsheet, or computer-aided qualitative data analysis software. Each approach has advantages and disadvantages and is personal to every researcher and project. The best approach for one person will not be right for another, and what works for one project may be clumsy for another. Bazeley and Jackson (2013) stated that coding in NVivo 11 is stored in nodes. In information systems the term ‘node’ is used to indicate either a terminal point or a point of connection in a branching network. Sociologists might be familiar with the idea of nodes in a social or a semantic network. Horticulturalists know the node as the point at which branching might occur in a plant. Similarly, in a fully developed NVivo 11 coding system, nodes become points at which concepts potentially branch out into a network of sub concepts or dimensions.

In this research, the coding process using NVivo 11 started from inserting the sources of document and video data. The researcher then identified the fraud elements triangle framework related to issues of act, concealment, and conversion and fraud triangle framework related to issues of opportunity, pressure, and rationalization from the documents related to the case of Bernard Madoff and Charles Ponzi. The function of coding process is to categorize topics from data collected in research. The researcher created nodes to facilitate the coding process. Nodes served to classify the results of interviews and documents in research. Then the data from the sources were grouped to the appropriate nodes.

The next step was making a query. According to Bazeley and Jackson (2013), queries might be about the occurrence of a word or words, about patterns of coding, comparison of groups, or some combination of these elements. They can be created and run once, or stored to use again with more data, or with a variation. In this research, the query conducted by the researcher is the matrix coding query. In making matrix coding query, Bazeley and Jackson (2013) explained that the purpose is to find when the same data were coded at both of two nodes, such as when an emotion or experience was associated with a particular person or setting or time. Thus, it could find all the passages where any participant talked positively about real estate development, or, by changing the query, how much and in what ways real estate development was a feature of community change. The researcher compared the nodes related with the problem formulation and the source used to indicate the source supporting nodes presented in this research on the Bernard Madoff and Charles Ponzi cases related to fraud elements triangle and fraud triangle.

After coding and making matrix coding query, the researcher made a display data with NVivo 11 in an analytical map form to illustrate the relationship between the nodes with the data source for making an easy understanding and ease at the discussion stage. When researcher made the analytical maps with NVivo 11, there were three options to make maps, namely: mind map, project map, and concept map. Each map had its own function. In this research, the researcher mostly used the project map. On this analytical map, it could be seen that the result of making a project map could be a collection of selected nodes as well as the classification of the related person or case. In this research, the analytical map made by the researcher was divided into six sections, namely: analytical map of Bernard Madoff case analysis with fraud elements triangle, analytical map of Charles Ponzi case analysis with fraud elements triangle, analytical map of comparison between Bernard Madoff and Charles Ponzi case analysis with fraud elements triangle, analytical map of Bernard Madoff case analysis with fraud triangle, analytical map of Charles Ponzi case analysis with fraud triangle, and analytical map of comparison between Bernard Madoff and Charles Ponzi case analysis with fraud triangle.

The results of coding data were presented in the form of framework matrix. Framework matrix was the result of coding to show the pattern of data that allows to be observed in the form of matrix table or in other word, its function is to show the entire result of coding in table form. In this research, the researcher created a framework matrix from the source data in the documents form related with Bernard Madoff case and Charles Ponzi case.

Furthermore, after the data processing on NVivo 11 was completed, the researcher presented it in the form of description into the chapters.

3.6 Testing the Validity Data

In qualitative research, according to Lincoln and Guba (1985) as cited in Leavy (2014), testing the validity data includes the testing of credibility, transferability, dependability, and confirmability.

a. Test of Credibility

According to Emzir (2010), credibility criteria involves the determination of qualitative research which is credible or trustworthy from the perspective of participants in the research. According to Lincoln and Guba (1985) as cited in Leavy (2014), credibility is the elements that allow others to recognize the experiences contained within the study through the interpretation of participants' experiences; checking for the representativeness of the data as a whole; member checking involving returning to the participants to ensure that the interpretations of the researcher are accurate representations of participants' experiences; peer debriefing; prolonged engagement.

b. Test of Transferability

According to Emzir (2010), the transferability criteria refers to the level of ability of qualitative research results that can be generalized or transferred to other contexts or settings. While according to Lincoln and Guba (1985) as cited in Leavy (2014) transferability is the ability to transfer research findings from one group to another; thick description used to provide the reader with detailed contextual information; transfer of understanding is believed to occur if both contexts are similar.

c. Test of Dependability

Dependability according to quantitative research relates to reliability. According to Emzir (2010), traditional quantitative views of reliability are based on the assumption of replicability or repeatability. Essentially, it relates to whether we will get the same result if we make the same observations for the second time. Lincoln and Guba (1985) as cited in Leavy (2014) stated that dependability is when other research follows the decision trail used by the researcher; having peers participate in the analysis process.

d. Test of Confirmability

According to Emzir (2010), qualitative research tends to assume that every researcher brings a unique perspective into the research. The criteria of confirmability or objectivity refers to the level of ability the researcher's results can be confirmed by others. Beside that, according to Lincoln and Guba (1985) as cited in

> Leavy (2014) testing conformability means self-critical attitude on the part of the researcher about how one's own preconceptions affect the research.

In this research, for testing the validity of data that conducted by researcher, in the credibility test, the researcher conducted an extension of observation in analyzing the existing literature, not only one time, but repeatedly to get the depth, comprehensive, and certainty of data. Furthermore, researcher conducted a process of increasing persistence. This process was continuously done by researcher by reading back the data source used in this study so that no material was missed. In addition, the researcher also used reference materials of website content from various electronic news and also videos that discuss the case of Bernard Madoff and Charles Ponzi. The researcher also presented matrix coding query and framework matrix to show the evidence that the data has been checked for validity from various sources. The list of the matrix coding query created in this research is shown in Appendix 2 and the list of framework matrix is shown in Appendix 3.

For the test of transferability, the researcher described the findings in the form of description and the causal factors of fraud perpetrators in the case of Bernard Madoff and Charles Ponzi in detail, systematic, clear and reliable in the research report. However, there were constraints, such as the lack of literature sources and limited research resources in analyzing and presenting their findings.

In dependability and conformability testing, it was done by auditing the results of the research as a whole. Supervisor lecturer acted as an auditor to audit the overall activity of researchers in conducting research and language advisor to audit the grammar and research format in conducting this research.

CHAPTER IV
FINDINGS AND DISCUSSIONS

4.1 Chapter Introduction

This chapter is divided into two parts, analysis and comparative discussion. The purpose of the analysis is to present the findings of research conducted. The findings are in the form of an explanatory and comparative description from Bernard Madoff and Charles Ponzi cases by using fraud elements triangle and fraud triangle analysis. The fraud elements triangle analysis will explain about how each one runs an investment fraud. While, the fraud triangle analysis explains about the motives and reasons for their actions on the investment fraud that has been done. In the discussion, the researcher compares the result obtained from the analysis process. This serves to make a recommendation for people who want to prevent from becoming victims of investment fraud. The results of the analysis and comparative discussion are related to the previous chapter, which is used to answer the problem formulation based on theoretical studies and pre-determined methodology.

4.2 General Explanation of Research Object

Investment offer is currently increasingly widespread. Several companies offer investments with several diverse schemes, starting from the old-style gold investment, land investment, property, mutual funds, banking, stocks, until the current trend in the world that is bitcoin investment. Just like any other field, it turns out that investment trends are also changing over time. For now, the bitcoin investment trend is quite global.

According to Yellin, Aratari, and Pagliery (2018), bitcoin is a new currency that was created in 2009 by an unknown person using the alias Satoshi Nakamoto. Transactions are made with no middle men – meaning, no banks! Bitcoin can be used to book hotels on Expedia, shop for furniture on Overstock and buy Xbox games. But much of the hype is about getting rich by trading it. The price of bitcoin skyrocketed into the thousands in 2017. Bitcoins can be used to buy merchandise anonymously. In addition, international payments are easy and cheap because bitcoins are not tied to any country or subject to regulation. Small businesses may like them because there are no credit card fees. Some people just buy bitcoins as an investment, hoping that they will go up in value. Bitcoins are stored in a “digital wallet,” which exists either in the cloud or on a user’s computer. The wallet is a kind of virtual bank account that allows users to send or receive bitcoins, pay for goods or save their money. Unfortunately, the future of bitcoin remains unclear. No one knows what will become of bitcoin. It is mostly unregulated, but some countries like Japan, China and Australia have begun weighing regulations. Governments are concerned about taxation and their lack of control over the currency.

There is nothing wrong if someone wants to invest their money, but better to be careful in doing so. There have been so many investment fraud cases that have been ended unlucky. There is no guarantee that investor money will be returned by a party/entity if those investor is hit by an investment fraud case. An example of investment fraud case was conducted by Bernard Madoff. He managed to deceive all his investors for decades.

According to Quisenberry (2017), Bernie Madoff perpetrated the largest Ponzi scheme in American history, by utilizing a fraud methodology that dates back to the mid-1800s. Madoff was able to steal roughly $65 billion dollars, during the course of multiple decades. Due to the elaborate nature of the fraud and the reputable public perception of Madoff, the scheme does not only go uncovered after multiple Securities and Exchange Commission (SEC) tips and pre-investigations, but also continued to grow and increase in popularity, among investors worldwide. The SEC conducted haphazard investigations and utilized inexperienced examiners that lacked support and guidance from senior leaders. The SEC also had understaffed personnel, which kept over-worked investigators from thoroughly examining Madoff's network. What every investor should know is that Ponzi schemes, even as extensive as Madoff's, are not too difficult to detect if you know the warning signs. A few simple actions can help investors sidestep the potentially devastating impact of a classic Ponzi scheme (NASAA Investor Education Section, 2009).

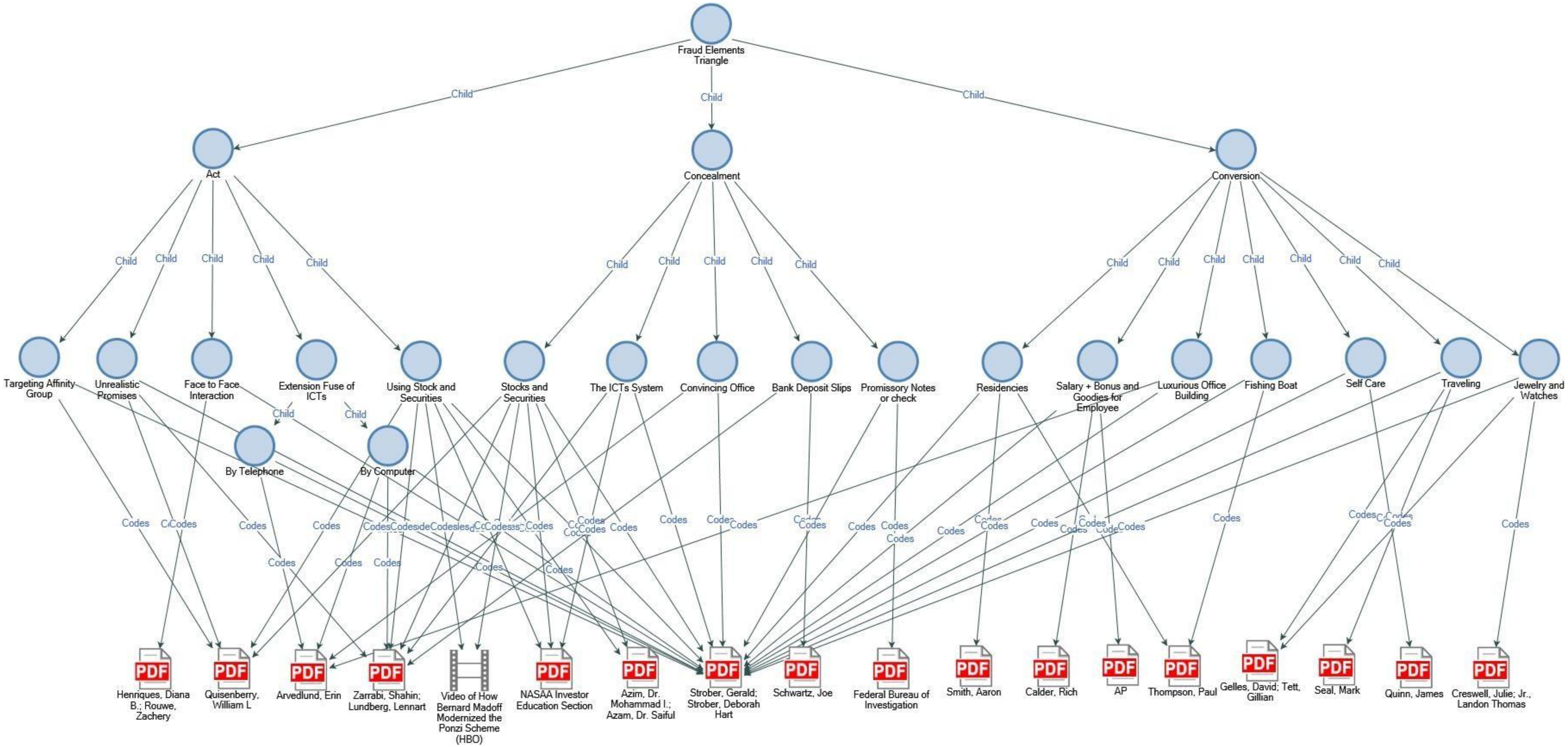
NASAA Investor Education Section (2009) also stated that the "Ponzi Scheme," named after the 1920's swindler Charles Ponzi, is a ploy where earlier investors are paid with funds given by subsequent investors. In a Ponzi scheme, claims of underlying investments are bogus; very few, if any, actual physical assets or financial investments exist. As the number of total investors grows and the supply of potential new investors dwindles, there is not enough money to pay off promised returns and cover investors who try to cash out. A Ponzi bubble bursts when the con artist simply cannot keep up with the required payments. In many cases, the perpetrator has spent investment money on personal expenses, depleting funds and accelerating the bursting of the bubble. Busch (2009) mentioned that Mr. Ponzi was a charming and ambitious person who in the early 1900's induced investors to invest with him by offering very high returns on a dubious scheme involving, of all things, international postage charges. Many of the investors were Mr. Ponzi's friends (or friends of friends) and relatives. Mr. Ponzi kept the scheme afloat by using money from later investors to pay the earlier investors. After a few months, the supply of new investors ran out and the scheme collapsed leaving many investors with nothing.

How does this kind of the investment case cannot be caught for years? In this research, the researcher analyzed and compared about how Bernard Madoff and Charles Ponzi did the ponzi scheme and also analyze and compare their reasons and motives to commit this investment fraud.

4.3 Bernard Madoff Case Analysis with Fraud Elements Triangle

The case of investment fraud committed by Bernard Madoff occured in several ways from several elements that fall into three categories which are then illustrated in Figure 4.1 below.

Figure 4.1 Analytical Map of Bernard Madoff Case Analysis with Fraud Elements Triangle



Source: Analysis by researcher

Fraud elements triangle analysis was used to give the figure and description of the data in this research. This analysis was represented by referring how the perpetrator used his way to commit fraud. The result of fraud elements triangle analysis from Bernard Madoff case in this research can be seen in figure 4.1 above.

According to Albrecht et al. (2011), fraud elements triangle is categorized by three parts, namely: act, concealment, and conversion. In this Bernard Madoff case, the researcher categorized all the ways of deception made by Bernard Madoff in accordance with that fraud elements triangle theory. From figure 4.3.1, it can be explained that the researcher categorized the fraud elements triangle in Bernard Madoff case into several categories. In theft act element, it was categorized into several elements, such as: extension fuse of ICTs by computer, extension fuse of ICTs by phone, targeting affinity group, unrealistic promises, face to face interaction, and using stock and securities. While in concealment element, the researcher categorized into five elements, namely: the ICTs system, convincing office, stocks and securities, promissory notes or check, and bank deposit slips. In conversion element, it was categorized into seven elements: such as residencies, luxurious office building, fishing boats, salary + bonus and goodies for employee, jewelry and watches, self-care, and traveling.

4.3.1 Act

According to Albrecht et al. (2011), theft act investigative methods involve efforts to catch the perpetrator(s) in the embezzlement act or to gather information about the actual theft acts. In this research, the researcher analyzed that Bernard Madoff has several acts that represent how he behaved during his investment fraud. Researcher classify such acts into five parts, such as: extension fuse of ICTs (by computer and by telephone), targeting affinity group, unrealistic promises, face to face interaction, and using stock and securities.

4.3.1.1 Extension Fuse of ICTs

ICT is a field of work and study that includes technologies such as desktop and laptop computers, software, peripherals, and connections to the Internet that are intended to fulfil information processing and communications functions (Statistics Canada, 2008 as cited in Freeman and Hasnaoui, 2010). Another definition for ICT comes from UNESCO (2002) as cited in Freeman and Hasnaoui (2010), which stated that ICT is the combination of informatics technology with other, related technologies, specifically communication technology.

The extension fuse of ICTs in this research is divided into two proxies. They are extension fuse of ICTs by computer and extension fuse of ICTs by telephone.

Firstly, the extension fuse of ICTs by computer that Bernard Madoff did according to Strober and Strober (2009), Bernard Madoff finds ways in which retail customers can trade with multiple benefits. They can connect computers with retail brokers and reduce costs everywhere. It is also explained that in New York trading rooms, which is Bernard Madoff's office looks like a lot of computers in the room. Another explanation of Bernard Madoff that also did the investment fraud by extension fuse of ICTs by computer was also raised by Zarrabi and Lundberg (2012). They explained that Bernard Madoff's firm was a small penny stock trader but grew fast due to the innovative computer technology used, until the firm became one of the largest market makers in US. In addition, according to Arvedlund (2009), Bernard Madoff uses sophisticated computers to match trading orders for his investors.

Secondly, the extension fuse of ICTs is proxied into extension fuse of ICTs by telephone. The extension fuse of ICTs by telephone that Bernard Madoff did to run the investment fraud according to Strober and Strober (2009), in their book entitled Catastrophe: The Story of Bernard L. Madoff, The Man Who Swindled the World where Bernard Madoff also used the extension fuse of ICTs by telephone method. They explained that in that era of Bernard Madoff investment fraud was done, is the era of when stock trades were still laboriously conducted by telephone. It also explained in that book that, according to SIPC spokeswoman Allis Aaron explained that the investment trading list had been developed using Bernard Madoff Investment Securities records, as well as telephone inquiries. Another analysis was also is conducted by researcher from Arvedlund (2009) that explained the atmosphere of Bernard Madoff's office was clean and modern with the sound of a phone ringing.

From the above explanation, it can be concluded that information of communication and technology could play a role in assisting behavior of Bernard Madoff as perpetrator to do his investment fraud. The researcher also concluded that based on the analysis, the technology used by Bernard Madoff to encourage his actions in making investment fraud was by using computer and telephone technology. Therefore, in this Bernard Madoff case, there was the existence of extension fuse of ICTs by computer and telephone of act element in fraud elements triangle.

4.3.1.2 Targeting Affinity Group

Affinity fraud refered to investment scams that prey upon members of identifiable groups, such as religious or ethnic communities, the elderly, or professional groups. The fraudsters who promote affinity scams frequently are - or pretend to be - members of the group. They often enlist respected community or religious leaders from within the group to spread the word about the scheme, by convincing those people that a fraudulent investment was legitimate and worthwhile. Many times, those leaders became unwitting victims of the fraudster's ruse (SEC Office of Investor Education and Advocacy, n.d.)

Bernard Madoff was a Jewish, who was active in social activities. Of course, the relationship with the Jew organizations was very huge and very close. This was one of Bernard Madoff's act to get every member of group to trust and then give their money to him. Not only Jewish groups, even groups that providing health care, and other groups were targeted by Bernard Madoff to be victims.

According to Strober and Strober (2009), Bernard Madoff targeting Jewish philanthropic organizations, board of governors of the Jewish agency for Israel, attendees at the United Jewish appeal-federation's annual Wall Street dinner, Jewish community foundation of Los Angeles, health care organizations, meals on wheels community, education to students community, widows, orphans, and charities to become his victims. Another evidence that Bernard Madoff also used was the way of targeting affinity groups by putting forward SEC (2012) as cited in Quisenberry (2017). In the research, Quisenberry (2017) explained that Bernard Madoff had targeting charitable organizations to be his victims.

This obviously became a tactic for the investment fraudster like Bernard Madoff was to targeting affinity group because by targeting affinity group, Bernard Madoff could convince the victims by the way he built trust on them. Thus, by building the trust, it means that potential investors may be happy to entrust to invest through Bernard Madoff.

4.3.1.3 Unrealistic Promises

Unrealistic promises could be avoided when investors know clearly how a company's investment works. It is better if prospective investors who wanted to invest their money to really understand how the investment work in the company. According to Strober and Strober (2009), one of the other Bernard Madoff ways to lure investors was by offering an unrealistic promises. They explained in their book that one of his correspondents said that his friend, John had earned ten percent with Madoff after a year and that correspondent tried to get in. While according to Zarrabi and Lundberg (2012), Bernard Madoff also used an unrealistic promises acts in his investment fraud. They explained that the advisory and investment management division of the investment firm Bernard L. Madoff LCC operated by promising a high rate of return with a small risk to investors, which was impossible because basically, the higher the rate of return, the more risk investors will get.

In running its investment fraud, Bernard Madoff really used the unrealistic promises way that make investors became tempted to invest through him.

Quisenberry (2017) also added Bernard Madoff's act regarding with his unrealistic promises offerings. He mentioned in his research that Bernard Madoff used the ponzi schemes way work, such the fraudster offers excessively high returns to potential investors, in a very short time period.

From the above explanations, it can be concluded that one of the other acts of Bernard Madoff to commit his investment fraud was by giving unrealistic promises. Investors would obviously interested to give their money if the profits on this company was above average.

4.3.1.4 Face to Face Interaction

Bernard Madoff used face to face interaction methods to find new investors in order to run his investment scams. According to Strober and Strober (2009), there were several ways Bernard Madoff interacts using face to face interaction. In their book, a person named Meyer said that Bernard Madoff was very nice, very honorable, and he was very low-key. Other said that someone named Greenfield has never met Bernard Madoff, but his father has. Friends of friends recommended to invest with Bernard Madoff because his reputation was stellar. Even Greenfield's father was very knowledgeable but ended up involved in Bernard Madoff's securities. He said something about Bernard Madoff that made him feel that this was really the right place to put his money. According to their book, Strober and Strober (2009) also explained that Bernard Madoff is very personable, very charming, and probably one of the best social networkers in US. Strober and Strober (2009) also said that Bernard Madoff used the way of face to face interaction with his potential investors which one of them was by observing his wealthy neighbors in Manhattan, the Hamptons, and Palm Beach then he joined their exclusive clubs and established their trust and then soon had them literally begging to be given the opportunity to invest in him.

Meanwhile, according to Henriques and Rouwe (2008), Bernard Madoff would work the tables or receive friends at his own, building a following that came to include lawyers, doctors, real estate developers and accountants at exclusive retreats as the way of face to face interaction he used. Tomas Romano, a manager at the Palm, recalled that "people always came to talk with him" at the restaurant. "He was very well known." Henriques and Rouwe (2008) also stated that Bernard Madoff did not look like a huge spender, he seemed like a family man.

From the description above, it can be concluded that Bernard Madoff used a very convincing face to face interaction. Thus, victims had assumed that he was very nice, very honorable, very low-key, very personable, very charming, seemed like a family man.

4.3.1.5 Using Stock and Securities

Bernard Madoff seemed to be acting in an investment business using stock and securities where the victims of his investment were fooled. But in fact, he did not run any investments. He just twisted his investors' money. In the research of Azim and Azam (2016), he explained about the struggling of Bernard Madoff to generate sufficient profits to cover returns for investors that required him to repay early investors with new investors' money. According to Strober and Strober (2009), he also supports the statement of Bernard Madoff acts as if he runs an investment business with stocks and securities that explained the wake of Bernard Madoff's arrest the next morning, Agent Cacioppi stated that Bernard Madoff Investment Securities had deceived investors by operating a securities business in which traded and lost investor money, and then paid certain investors purported returns on investment with the principle received from other, different investors. They also explained that this was not someone who sat down and said, 'I am going to steal fifty billion dollars.' He was a guy who started robbing Peter to pay Paul which used investment and securities as his intermediary in doing the actions of investment fraud.

NASAA Investor Education Section (2009) also mentioned about Bernard Madoff using investment stocks and securities in doing his investment fraud. It explained that for decades, Madoff investors received consistent and steady annual returns through elaborate, fabricated account statements and other documentation that were provided to investors to convince them that their money had been placed in actual investments. But in fact, there is nothing to invest, all of the stocks and securities was not real. NASAA Investor Education Section (2009) also explained that in reality, there were no actual investments and no actual returns. Bernard Madoff paid the initial investors "returns" with money provided him by a steady flow of new investors.

Zarrabi and Lundberg (2012) also issued similar statements regarding with Bernard Madoff's acts that explained Bernard Madoff's promising high rates of return with little risk to investors. The Ponzi scheme generated returns for older investors by acquiring new investors. This was how Bernard L. Madoff investment securities LLC operated. Thus, there were no stocks and no securities to be traded. It is just a cover to show to everyone, but in reality there was nothing.

Quisenberry (2017) also mentioned that Bernard Madoff had some acts that claims to run a business using stock and securities. He stated that Bernard Madoff had successfully fooled investors by operating what was termed a Ponzi scheme, which essentially was the act of collecting money from multiple investors as if they were legitimate investment returns. Quisenberry (2017) also mentioned however, unbeknown to investors, they were not receiving returns from any investments, but instead were collecting money that was invested by other victims of the Ponzi scheme.

HBO (2017) uploaded video that also stated Bernard Madoff act to pretend that he own a business of stock and securities and stated that Bernard Madoff collected funds from clients and instead of investing them as advertised, and paid out returns with money he was raising from new customers. While taking a cut along the way, there were no stocks, no investment, and no securities at all. Bernard Madoff was running an investment business using stock and securities as in fact the business was not there. It was just a hoax to investors. The money that Bernard Madoff received from investors only span in his cycle.

4.3.2 Concealment

In this sub-chapter, the researcher explains by the analysis of how Bernard Madoff hided the guise of his investment fraud. According to Albrecht et al. (2011), after committing a theft, perpetrators must conceal their fraud by covering their tracks, obscuring evidence, and removing red flags when possible. Concealment is generally accomplished by manipulating documentary evidence, such as purchase invoices, sales invoices, credit memos, deposit slips, checks, receiving reports, bills of lading, leases, titles, sales receipts, money orders, cashier's checks, or insurance policies. From an electronic perspective, concealment can also be accomplished by modifying or deleting records in corporate databases. Concealment investigative methods involve focusing on records, documents, computer programs and servers, and other places where perpetrators might try to conceal or hide their dishonest acts. Usually, concealment attempts involve altering accounting records and documents. In this research, the researcher divided the concealment element of Bernard Madoff cases into five parts, such as: the ICTs system, convincing office, stocks and securities, promissory notes or check, and bank deposits slips.

4.3.2.1 The ICTs System

Information technology encompasses all of the technology used to collect, process, protect and store information. It refers to hardware, software (computer programs), and computer networks. Information and Communication Technology (ICT) is the foundation of economy and a driving force of social changes in the 21st century. Distance is no longer an issue when it comes to accessing information; for example, working-from-home, distance learning, e-banking, and e-government. They are now possible from any place with an Internet connection and a computing device (Celebic & Rendulic, 2011). In this research, sophisticated information technology can be one of the ways of Bernard Madoff hided the factual evidence.

According to Strober and Strober (2009), Bernard Madoff conceal several ICTs system to do the investment fraud. They mentioned that Bernard Madoff was very successful in the computerized trading operation. He also already conducted and finalized transactions in an even more computer driven world while the era at that time still conducted it by manual or telephone. Bernard Madoff also set off the computerization of the entire financial industry. The book also stated that how impressive were the Madoff firm's computer trading programs to others. Bernard Madoff's firm was also able to interface computer-wise with the retail brokerage firms and reduce costs all over the place. SIPC spokeswoman Allis Aaron Wolf also explained in Strober and Strober (2009) that the book list had been developed using BMIS records, as well as telephone inquiries.

NASAA Investor Education Section (2009) also supported the arguments of Bernard Madoff that concealed the fraud by ICTs system mentioned that the investor received consistently and steadily on annual returns through elaborate, fabricated account statements and other documentation that were provided to convince them that their money had been placed in actual investments for decades. It can be said that Bernard Madoff made such fabricated account statements and other documents from high technologies to make sure that he was really convinced with the investors.

Zarrabi and Lundberg (2012) also mentioned that Bernard Madoff concealed his investment fraud by using the ICTs system as explained that the Bernard Madoff's firm was initially a small stock trader but the firm grew fast due to its use of innovative computer technology.

By manipulating the system, Bernard Madoff can make a fictitious proof of annual returns, status, and other reports. This should be cautioned by potential investors because not everyone has education about fraud manipulation system.

4.3.2.2 Convincing Office

Bernard Madoff really made a nice luxurious and comfortable office for him and his employees to convince everyone that the business that he run was really real and successful, but he built the building out of his investment fraud. Strober and Strober (2009) stated in their book that Bernard Madoff's office building was on the 17th floor of 885 Third Avenue as known as Lipstick Building which was a 453-foot-high, 34-story, red granite and steel tower designed by the John Burgee firm with the doyen of American architects, Philip Johnson.

According to Arvedlund (2009), the office of Bernard L. Madoff Investment Securities were immaculate, decked out in modern, grey and black tones. It also mentioned that the 17^{th} floor office were shambles. There were papers, printouts everywhere, people here dressed casually, the workers work from 9am to 5pm, visitors to 17^{th} floor were few and far between, and the entrance was almost hidden – left of the elevator bank, part of a dark mahogany wall, without a sign or other markings. The employee upstairs were required to wear suits, worked hard and long hours, and in 18^{th} and 19^{th} floor they used to showcase the Bernard Madoff operation to the world.

Bernard Madoff tried to hide his investment fraud by having a convincing office with a good office environment, room layout and furniture, and the employee activities in 18^{th} and 19^{th} floors which the world can see the office activities here but not in the 17^{th} floor. This was done in order to make potential investors more confident and feel right to invest their money on Bernard Madoff.

4.3.2.3 Stocks and Securities

According to Wall Street Survivor (2002), stocks are equity investments, which means that buying even one share of a company’s stock means you are a part-owner. Amadeo (2018) also stated that securities are investments traded on a secondary market. The most well-known examples include stocks and bonds. Securities allow you to own the underlying asset without taking possession.

Another way of Bernard Madoff hided the guise of his investment fraud was by pretending to tell people that his investment is in stocks and securities while in reality he was just running a ponzi scheme. According to Azim and Azam (2016), Bernard Madoff was struggling to get money to cover returns for investors by manipulate the investor that they invest money in stock and securities trading. In fact, there were no stock and securities of Bernard Madoff maintained in here.

Strober and Strober (2009) also stated that Bernard Madoff used a stocks and securities to cover his investment fraud. They describe that Bernard Madoff deceived investors by operating a securities business in which he traded and lost investor money, and then paid certain investors purported returns on investment with the principle received from other, different investors, which resulted in investors' losses of approximately $50 billion. They also stated that Bernard Madoff run a robbing Peter to pay Paul scheme. He has been averaging ten to fifteen percent a year. He had been doing it for thirty years by covering run a stock and securities business. But in reality, he just run a Ponzi scheme business. NASAA Investor Education Section (2009) also agreed with the arguments of Bernard Madoff that concealed his investment fraud by showing that he run a stocks and securities by stating that Bernard Madoff had sent steady and consistent annual returns to his investor which of course, the documents that he sent was fake as a manipulated annual return. It also mentioned that in reality, there were no actual investments and no actual returns. Bernard Madoff paid the initial investors returns with money provided by a steady flow of new investors.

Zarrabi and Lundberg (2012) also issued similar statements regarding the concealment of Bernard Madoff investment fraud using stock and securities. They explained that Bernard Madoff promised high rates of return with little risk to investors. The Ponzi scheme generates returns for older investors by acquiring new investors. This means that there were no stock and securities trading in his business. They also stated when a customer made an investment, he simply put the money into a bank account, and when asked for a withdrawal he took the money piled up in that account.

In some statements, Quisenberry (2017) also stated that Bernard Madoff concealed his fraud by showing that he run a business in stocks and securities as he explained that investors were not receiving returns from any investments but instead of collecting money that was invested by other victims of the Ponzi scheme. He also stated that the fraud was structured in a manner that requires the scam artist to continuously receive new investments from others. Thus, that the money can be redistributed to previous investors as returns. Bernard Madoff had successfully fooled investors by operating what was termed as Ponzi scheme, which essentially was the act of collecting money from multiple investors as if they were legitimate investment returns.

HBO (2017) uploaded video regarding Bernard Madoff concealment. It explained that Madoff collected funds from clients and instead of investing them as advertised, paid out returns with money that he was raising from new customers while taking a cut along the way.

From all of the above explanations, it can be concluded that Bernard Madoff really hided the real situation that there was no investment in stocks and securities but only the velocity of money made by it.

4.3.2.4 Promissory Notes or Check

Promissory notes are credit instruments typically used in connection with sales financing and business loans. While their legal development is largely within the context of commercial trade and financing, they are used in a variety of contexts that affect estates law. This paper introduces the basic legal requirements of promissory notes through case law and other legal commentary to demonstrate their application to the estates context. Promissory notes belong to a class of contracts known as negotiable instruments, together with bills of exchange, checks, drafts and certificates of deposit. Each type of negotiable instrument has specific formalities that must be met in order to be valid. Generally a negotiable instrument is transferable by delivery, thereby enabling a transferee to take the instrument free of defects and bring an action to enforce the instrument, if necessary (Lobl, 2013).

Bernard Madoff had a way of keeping investors calm and feel secure, by giving promissory notes or even checks that he believed would not be exchanged by his investors. The book of Strober and Strober (2009) mentioned that Bernard Madoff concealed his investment fraud by using promissory notes or checks as stated that his investors kept getting reports on a regular basis, kept getting confirmations of sales, and got a check in September when investor asked for it. They also explained that the government claimed that federal investigators searching Madoff's office desk had found a cache of approximately one hundred signed checks, totaling more than $173 million, ready to be sent out.

It is also stated by Federal Bureau of Investigation (2012) that Bernard Madoff used promissory notes or check in doing his investment fraud by mentioning Bernard Madoff received approximately $15,700,000 from Bernard L. Madoff and his wife and executed sham promissory notes to make it appear that the transfers were loans, in order to avoid paying taxes. They also explained that Bernard Madoff gave approximately $9,900,000 to family members, and in order to avoid paying taxes, executed sham promissory notes to make it appear that the transfers of these funds were loans.

From the above statement it can be analyzed that Bernard Madoff surely made his investors secure by always sending the reports and check on a regular basis and also using it to receive the money as some loans transfer to avoid tax payments by writing a promissory note.

4.3.2.5 Bank Deposit Slips

Bank deposit slips are used when you deposit money and checks in order to keep track of the money that you are putting into your account. Deposit slips are available from your financial institution (Kennan, 2009). The researcher found that Bernard Madoff hided the money he received from investors by putting the money in a bank account. Zarrabi and Lundberg (2012) explained how Bernard Madoff concealed his money. When customers made an investment, he simply put the money into a bank account. When someone asked for a withdrawal, he took the piled up money in that account.

According to Schwartz (2017), Bernard Madoff used the bank deposit slips to conceal the money by explained that from the 1990s through the late 2000s, he deposited his clients' money into his personal bank account, rather than invest it and generate steady returns as his clients had expected. When his clients wanted to liquidate their investments for cash, he dipped into the bank account to fund their requests.

From the descriptions above, it can be concluded that Bernard Madoff simply hided the money he got from investors by putting it into the bank. When the investors wanted to liquidate it to cash, Bernard Madoff simply took it from the bank account.

4.3.3 Conversion

Conversion involves selling stolen assets or transferring them into cash and then spending the cash. If the asset taken is cash, conversion means merely spending the stolen funds. Virtually, all perpetrators spend their stolen funds.

Conversion can be detected when lifestyle almost changes inevitably on perpetrators when they convert their embezzled funds in a visible way (Albrecht et al., 2011).

In this sub-chapter, the researcher describes how Bernard Madoff had converted his earnings of his investment fraud from the investors. This conversion section is divided into seven parts. They are residencies, luxurious office building, fishing boats, salary + bonus and goodies for employee, self-care, and traveling.

4.3.3.1 Residencies

A comfortable house is also everyone's dream, no exception for Bernard Madoff. He even has more than one residential house in several places. Unfortunately, he has a large and luxurious residences house by his investment fraudulent.

According to Strober and Strober (2009), Bernard Madoff converted the money from investor to own several houses. They stated that Bernard Madoff has an elegant duplex penthouse to live with his wife at 133 East 64th Street Apartment 12A; A house in Montauk, Long Island, his three properties in Palm Beach; houses in Key Largo, Florida; and in Antibes, France. According to Thompson (2015), Bernard Madoff had several residencies such as: penthouse apartment in New York; an \$11m home in Palm Beach, Florida; A \$3m home in The Hamptons; And a \$1m villa in Cap D'Antibes in the south of France. Smith

(2013) also mentioned that Bernard Madoff had several residencies. They were $7 million Manhattan penthouse; A beach house in Montauk, N.Y; Homes in Florida and France.

Bernard Madoff managed to have more than one residencies house from his investment fraud. Not only was that, all the residencies that he had very expensive at that time. Although they were not involved in the investment scam, but the houses were certainly also enjoyed by the Bernard Madoff family. From the explanation above, it can be concluded that Bernard Madoff had residencies in several places. There was an apartment in New York, house in Palm Beach, house in Long Island, and a villa in France.

4.3.3.2 Luxurious Office Building

Working in a comfortable office is the dream of everyone who worked, not least for Bernard Madoff. The researcher found another proof that Bernard Madoff converted the money he earned from investors into a luxurious office building. According to Strober and Strober (2009), the luxurious office building called the Lipstick Building office is a 453-foot-high with red granite and steel tower designed by the firm of John Burgee with the doyen of American architects, Philip Johnson, and so named due to its distinctive oval shape and color. While according to Arvedlund (2009), office was clean, decorated modern, gray and black tone, and often look productive with the sound of the phone ringing.

There is straightforward evidence that Bernard Madoff's office stands still majestically in New York. Bernard Madoff spent his investment fraud money to build a luxurious office to be enjoyed and to show everybody, including the family, the employee, and the investors.

4.3.3.3 Fishing Boat

Bernard Madoff spent his money for having several fishing boats. It could be said that having fishing boats, especially more than one must not be needed to live a life, but apparently not for Bernard Madoff. Thompson (2015) stated that Bernard Madoff converted the money into several boats. There was a 55ft yacht called The Bull that was valued at $5.5m, it had an elevator to reach the bridge. and Bernard Madoff also had another two ships that were Sitting Bull, a 38-foot 'runabout' in Florida, and Little Bull, an open cabin boat with an outboard motor.

Strober and Strober (2009) also argued the similar arguments that mentioned Bernard Madoff using his investment fraud money to buy some fishing boats. Bernard Madoff had treated himself to own fifty-five-foot wooden fishing boat in 1977, which he purchased for $426,000. They also mentioned that Bernard Madoff has four boats.

4.3.3.4 Salary + Bonus and Goodies for Employee

Bernard Madoff did not only provide salaries to his employee, but also regular bonuses and a goody bag that contains various items. According to

Strober and Strober (2009), Bernard Madoff also convert his money for giving his employee a regular salary, regular bonuses, flashlights, beach tote bags, beach chairs, backpacks, golf caps, corporate challenge t-shirts, fleece blankets, desktop cigar humidors, New York City bus and subway maps, air-filter mask, whistle, emergency blanket, sanitary wipes, and a water pack. It was also stated in the book that someone can only wonder about Bernard Madoff. He was anticipating it when everything falls apart, they will be able to use the maps to escape from the office before the FBI get to the office. They stated in the meantime, they can protect themselves from the hot air emanating from the 17th floor by using their masks; if so disposed, they can use their whistles to become whistle-blowers; if they find themselves out on the street when they discover that there's no money left in the till to pay their salaries or to allow them to redeem their own small investments in BMIS, they can always shelter atop the subway grate on East 53rd Street, using their fleece blankets for extra warmth, and washing off daily with their sanitary wipes. Finally, they can sustain themselves with fluids from their water packs.

Calder (2013) described one of Bernard Madoff's former employees, Bonventre, revealed Bernard Madoff authorization under-the-radar payments because the operations chief's salary was already high. Thus, he did not want extra bonuses. He also added that prosecutors displayed payroll records showing Bonventre that earned $1.1 million in 2008. It is including his final company bonus of $200,000. Bonventre also cut himself a check that year for another

$50,000 bonus not included in his yearly salary.

According to AP (2014), the government said that Bernard Madoff's former employee, Bongiorno and Crupi were also rewarded themselves with tens of millions of dollars in salary and bonuses, including $2.5 million for a beach house for Crupi as the Ponzi scheme was falling apart.

The researcher concluded that one of the conversion results of investment fraud by Bernard Madoff according to Strober and Strober (2009), Calder (2013), and AP (2014) are for salary, bonuses, flashlights, beach tote bags, beach chairs, backpacks, golf caps, corporate challenge t-shirts, fleece blankets, and desktop cigar humidors, New York City bus and subway maps, air-filter mask, whistle, emergency blanket, sanitary wipes, a water pack, and a beach house.

4.3.3.5 Jewelry and Watches

Jewelry and watches are two things that were very tempting to be exchanged for money to fulfill a high lifestyle. In fact, there were many cases of fraud committed just because somebody want to have these high value things. Researcher analyzed that Bernard Madoff had converted the money he earned from investors to buy jewelry and watches.

Gelles and Tett (2011) mentioned that Bernard Madoff spent lavishly on his lifestyle. After the fraud was revealed, authorities uncovered $75m in a Gibraltar bank account and millions in jewelry and luxury goods. While

Creswell and Jr. (2009) stated that Bernard Madoff was an avid collector of vintage watches and took time each morning to match his wedding ring.

According to Strober and Strober (2009) stated several sentences regarding Bernard Madoff conversion with jewelry and watches. They mentioned that Bernard Madoff bought some jewelry on Christmas Eve for his families and close friends. He also gave diamond brooches, emerald ring, and other valuables items for gifts. They were also stated in their book that Bernard Madoff had several watches collection.

Apparently, jewelry and watches became something that must be owned by Bernard Madoff to show that he was in a high taste lifestyle. It did not matter if he had it from his own money or not but Bernard Madoff preferred to deceive investors where the results was converted by having jewelry and watches.

4.3.3.6 Self Care

Taking care of yourself is an activity that is not mandatory or urgent to do. It does not matter if someone wants to take good care of him/herself and of course with his/her own money. But not with Bernard Madoff, he deliberately used the money from his investment fraud to take care of himself. As Strober and Strober (2009) described that Bernard Madoff enjoyed one of his $65 haircuts, as well as his customary $40 shave, $22 manicure, and $50 pedicure at the Everglades Barber Shop.

Quinn (2008) agreed with the statement above which also stated that when

Bernard Madoff was not in New York, or at his beachfront house in the Hamptons, he stopped off at the Everglades barber shop in the town for his "usual" which was a $65 haircut, a $40 shave, a $50 pedicure and a $22 manicure.

From the explanation above, the researcher analyzed Bernard Madoff that spent the money from his investment fraud for taking care of himself such as he did haircuts, shave, manicure, and pedicure to fulfill his lifestyle.

4.3.3.7 Traveling

Traveling is an opportunity for some people to relax and unwind temporarily. It had become a lifestyle anyway for now. Some make travel activities as a hobby or a mandatory program in a community or organization. Even in some people, traveling is a job. On the investment fraud made by Bernard Madoff, the researcher analyzed that the money from his investors was also used into traveling for himself.

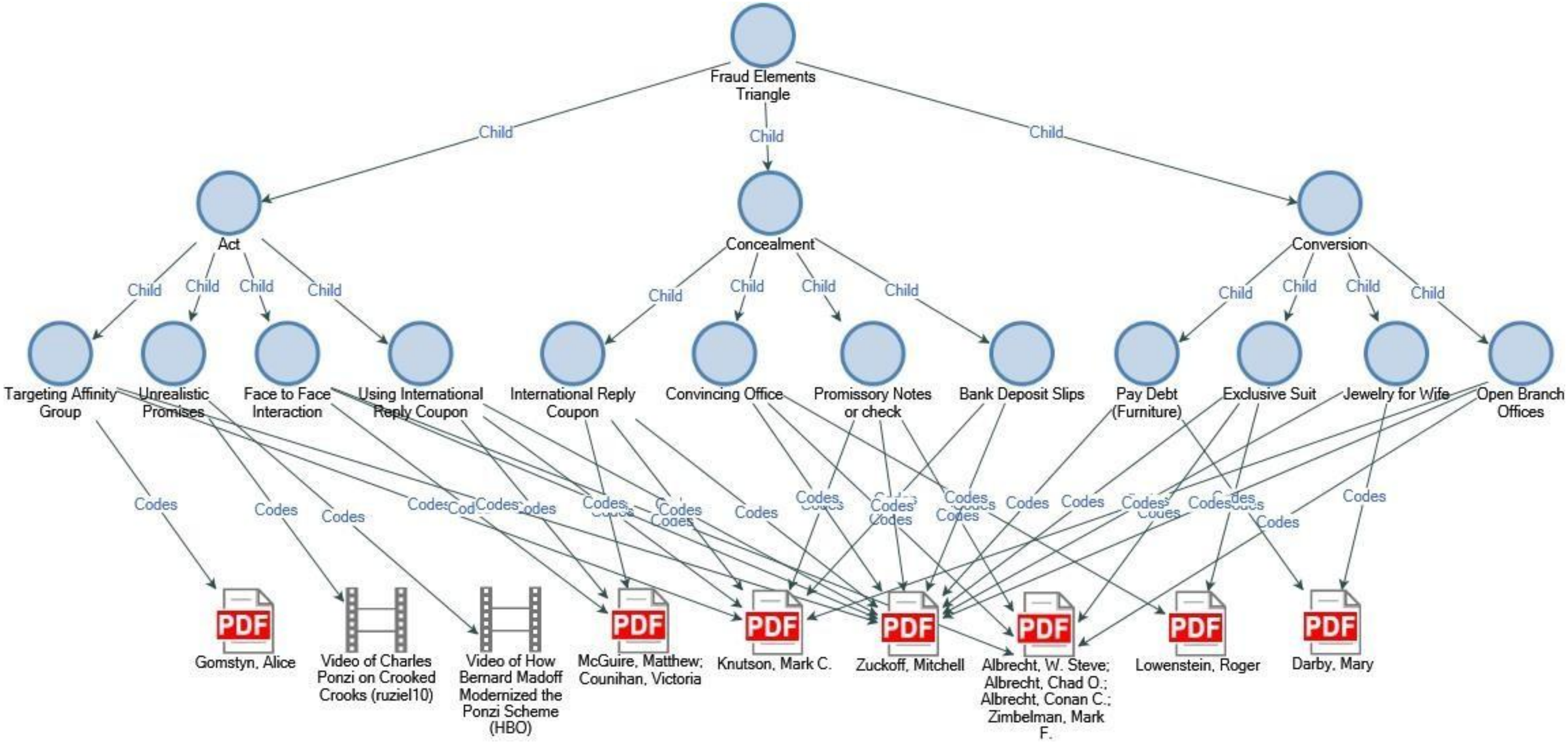
Strober and Strober (2009) stated that Bernard Madoff had traveled the world for many years. Gelles and Tett (2011) also mentioned that Bernard Madoff was on the board of Yeshiva University and a regular at charity balls in Manhattan. He and his wife, Ruth, had holiday in Monte Carlo, where she liked to shop.

Seal (2009) stated that Bernard Madoff became a surrogate son to the wealthy one of his investor, Shapiro, not only looking after the older man's money but also, traveling with him and appearing on the short list of invitees to every family birthday, anniversary, bat mitzvah, wedding or graduation. So, it can be concluded that Bernard Madoff also spent the money from his investor for traveling.

4.4 Charles Ponzi Case Analysis with Fraud Elements Triangle

Just like Bernard Madoff, Chares Ponzi also had some ways to run his investment scams. The researcher analyzed the way Charles Ponzi did fraud with fraud elements triangle analysis. In Figure 4.2, the results of fraud elements triangle conducted by Charles Ponzi can be seen based on the analysis by the researcher.

Figure 4.2 Analytical Map of Charles Ponzi Case Analysis with Fraud Elements Triangle



Source: Analysis by researcher

In 1920, Charles Ponzi was a $15-a-week stock clerk in Boston. He learned that he could make a small profit by buying International Postal Reply coupons (IPRCs) which in turn could be redeemed for stamps in a number of countries. If he bought the postal coupons at a low rate in a weak-currency country (as Spain was at the time) and then redeemed them at a higher price in the United States, he could make a profit because of the widely varying rates of currency exchange. Within a year, Ponzi had taken in 10 million dollars from gullible investors and moved into a palatial home. Even when the scheme was exposed, and Ponzi was on his way to prison, money continued to pour into his office from victims who were convinced he had a good thing going. Since then, any operation that pays off old investors with money from new investors is known as a "Ponzi scheme." (Rowe, 2000)

4.4.1 Act

Charles Ponzi took some acts as a way to run his investment fraud. Researcher categorize it into four acts, such as: face to face interaction, targeting affinity group, unrealistic promises, and using international reply coupon which will be explain one by one as follow.

4.4.1.1 Face to Face Interaction

Face to face interaction became one of Charles Ponzi's main choices to act in his deceptive action. It could be said that at that time there was no advanced technology like today. Thus, inevitably he must make an intense approach of face to face interaction to get investors. One of them was the statement from McGuire and Counihan (2013) which stated Charles Ponzi contacted his relatives in Italy and then asked his relatives to buy the international reply coupons as much as possible then send the coupons to him. Another statement was issued by Zuckoff (2005) who supported that Charles Ponzi used face to face interaction to run his investment fraud. He stated that Charles Ponzi arranged his investors to gives their money to the tellers and the investor will get the notes. He also mentioned that Charles Ponzi can even asked the police inspector to invest with him by his impressive way of face to face interaction. An example was when Charles Ponzi took out a few notes and his wife came by the office for a visit and proudly deposited her pin money, just for a show. By doing that, Charles Ponzi got new investor named Abe Rhodes that ended investing with him in the same day.

According to Albrecht et al. (2011), when Charles Ponzi's company was surrounded by investors asking to get their investment, the face to face interaction way of Charles Ponzi goes directly to his investors. He assured to the public that his organization was financially stable and that he could fulfill all the obligations. Because at that time Charles Ponzi was able to fulfill all his obligations, the angry masses began to dwindle, and public support swelled. Crowds followed Ponzi’s every move Cheers, loud applause, people who wanted to touch his hands and finally believe back against him. From the above analysis, it can be concluded that Charles Ponzi used a face to face interaction act to do his investment fraud.

4.4.1.2 Targeting Affinity Group

As explained before about what is affinity fraud, Charles Ponzi was also used a way of targeting affinity groups to get his victims of his investment fraud. According to Knutson (2011), Charles Ponzi got several investors from word spread through the community. While based on Zuckoff (2005), he also argued that Charles Ponzi was fraudulent by targeting affinity groups. He also stated that Charles Ponzi had target to his operation on police inspectors by impressing the policeman. It was also mentioned by Gomstyn (2009) that Charles Ponzi used a way of targeting affinity groups by targeting his operation to his fellow Italian immigrants.

Based on the arguments above, the researcher concluded that Charles Ponzi targeted several affinity groups, such as Italian immigrants, police inspectors, and community to get investors in his investment fraud.

4.4.1.3 Unrealistic Promises

Charles Ponzi tried to persuade potential investors with unrealistic and above-average promises. Initially, many potential investors do not believe it, but when they became investors and got the money as he promised, over time word spread out about his postal coupon investments which was very profitable and with a short time process, which of course it was not realistic.

Azim and Azam (2016) mentioned that Charles Ponzi's act of unrealistic promises was he promised his clients a 50 percent return rate in 45 days or 100 percent in 90 days. While according to Quisenberry (2017), Charles Ponzi had several ways to lure his investor by offering an unrealistic promises by offering excessively high returns to the potential investors in a very short time.

HBO (2017) also stated that Charles Ponzi used an unrealistic promise as one of his ways to run his investment scams which mentioned that Charles Ponzi lured people with the promised that he would double their investment in 90 days. Ruziel10 (2009) also agreed with the statements of Charles Ponzi. He did his investment fraud by giving an unrealistic promise as mentioned that Barron, the financial analyst, observed that Charles Ponzi was offering fantastic returns on investments.

From the explanations above, the researcher concluded that one of other acts of Charles Ponzi was committed his investment fraud by giving unrealistic promises which he promised will gives excessively high returns to potential investors in a very short time period by a 50 percent return rate within 45 days or 100 percent profit within 90 days.

4.4.1.4 Using International Reply Coupon

Charles Ponzi used the international reply coupon as his intermediary in running an investment fraud. He acted as if he was running a trade of discount postal coupon business. According to Azim and Azam (2016), Charles Ponzi run his investment scam using international reply coupon by mentioning Charles Ponzi promised a return rate by buying discounted postal reply coupons in other countries and redeeming them at face value in United States. Strober and Strober (2009) also supports the statement that Charles Ponzi acts as if he runs an investment business with international reply coupon was by mentioning Charles Ponzi collected millions of dollars by convincing thousands of people to buy postage stamps using international coupons. Based on the fact that an international reply coupon purchased at European currency rates, it could be redeemed at a higher price in the United States and as the money poured in. He diverted late investors' money to support payments to earlier investors.

Knutson (2011) also issued similar statements regarding with Charles Ponzi's acts that stated Charles Ponzi claimed after he calculated and compare between the coupon cost in Spain and United States then concluded that he could make a profits. He claimed that he was giving investors just a portion of the 400 per cent, profit he was earning through trade in postal reply coupons. McGuire and Counihan (2013) also mentioned that Charles Ponzi had some acts that claims to run a business using international reply coupon that mentioned Charles Ponzi contacted his relatives in Italy and asked them to buy up as many international reply coupons as possible. He set up a business called the "Securities Exchange Company" and used coupons as his weapons. Because the cost of postage for equivalent letter varied from country to country based upon currency differences and other considerations, Charles Ponzi recognized that he could make profit enormously by purchasing an international reply coupon in one country and redeeming it for postage in another country where the value of the equivalent amount of postage was greater.

According to Zuckoff (2005), Charles Ponzi acted as if he owned a business of international reply coupons discount, stated that by redeeming the coupon in Boston rather than Barcelona, Charles Ponzi would earn a profit before expenses of ten cents, or 10 percent, on each dollar's worth of coupons he bought in Spain and redeemed in the United States. Charles Ponzi also mailed a dollar to each of three acquaintances, one in Spain, one in Italy, and one in France, with instructions to exchange the dollars for the local currency, go to a post office, buy as many reply coupons as possible, and then send them to him in Boston. A few weeks later, Ponzi had his answer: His calculations were correct. The Spanish and French deals were a wash, a small profit from Spain and a small loss from France, but the Italian effort was a big moneymaker. Based on the above explanations, researcher concluded that Charles Ponzi did an investment fraud by using an international reply coupon while in fact the coupons was not exchanged by Charles Ponzi. He just paid his old investor with money he received from new investor, like to robbing Peter to pay Paul schemes.

4.4.2 Concealment

Charles Ponzi has several ways to hide his fraudulent money. In this study, the researcher categorizes the element concealment of the fraud elements triangle into four, such as: bank deposit slips, convincing office, international reply coupon, and promissory notes or check.

4.4.2.1 Bank Deposit Slips

Based on book of Zuckoff (2005) entitled Ponzi's Scheme: The True Story of a Financial Legend stated that Charles Ponzi concealed the money by using the bank deposit slips. Firstly, potential investor who wanted to invest their money to Charles Ponzi would give the cash to the tellers in Charles Ponzi’s office. After that, the investor received promissory notes, the receipts that guaranteed the investment. Furthermore, the cash was funneled from the clerks directly to a man, Charles Ponzi’s employee named Louis Cassullo. From Cassullo, the cash was counted, bundled, and deposited into one of Ponzi’s bank accounts. It is also explained in the book that Charles Ponzi had been keeping the accounts himself, and sloppily, at that. He had barely any idea how much money he had taken in. When he wanted to check his cash assets, he simply added his bank deposit slips. He had less interest in counting his liabilities.

Another arguments was mentioned by Knutson (2011) that stated in May 20, 1920, Chares Ponzi opened a deposit account with the Hanover Trust Company. The bank became the financial hub of his multi-state network. By that, researcher concluded that Charles Ponzi used bank deposit slips as his concealment in doing the investment fraud.

4.4.2.2 Convincing Office

In Charles Ponzi's investment fraud, he concealed his real office situation in front of his investor. He arranged his office in such a way as to make it appear that his investment company was convincing. According to Zuckoff (2005), several statements regarding to Charles Ponzi's convincing office. He mentioned that the office owned a waiting area room where someone who wanted to go there would through a glass-paneled door into a small anteroom his company. Each investor was met by one of the sixteen clerks and assistants. Moving deeper into the office, potential investors would be turned over to a team of agents led by John A. Dondero, a distant relative of Ponzi's by marriage. After making sure the investors had cash on hand or endorsed money orders, John A. Dondero would lead them to a second, larger room, divided roughly in half by a four-foot wooden barrier topped by iron bars. Between the bars and the counter were slim openings for three tellers. Investors slid their cash to one of the young tellers. Often, they were three particular girls: Angela Locarno, her sister Marie Locarno, and their friend Bessie Langone. In return for cash, the investors received promissory notes, receipts, that guaranteed the original investment plus 50 percent interest in forty-five days. The receipts bore Ponzi's ink-stamped signature which led many to call them simply "Ponzi notes."

But in fact, Zuckoff (2005) also stated that at a time, the waves of cash had come crashing over the counter so quickly that the bills were dumped into wire baskets, to be sorted when the tide rolled out. At slower times the cash was funneled from the clerks directly to a man named Louis Cassullo. From him, the cash was counted, bundled, and deposited into one of Ponzi's fast-growing bank accounts. That is, minus any stray bills Cassullo siphoned off. It is also mentioned that the other half of the room, space perhaps eight by fourteen feet, was partitioned off for an office shared by Ponzi and a pretty, dark-haired girl named Lucy Meli, his eighteen-year-old chief bookkeeper, secretary, and gal Friday. The walls of the office were bare, and the furniture consisted of three chairs and a single flattop desk, at which Ponzi and his young assistant sat on opposite sides, facing each other. Visitors were surprised to see no adding machines or file cabinets. Despite the enormous sums of money pouring in, the offices of the Securities Exchange Company were dark and dingy, with a few scuffed, mismatched pieces of furniture and the lingering smell of the Turkish cigarettes Ponzi smoked in a five-inch, ivory-and-gold holder.

While according to Lowenstein (2005), the outside part of Charles Ponzi's office was crowded with workers carrying little savings that they painstakingly got and would soon be handed over to Charles Ponzi. This makes, people who initially did not believe or did not know about coupon investments from Charles Ponzi that could easily have believed in seeing the overcrowded office environment wanting to invest in him. Albrecht et al. (2011) describes directly the real situation in the office of Charles Ponzi, that is, at the peak of his scheme, his staff actually filled all the desk drawers, wastebaskets, and cabinets in the office with investors' money. So, based on the explanation above, the researcher concluded that Charles Ponzi also concealed the real situation of his office and make it as real as possible for potential investors to be sure that investing in him is the right thing to do.

4.4.2.3 International Reply Coupon

The paper in Ponzi's hand was an International Reply Coupon. A more mundane and obscure financial instrument was hard to imagine. In April 1906, representatives of the United States and sixty-two other countries gathered in Rome with the goal of making it easier to send mail across national borders. All were members of one of the world's first international governmental organizations: The Universal Postal Union, founded in 1874 to reduce the maze of postal regulations that made mailing a overseas letter to have high-risk, high cost proposition. A key item on the Rome agenda was to create a way for a person in one country to essentially send a stamped, self-addressed envelope to someone in another (Zuckoff, 2005).

The lack of such a mechanism posed a problem to anyone with an overseas family member or business associate. Consider, for instance, a lawyer in New York who wanted a Paris accountant to send him an important document. The lawyer would reasonably be expected to enclose with his request an envelope with his return address and the necessary postage. But at the turn of the twentieth century, there was no way to do that. The New York lawyer's stamps would be United States issue. If the French accountant tried to use them, he would be turned away by any self-respecting, law-abiding Parisian postal clerk. The accountant would have to pay the postage himself in French postage stamps to send the document. Of course, it was possible that the American lawyer could enclose a few dollars to cover the return postage, but then the French accountant would need to exchange the dollars for francs before buying the stamps—hardly an efficient system. The same problem arose when young immigrants tried to correspond with parents or grandparents in the old country. The young émigrés wanted to hear back from their faraway family members, often as soon as possible, and they were happy to include postage for a return letter (Zuckoff, 2005).

As a solution, the Rome treaty writers created a system of international postal currency, paper that held a fixed value from one country to the next and could be redeemed for stamps in any post office of a country belonging to the Universal Postal Union. They called the currency they created International Reply Coupons. But they were not finished. The treaty writers wanted to make sure no one tried to profit from the purchase and redemption of their coupons. They created regulations that set the rate of exchange between countries' currency and postal reply coupons. Thus, coupons were purchased for one American dollar in New York yielded the equivalent of one dollar's worth of French stamps in Paris, minus a small processing fee (Zuckoff, 2005).

All that was fine in 1906, but the Rome treaty negotiators did not foresee a world war a decade later. The Great War left some countries' currency deeply devalued. Governments were too busy dealing with massive human and economic losses to worry about recalibrating postal exchange regulations. The result was an opportunity to profit. The Spaniard who'd sent Ponzi the coupon considered it nothing more than an act of proper business etiquette. He was, after all, asking to be sent a copy of the *Trader's Guide*. But in a flash of insight, some might even say genius, Ponzi saw something more, a global currency whose value fluctuated wildly depending on where it was used. He took out a pencil and a pad of paper and began calculating the possibilities (Zuckoff, 2005).

Ponzi schemes had been separating people from their money ever since Charles Ponzi, in the waning years of World War 1, first heard about international postal coupons. These coupons were used to cover postage for letters of reply from foreign countries. What first attracted Ponzi, then a clerk in a Boston investment firm--was the fact that one could buy a coupon in an economically depressed country for, say, a penny, and redeem it at any bank or post office in the United States for 5 cents. To the young Italian immigrant, the vision of America as a land of opportunity was even brighter (Howard, 1992).

In this Charles Ponzi case, the researcher found several statements regarding the concealment of Charles Ponzi in doing his investment fraud with international reply coupon. According to Azim and Azam (2016), Charles Ponzi promised his investors by buying discounted postal reply coupons in other countries and redeeming them at face value in the United States.

While according to Strober and Strober (2009), Charles Ponzi's concealment is stated by him as an Italian immigrant who from 1919 to 1920 that collected millions of dollars by convincing thousands of people to buy postage stamps using international coupons. It was also mentioned by Knutson (2011) that Charles Ponzi claimed that he was giving investors just a portion of the 400 per cent. He earned profit through trade in postal reply coupons. He also mentioned that Charles Ponzi had thought the coupon in Spain had the cost of about one cent in American money, he got six cents in stamps for the coupon here. Then he investigated the rates of exchange in other countries. He tried it in a small way first. It worked. The first month $1,000 became $15,000. He began letting in his friends. First, he accepted deposits on his note, payable in ninety days, for $150 for each $100 received. Though promised in ninety days he has been paying in forty-five days.

McGuire and Counihan (2013) stated that several statements with Charles Ponzi's concealment is stated by Charles Ponzi to set up a business called the "Securities Exchange Company." He contacted his relatives in Italy and asked them to buy up as many international reply coupons (IRCs) as possible and send them. They also mentioned because the cost of postage for an equivalent letter varied from country to country based upon currency differences and other considerations, Charles Ponzi recognized that he could profit enormously by purchasing an IRC in one country and redeeming it for postage in another country where the value of the equivalent amount of postage was greater. According to Zuckoff (2005), the concealment by international reply coupon is stated by sentences and redeeming them in Boston rather than Barcelona, Ponzi would earn a profit before expenses of ten cents, or 10 percent, on each dollar's worth of coupons he bought in Spain and redeemed in the United States. He also stated that Charles Ponzi mailed a dollar to each of three acquaintances, one in Spain, one in Italy, and one in France, with instructions to exchange the dollars for the local currency, go to a post office, buy as many reply coupons as possible, and send them to him in Boston. A few weeks later Ponzi had his answer: His calculations were correct. The Spanish and French deals were a wash, a small profit from Spain and a small loss from France, but the Italian effort was a big moneymaker. Thus, based on the analysis above, the researcher concluded that Charles Ponzi concealed his investment fraud with the international reply coupon. While, in fact there was not a real profitable coupon because he just used the coupon for the show. Charles Ponzi only used a robbing Peter to pay Paul method towards his investment business.

4.4.2.4 Promissory Notes or Check

Charles Ponzi always used a promissory note or check to conceal his investment fraud. To make his investors feels secure with his investment, he always gave a promissory note or check to his investors. According to Knutson (2011), Charles Ponzi had collected $9,500,000 from 10,000 investors by selling promissory notes paying “fifty percent profit in forty-five days.” Which was one of the evidences that support the arguments. Another concealment arguments is from Zuckoff (2005) that explained about Charles Ponzi’s investment first step, investors slid their cash to one of the young tellers. Often, they were three particular girls: Angela Locarno, her sister Marie Locarno, and their friend Bessie Langone. In return for cash, the investors received promissory notes and original receipts that guaranteed the original investment plus 50 percent interest in forty-five days. The receipts bore Ponzi’s ink-stamped signature, which led many to call them simply “Ponzi notes.” He also stated in the book to show that Charles Ponzi himself took out a few notes, and his own Rose came to the office for a visit on April 17 and proudly deposited her pin money, seventy dollars. A twenty-seven-year-old English immigrant named Abe Rhodes defeat her, investing fifteen hundred dollars the same day. But even he fell short of the North End’s Antonio D’Avanzo, who bet two thousand. All of th three investment would be rturned back to collect their winnings on June 1.

Another arguments was from the book of Albrecht et al. (2011) that explained thousands of people purchased Ponzi promissory notes at values ranging from $10 to $50,000. The average investment was estimated to be about $300, a large sum of money in the 1920s. Based on the explanation above, the researcher deduced that Charles Ponzi concealed his investment fraud by giving his investor promissory notes or a check.

4.4.3 Conversion

Charles Ponzi has several ways to convert the money of his fraudulent money. In this study, researcher categorize the element conversion of the fraud elements triangle into four, such as: exclusive suit, jewelry for wife, open branch office, and pay debt (furniture).

4.4.3.1 Exclusive Suit

The desire of neat and exclusive looks had been Charles Ponzi wished since he was young. This even became one of his pressure to always appear successful in his lifestyle pressure. He used his investment fraud money to make the exclusive suit he wore. According to Zuckoff (2005), long eager to relive the sartorial splendor of his college days, Ponzi had decked himself out in a sharp new suit at the height of fashion. Albrecht et al. (2011) also stated that Charles Ponzi converted the money to dressed in the finest suits.

According to Lowenstein (2005), regarding with Charles Ponzi's conversion in exclusive suit was by stating his dapper Palm Beach suits, silk handkerchiefs and snazzy cars, Charles Ponzi exuded confidence. Even when the tide began to turn, and lines of anxious sellers formed outside his office, Ponzi refused to run. By all of the descriptions above, the researcher concluded that Charles Ponzi was using his investor money to wear exclusive suits.

4.4.3.2 Jewelry for Wife

Rose Gnecco, daughter of a wholesale fruit merchant of Boston, and according to Charles Ponzi, she is the fairest and most wonderful woman in the world. All he has done is because of Rose. She is not only his right arm, but his heart as well. They were married in February 1918. One-way Charles Ponzi to please his wife is by buying her some jewelries. But unfortunately, he bought those jewelries for his wife with the money from his investment fraud. According to Zuckoff (2005), Charles Ponzi flashed a wad of big bills and peeled off a few to redeem Rose's diamond rings.

According to Darby (1998), Charles Ponzi had built the lifestyle he had pursued for so many years, including the gold-handled Malacca canes for himself, diamonds and other baubles for Rose. By that statements, researcher concluded that Charles Ponzi bought jewelry for his wife by his investor money.

4.4.3.3 Open Branch Office

Charles Ponzi established his company so successfully that he could open a branch office. Almost everyone is tempted by his promise. Finally, he can succeed and build branch offices. As stated by Zuckoff (2005), soon Charles Ponzi had Massachusetts branch offices which was not only in Lawrence but also in Brockton, Clinton, Fall River, Framingham, Lynn, Plymouth, Quincy, and Worcester. He opened a second Boston branch in the North End at 196 Hanover Street, next door to the Daniels & Wilson Furniture Company. Then came Manchester and Portsmouth, New Hampshire; Barre and Burlington, Vermont; Hartford, Bridgeport, and New Haven, Connecticut; Bangor and Portland, Maine; Pawtucket, Providence, and Woonsocket, Rhode Island; and Bayonne and Clifton, New Jersey. Agents in Boston and the ever-expanding branches had some little more than a traveling salesman. Others modeled after 27 School Street that began doing so much business that they hired subagents, splitting with them the 10 percent commissions that became Ponzi’s going rate and the money kept coming.

While according to Knutson (2011), Charles Ponzi also had an office on Hanover street, next to the Daniels & Wilson Furniture Company, on the corner of Washington and Walter streets. Based on book of Albrecht et al. (2011) entitled Fraud Examination explained that Charles Ponzi’s branch offices opened and copycat schemes popped up across New England. It can be concluded that after he run his investment business, Charles Ponzi succeeded to build his office branches.

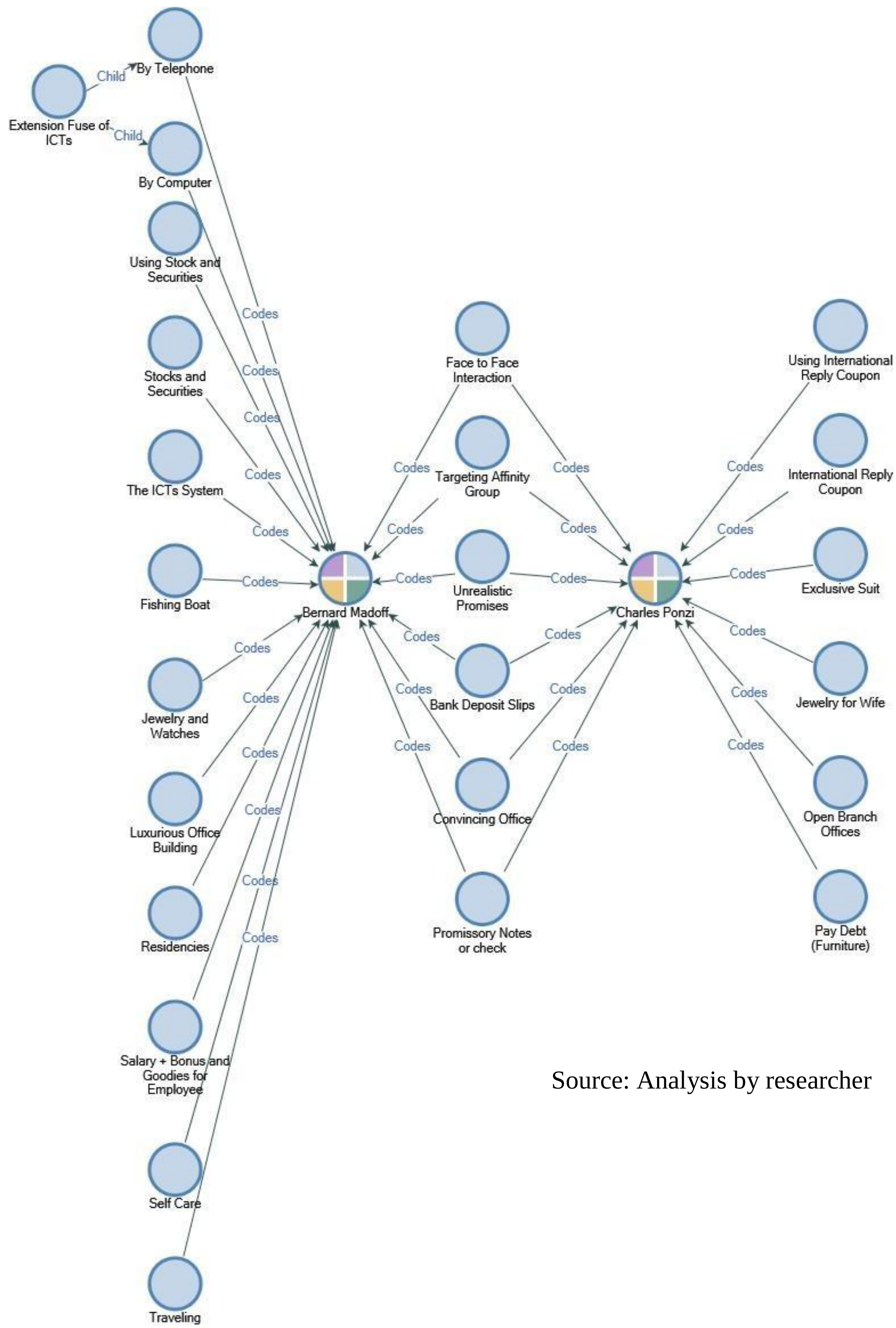
4.4.3.4 Pay Debt (Furniture)

Charles Ponzi had lived a hard life and struggled to have a living beyond one's means. Although he has debts, he has been able to pay it off, only he pays his debt from investors' money. Darby (1998) stated in the journal that Daniels, a furniture salesman, laid claim to a share of Ponzi's fortune on the basis of an old debt. According to Zuckoff (2005) Charles Ponzi began paying off old debts whenever possible, including the two-hundred-dollar loan the furniture dealer Joseph Daniels had given him the previous December. To further satisfy Daniels, in March Ponzi bought more office furniture for his growing business. By that arguments, the researcher concluded that Charles Ponzi also used the money to pay his own debt which was furniture debt to the furniture salesman, Joseph Daniels.

4.5 Differences Between Bernard Madoff And Charles Ponzi Cases with Fraud Elements Triangle

The researcher compared the ways of the Bernard Madoff and Charles Ponzi as fraud perpetrators that did investment scams. It occurred due to several elements and it was included in three categories and figured in Figure 4.3 below.

Figure 4.3 Analytical Map of Comparison Between Bernard Madoff and Charles Ponzi Case Analysis with Fraud Elements Triangle



Source: Analysis by researcher

4.5.1 Act

There are several differences from investment fraud acts in the case of Bernard Madoff and Charles Ponzi. Firstly, the researcher analyzed that Bernard Madoff used the extension fuse of ICTs factor, in which he used it with both computer and telephone technology. Meanwhile, Charles Ponzi did not use the acts. Researcher analyzed that this factor could possible because the information and communication technologies (ICTs) had not existed in that era. This act is related to the way of fraudsters use their communication skills. Unlike Bernard Madoff, in the era of Charles Ponzi's deception, he only used the approach to his investors by face to face interaction. However, during the era of Bernard Madoff's deception, he did not only uses the approach of face to face interaction but also through the technologies such as computers and telephones.

Besides the information and communication technology factors, the differences of the act element in both cases is on how they used a medium to attract their potential investors. Bernard Madoff offers his potential investors to invest in stock and securities. While, Charles Ponzi offers his potential investors to invest with him through international reply coupons.

Researcher also analyzed some similarities in this act element toward the investment fraud committed by Bernard Madoff and Charles Ponzi. Both acted by targeting the affinity group. The difference was Bernard Madoff was more targeted at Jewish Community and Palm Beach Community. Charles Ponzi was more targeted at the Italian immigrants group. Both had also targeting charity community and other communities. Bernard Madoff and Charles Ponzi also give the unrealistic promises to their potential investors and they both also use face to face interaction to communicate and persuade their potential investors to invest.

4.5.2 Concealment

In the concealment of the fraud elements triangle, the researcher found that the ways Bernard Madoff and Charles Ponzi hid their fraudulent investments were almost the same. They both used bank deposit slips to keep investors' money, they both used promissory notes or checks to give to investors for making their investors feel secure by receiving promissory notes or checks when investing in Bernard Madoff and Charles Ponzi. They both also use the same way of making their office so convincing. As if they were really a professional company and did not run an investment fraud.

There are several different ways between the Bernard Madoff case and the Charles Ponzi case to conceal their investors' money. Almost similar to the previously described of act elements, researcher analyze that in the case of Bernard Madoff, he had concealed the ICTs system. It means that Bernard Madoff concealed the truth that he actually did it with the help of the ICTs system. For example, he used computer system technology to manipulate financial statements that must be reported to investors as well as to the auditor or SEC. Bernard Madoff once pointed out the false report documents, he and his team made to give to the auditors, this was made with the help of ICTs system. While in the case of Charles Ponzi, he did not have it. This could happen because in this era, there was no such technology, then, there was no evidence that Charles Ponzi concealed the financial statements or other documents using ICTs system.

Another distinction of concealment between Bernard Madoff and Charles Ponzi's case lied in the Bernard Madoff concealed that his scam scheme by telling people that he has done business with stocks and securities. He hid the truth, that there was really no such thing as stocks and securities. He just played the money of his investors. In the case of Charles Ponzi, he concealed his scam scheme by telling people that he had business by selling international reply coupons. He bought cheaply in a different country and redeem it by selling the coupon in a country with a higher currency exchange rate. That way the investors will get the profit, but in reality, instead run his idea, he used the rob Peter to pay Paul scheme, or took the investor's next money to pay the previous investor's obligations.

4.5.3 Conversion

The last element in the fraud elements triangle was the conversion element. In the case of Bernard Madoff and Charles Ponzi, researcher have analyzed that there were differences in the conversion made by both, but both have a bearing on their high sense of lifestyle and greed. For example, in the case of Bernard

Madoff, he converted his investment fraud money from his investors to buy a few boats, some watches for his collection, and the jewelry that he usually bought for a gift to others. He also converted the money to make his company's office to be very grand and luxurious, buy several residencies in several places, routine to care for himself to the barber shop, provide salary and bonuses to his employee, as well as traveling.

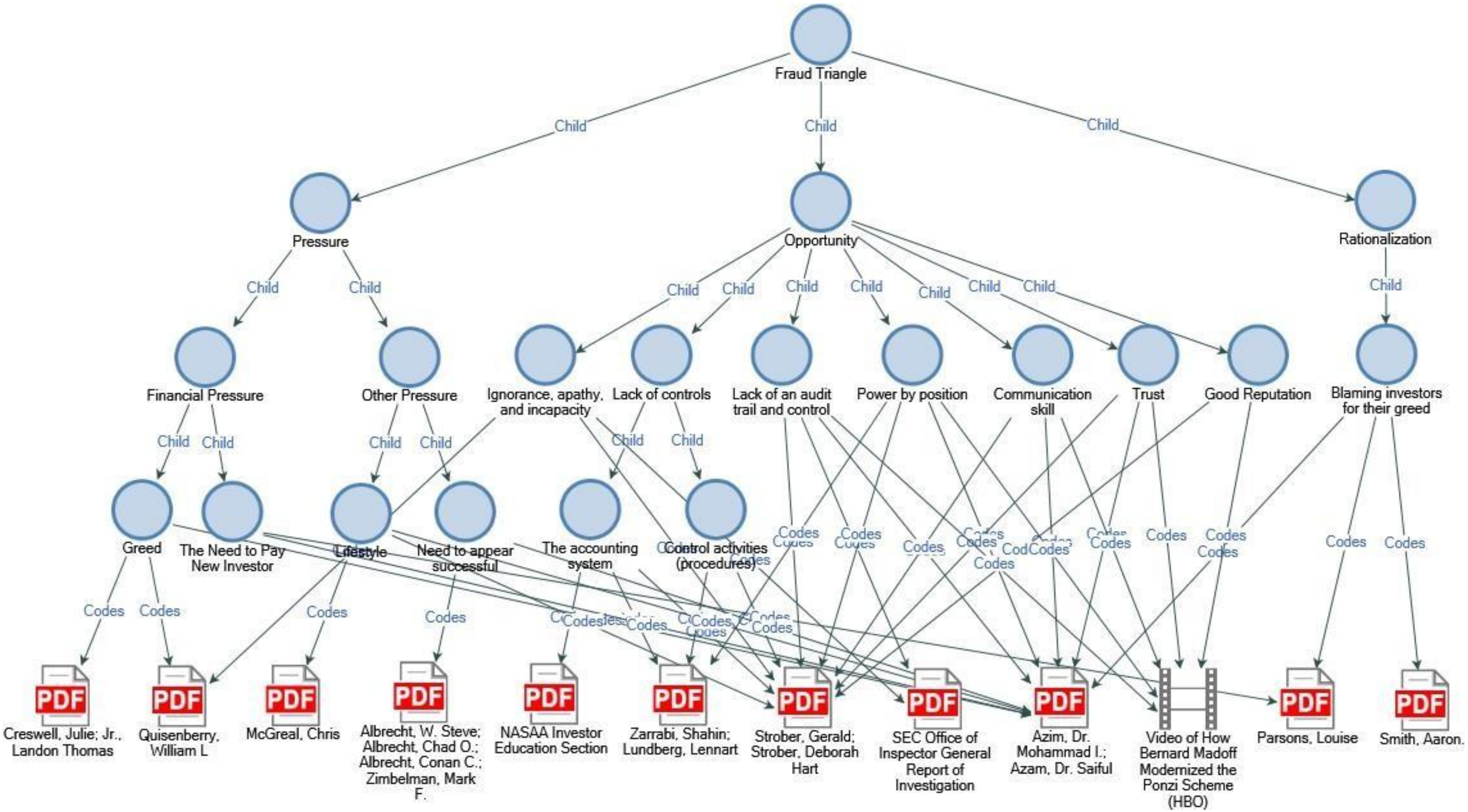
Meanwhile, in the case of Charles Ponzi, he converted his money to buy some exclusive suits that were already attached to his lifestyle. He also bought jewelry but not to be distributed just like Bernard Madoff, but he bought the jewels for his wife. The company office of Charles Ponzi that may not be as luxurious as Bernard Madoff's office, but he managed to open several branches. In addition, Charles Ponzi had also paid his debts with the money of his investment fraud. He used to owe to buy some furniture as described earlier. All of these, he bought or paid from his deceit money.

The money that Bernard Madoff and Charles Ponzi spent from the frauds had to do with their desire to be seen successful, as well as fulfill the desires of greed and fulfill their high lifestyle but converted into several different items.

4.6 Bernard Madoff Case Analysis with Fraud Triangle

The case of Bernard Madoff occurred because of several elements that fall into three categories which can be seen in Figure 4.4 below.

Figure 4.4 Analytical Map of Bernard Madoff Case Analysis with Fraud Triangle



Source: Analysis by researcher

Fraud triangle analysis is used to give the depiction and description of the data. This analysis is represented by referring why or what the motivation factor of the perpetrator commit fraud. The result of fraud triangle analysis from Bernard Madoff case in this research can be seen in figure 4.6-1 above.

Fraud can be perpetrated to benefit oneself or an organization. In the case of Bernard Madoff, the fraudster committed his investment fraud scheme to benefit himself and his employees which majority were his own family. His family did not know that Bernard Madoff was doing ponzi scheme until he pleaded guilty to his two sons, who also worked in the Bernard L. Madoff Investment Securities and his wife, but it is clearly that his family also enjoyed money from his investment fraud.

Skousen et al. (2009) as cited in Manurung & Hadian (2013) stated that fraud triangle describes three factors presented in every situation of fraud, namely: pressure, opportunity, and rationalization. In this Bernard Madoff's case, the researcher categorized all the motivation factors of deception made by Bernard Madoff in accordance with those fraud triangle theory. From figure 4.6-1, it can be explained that the researcher categorizes the fraud triangle in Bernard Madoff case into several categories. The element of opportunity is divided into several elements, that are: Communication skill; Good reputation; Ignorance apathy, and incapacity; Lack of an audit trail and control; Lack of controls by control activities (procedures); Lack of controls by the accounting system; Power by position; and trust. For pressure, it is divided into two elements, such as: financial pressure and other pressure. The financial pressure was proxied into two elements that were: greed and the need to pay new investor. While the other pressure had proxies of two elements, such as: lifestyle and need to appear successful. The rationalization was categorized blaming investors for their greed.

4.6.1 Opportunity

A perceived opportunity to commit fraud, conceal it, or avoid being punished is one of the element of fraud triangle. Bonita (2015) stated that opportunity is to commit the fraud undetected. Weak or missing internal controls are enabling factors. Perception to remain undetected is the key. The organization may have detective internal controls but if the perpetrator is not aware of that, the fraud will not be prevented. Employees will not commit a fraud if they believe that they will not be able to get away with it.

Bernard Madoff had many opportunities to commit fraud. Researcher divide it into seven categories based on the sources that had been analyzed, such as: Communication skill; Good reputation; Ignorance, apathy, and incapacity; Lack of an audit trail; Lack of controls (by control activities (procedures) and by the accounting system); Power by position; and trust which will be explain one by one in the subsequent part.

4.6.1.1 Communication Skill

The ability to communicate effectively and captivately can be one of the weapons for the perpetrators to carry out their mission in doing fraud. In Bernard Madoff's case which was analyzed by the fraud triangle, Azim and Azam (2016) expressed their opinion regarding the communication skill as one of the opportunities of Bernard Madoff used. They stated that Bernard Madoff had no difficulty in recruiting reputed clients due to the implicit trust gained from his excellent communication skills.

According to Strober and Strober (2009), there are plenty of evidences of communication skills that Bernard Madoff possessed so as to be his opportunity to commit investment fraud. They described that Bernard Madoff use the "soft-cell" approach to potential investors, and he is very pleasant, very nice, very honorable, very low-key, very personable, very charming. All of them was gained from his incredible communication skills. HBO (2017) showed that Bernard Madoff has a communication skill to lure the potential investors, as mentioned that Bernard Madoff has a charismatic and intelligent figure with a squeaky-clean record that make it smooth in having the opportunity of communication skill.

From all the above statements, it can be concluded that Bernard Madoff does used his communication skills as his opportunity to get as much investor money as possible. Excellent communication skills are disastrous if one did terrible things like this. Many investors were fooled by shrewdness of the fraud perpetrators in persuading the investor to put their money to him.

4.6.1.2 Good Reputation

Good reputation is one of the perceived chances that fraud could be committed without being caught. Azim and Azam (2016) supported this statement by mentioning that besides the perceived non-sharable financial needs, there are non-financial motivations of maintaining reputation, gaining popularity or any other method of advancing one's personal social standing. The motivation is based on personal status and those needs could be determined by either the hunger to achieve or the fear of losing it. Unlike economic incentive, these non-financial motivations are hard to detect and fully explain.

According to Strober and Strober (2009), the category of good reputation in the element of opportunity that Bernard Madoff had proved the statement of Bernard Madoff as a Wall Street adviser, a trader, a former NASDAQ chairman, a known for his social graces, a very pleasant, a very nice, a very honorable, a very low-key, a very personable, a very charming, a probably one of the best social networkers in America, a treasurer of Yeshiva University, a head of the Sy Sims School of Business used his opportunity to convince his investors that he was a reputable and trustworthy person who could not mislead his investors, which in reality was the opposite. Bernard Madoff's reputation was stellar.

While in the video of HBO (2017), Bernard Madoff reason to use his good reputation as an opportunity to commit his investment fraud is mentioned as Bernard Madoff used his good reputation as a trusted Wall Street entrepreneur, running a successful stock trading business that served a host of well-known firm, and an intelligent figure with a squeaky-clean record.

It can be deduced from the analysis above that Bernard Madoff did use his good reputation, which he might had gleaned from this investment scams results as well for terrible things.

4.6.1.3 Ignorance, Apathy, and Incapacity

Albrecht et al. (2011) stated that older people, individuals with language difficulty, and other “vulnerable” citizens were often fraud victims because perpetrators know that such individuals might not have the capacity or the knowledge to detect their illegal acts. Many investment scams were also designed to take advantage of elderly victims.

According to Strober and Strober (2009), ignorance, apathy, and incapacity in Bernard Madoff case was described when he took the opportunity of Jewish people who were many of them were elderly, people who provided health care, meals on wheels community, education to students community, widows, orphans, and charities as people who did not have the capacity or the knowledge to detect his illegal acts.

Quisenberry (2017) mentioned that Bernard Madoff took the advantage of this element as an opportunity because he targeting the charitable organizations and large investment funds to did this investment scams. Which both of charitable organizations and large investment funds were people who did not have the capacity or the knowledge to detect Bernard Madoff’s illegal acts.

While according to U.S. Securities and Exchange Commission Office of Inspector General (2009), SEC focused its investigation too narrowly and seemed not to have considered the possibility that Madoff could have taken the money that was used to pay back his associate's customers from other clients for which Madoff might have had held discretionary brokerage accounts. In this explanation, it can be said that the SEC as the one who may have the capacity but might not have knowledge to detect Bernard Madoff’s illegal acts.

From the analysis above, it can be concluded that Bernard Madoff had an opportunity of ignorance, apathy, and incapacity by targeting and make Jewish people who were many of them were elderly, people who provided health care, meals on wheels community, education to students community, widows, orphans, charities organization, large investment funds, and SEC as his investor which they were the people who did not have the capacity or the knowledge to detect his illegal acts of investment fraud.

4.6.1.4 Lack of An Audit Trail and Control

Organizations go to great lengths to create documents that will provide an audit trail. Thus, that the transactions can be reconstructed and understood.

Many frauds, however, involve cash payments or manipulation of records that cannot be followed. Smart fraud perpetrators understand that their frauds must be concealed. They also know that such concealment must usually involve manipulation of financial records. When faced with a decision about which financial record to manipulate, perpetrators almost always manipulate the income statement because they understand that the audit trail will quickly be erased (Albrecht et al., 2011).

In his case, the researcher found that Bernard Madoff used the lack of an audit trail and control his opportunity to run his Ponzi scheme. According to Azim and Azam (2016) several statements were regarding to the lack of an audit trail and control as an opportunity in Bernard Madoff case. They mentioned that his position as the head of the company, lack of control by the bank, lack of control by the corporate governance of BMIS, lack of control by his brother as the chief compliance officer, and the approved of and insisted on using a solo auditor were things that he used as his opportunity in lack of an audit trail and control.

While Strober and Strober (2009) also had several statements about Bernard Madoff opportunity in lack of an audit trail and control. They stated that Bernard Madoff understand the regulatory environment. By that, it became an opportunity point for Bernard. When the investigators came up empty and Bernard Madoff went on to score even greater financial coups, once again he won in this assessment. His lobbying efforts, the security transactions fees, stock exchange mergers, a limited resources and prioritizes complaints of the SEC, although it would have received some form of attention, might not have gone too far because of his reputation, and when the SEC responded on several reports by never wanted to hear about the complain of Bernard Madoff company because his excellent reputation made the report untrue and not investigated any deeper. That were things that Bernard Madoff used as his weapons by the lack of an audit trail and control.

According to U.S. Securities and Exchange Commission Office of Inspector General (2009), lack of an audit trail and control in Bernard Madoff case was describe as when SEC focused the investigation too narrowly and seemed not to have considered the possibility that Madoff could have taken the money that was used to pay back his associate's customers from other clients for the opportunity that Bernard Madoff used.

A video by HBO (2017) that also stated that there was lack of an audit trail and control in Bernard Madoff case, such as a charismatic and intelligent figure with a squeaky-clean record. Madoff promised reasonable returns that did not raise red flags. People saw no reason to doubt him, even the auditor. By that attitudes he gained the opportunity as lack of an audit trail and control. Based on the analysis above, it could be concluded that the lack of an audit trail and control was one of the opportunity that Bernard Madoff used in his investment fraud.

4.6.1.5 Lack of Controls

Weak internal controls in the company can create opportunities for fraud perpetrators to commit fraud. The existences of this opportunity can also tempt individuals or groups who previously had no motive to commit fraud. According to Albrecht et al. (2011), having an effective control framework is probably the most important step an organization can take to prevent and detect employee fraud. An individual who owns his or her own business and is the sole employee probably does not need many control procedures. While such people may have ample opportunity to defraud their companies, they have no incentive to do so. They would not steal from themselves and they would never want to treat customers poorly. However, organizations that involve many employees must have control procedures so that the actions of employees will be congruent with the goals of management or the owners. In addition, with control procedures, opportunities to commit and/or conceal frauds are eliminated or minimized.

In this Bernard Madoff case, the researcher had the proxies of the lack of controls opportunity into two proxies, that were control activities (procedures) and the accounting system. Firstly, the control activities (procedures) missed in Bernard Madoff case according to Strober and Strober (2009) were when Bernard Madoff attracted listing from top-tier tech companies but no one realized that he would manipulate the investment, and when his brother was able to implement some systems and Bernard Madoff understand the regulations but again, no one realized it. While according to Zarrabi and Lundberg (2012), control activities (procedures) that missed in Bernard Madoff case were when Bernard Madoff got the money from investor and simply put the money into a bank account, but no other employees know about this schemes.

The second lack of controls is proxied into the accounting system. Albrecht et al. (2011) mentioned that an effective accounting system provides an audit trail that allows frauds to be discovered and makes concealment difficult. Unlike bank robbery, in which there is usually no effort to conceal the theft act, concealment is one of the major distinguishing elements of fraud. Frauds are often concealed in accounting records. Accounting records are based on transaction documents, either paper or electronic. To cover up a fraud, paper or electronic documentation must be altered, misplaced, or made fraudulent. Frauds can be discovered in accounting records by examining transaction entries that have no support or by probing financial statement amounts that are not reasonable. Without a good accounting system, distinguishing between actual fraud and unintentional errors is often difficult.

In their book, Strober and Strober (2009) stated that Bernard Madoff used the great manipulation accounting system to support his investment fraud. They were sure about Bernard Madoff set off the computerization of the entire financial industry and did the impressive way to design all of the fake computer trading programs to show others.

NASAA Investor Education Section (2009) also added about how Bernard Madoff Ponzi scheme supported by his manipulated accounting system by explaining that Bernard Madoff gave consistent and steady annual returns (account statements and other documents) to his investor for decades. It is explained that Bernard Madoff made a lot of manipulated account statements in order to reassuring his investors.

Zarrabi and Lundberg (2012), also agreed with the arguments that mentioned Bernard Madoff used this power of accounting system as an opportunity to his strategy, that stated the company grew fast due to its use of innovative computer technology and success to became one of the largest market makers in US as one of the proofs that Bernard Madoff was used the accounting system as his opportunity.

By that analysis, researcher concluded that Bernard Madoff used an opportunity by the lack of controls in control activities (procedures) and in the accounting systems. The lack of controls in control activities (procedures) was proved by employees who were not involved in the scam were not aware that there was a big scam behind this all. The lack of controls in the accounting system was proved by his cooperation with top-tier tech companies that helped him in this investment fraud and also his success in manipulating all documents that must be shown to the investors and others using manipulated accounting system.

4.6.1.6 Power by Position

Albrecht et al. (2011) stated that power by position refers to the ability of the fraud perpetrator to convince a potential perpetrator that he or she truly has power over him or her. In the case of Bernard Madoff, he was as a former chairman of NASDAQ, the head of his company, treasurer of Yeshiva University, head of the Sy Sims School of Business that had the feeling for having the power by the position and made it as an opportunity to commit his investment fraud.

Azim and Azam (2016) mentioned some of the positions that Bernard used to be his opportunity in making investment fraud. They stated that Bernard Madoff took advantages from a former chairman at NASDAQ, as a head company, and from good reputation in Wall Street. Meanwhile, Strober and Strober (2009) also added several position that Bernard Madoff gained. They stated that Bernard Madoff took an opportunity in power by position from becoming a Wall Street adviser, trader, former NASDAQ chairman, a person who was involved in Jewish community, treasurer of Yeshiva University, head of the Sy Sims School of Business, a person who was able to attract listings from top-tier tech companies as his power by position opportunity.

Zarrabi and Lundberg (2012) also stated that Bernard Madoff used the opportunity of power by position. They mentioned that Bernard Madoff was a chairman on the board of the Securities Industry Association that had had through the years and gained access to the Washington lawmakers and regulators was an opportunity that he used as an advantage to run his investment scams. While according to HBO (2017), Bernard Madoff used his position as a trusted Wall Street entrepreneur as his power by position opportunity. Bernard Madoff was simply a trusted Wall Street that entrepreneur that was running a successful stock trading business. Thus, it can be his opportunity as a power to run his ponzi scheme.

The researcher concluded from the analysis above that Bernard Madoff used his power by position as a former NASDAQ chairman, good reputation in Wall Street, Wall Street adviser, head of his firm, a trader, an activist in Jewish community, treasurer in Yeshiva University, as a head of the Sy Sims Schol of Business, a chairman on the board of Securities Industry Association, and as trusted Wall Street entrepreneur to run his huge Ponzi scheme. Thus, all of his investors believed in him.

4.6.1.7 Trust

Trust becomes one of the key reasons from people to give money to invest. If a potential investor already trusts the investee, at least it must be a consideration from potential investors to give their money to the investee. In his case, it was clear that Bernard Madoff used the nature of his trust that he built with his investors and he used it as his opportunityto commit investment fraud.

As Azim and Azam (2016) stated about the trust that Bernard Madoff used is his perceived wealth, and his lofty status in the community, Bernard Madoff’s firm kept growing and gained a reputation, and another great opportunity that Madoff found was people’s trust in his reputation. Meanwhile according to Strober and Strober (2009) that mentioned there is something about Bernard Madoff made him feel that this was really the right place to put his money. He made people felt very comfortable about putting his money there.

According to video by HBO (2017), Bernard Madoff is known as a trusted Wall Street entrepreneur, an intelligent figure, and a squeaky-clean record. That was why people put their trust on him. From the analysis above, it can be concluded that Bernard Madoff raised the potential investor's trust in him, and when potential investors and even investors had trusted and believed him, he will use the opportunity to earn investors' money.

4.6.2 Pressure

Desperate people do desperate things. Pressure comes in many forms, both financial and non-financial. Individuals may have personal financial issues such as high medical bills or past-due mortgages. Others gamble have addictions that may compel them to commit fraud. For some, it is simply the desire for a lifestyle they could not afford otherwise. Lastly, unrealistic goals and deadlines can also provide incentives for employees to commit financial reporting fraud (Auditor of Public Accounts: Commonwealth of Virginia, 2011).

In this Bernard Madoff case, the researcher divided pressure into two categories, that are financial pressure and other pressure. The financial pressure is proxied into two elements, such as: greed and the need to pay new investor. While, the other pressure is proxied into two elements, such as: lifestyle and need to appear successful.

4.6.2.1 Financial Pressure

Studies suggested that approximately 95 percent of all frauds involve either financial or vice-related pressures. Many individuals had committed fraud because they were destitute. Other frauds included perpetrators who were living lifestyles far beyond that of their peers (Albrecht et al., 2011).

As mentioned before, the financial pressure in this case of Bernard Madoff had the proxies of two elements. Firstly, it was greed. According to Merriam-Webster Online Dictionary (2013) as cited in Seuntjens, Zeelenberg, Breugelmans, and van de Ven (2015) greed is described as the selfish and excessive desire for more of something (as money) than is needed. Greed refers to an inappeasable longing for not just money but also other goods and resources. Depending on the object of interest, greed can manifest itself as avarice, cupidity, exceeding ambition, lust, or gluttony (Tickle, 2004 as cited in Seuntjens et al., 2015).

In this Bernard Madoff case, Azim and Azam (2016) explained that greed is one of financial pressures that Bernard Madoff had. They mentioned that money was simply just a lure of greed that how Bernard Madoff thought. Meanwhile Quisenberry (2017) added that Bernard Madoff's financial pressure as greed that became one of the motives to did his fraud. When he stated that Ponzi scheme which Bernard Madoff used proposed greed as a major component. Another evidence of Bernard Madoff that was greed motives was stated by Creswell and Jr. (2009). They stated that an easy answer was that Mr. Madoff was a charlatan of epic proportions, a greedy manipulator so hungry to accumulate wealth that he did not care whom he hurt to get what he wanted.

The second financial pressure in Bernard Madoff's case was he needed to pay new investor. Because he used the robbing Peter to pay Paul method, so surely, he needed money that must flow continuously to keep running his method. According to Azim and Azam (2016), motive is described when Bernard Madoff needed to pay new investor by struggling to generate sufficient profits as his financial pressure. While according to Parsons (2010), Madoff had to pay back their principal investment and also any interest to protect the scheme and he was therefore under pressure to obtain new investors at a time when the GFC had hit the US hard.

From the above explanation, it can be concluded that the financial pressure in Bernard Madoff had the proxies of two elements, first was the nature of Bernard Madoff that every human being may possess, greed. His greed became one of his financial pressures. The second element of financial pressure in Bernard Madoff's case was the need to pay new investor. The way to hide his investment fraud was that he must always have a steady stream of new investors. If he did not get a new investor, he would not be able to pay his old investor. This scheme would last as long as there was money to be given to investors as it matures or when investors wanted to withdraw it.

4.6.2.2 Other Pressure

Albrecht et al. (2011) described that once in a while, fraud is motivated by other pressures, such as a spouse who insists on an improved lifestyle or a challenge to beat the system. In this case of Bernard Madoff, researcher had the proxies of other pressure into two elements, that was lifestyle and needed to appear successful.

According to Azim and Azam (2016), Bernard Madoff had a lifestyle pressure. They stated that Bernard Madoff's incentive was simply a desire to maintain the lucrative lifestyle. While Strober and Strober (2009) added that Bernard Madoff had a lifestyle habit that could become his pressure by mentioning that he used his money to get treatment of haircuts, shave, manicure, pedicure at an elite barber shop to satisfy his wasteful habit lifestyle. While according to McGreal (2010), the lawsuit said that the investment firm funds paid for all aspects of his lavish lifestyle from the purchases of his high-end homes to the mattress and box spring he slept on, the television he watched in his home gym, and the outdoor shower in his home.

The second other pressure obtained by Bernard Madoff that became a motive of his investment fraud was the need to appear successful. Albrecht et al. (2011) stated that to some people, being successful is more important than being honest. If they were to rank the personal characteristics, they value most in their lives, being successful would rank higher than having integrity. Psychologists tell us that most people have a price at which they will be dishonest. Individuals with high integrity and low opportunity need high pressure to be dishonest. In Bernard Madoff case, Azim and Azam (2016) mentioned that he had a need to appear successful pressure to show. Bernard Madoff must defend his reputation and company's profits. Thus, he can be seen as a successful person. According to Albrecht et al. (2011), experts believed that one of the pressures that led Bernard Madoff to commit fraud was the need to appear successful. When investments were not performing well, for his security, Bernard Madoff would simply make up fictitious returns.

The researcher concluded that the last pressure that Bernard Madoff had was categorized into other pressures regarding his action in fraud investment and researcher proxied other pressure into two elements, that is lifestyle and need to appear successful as explained above.

4.6.3 Rationalization

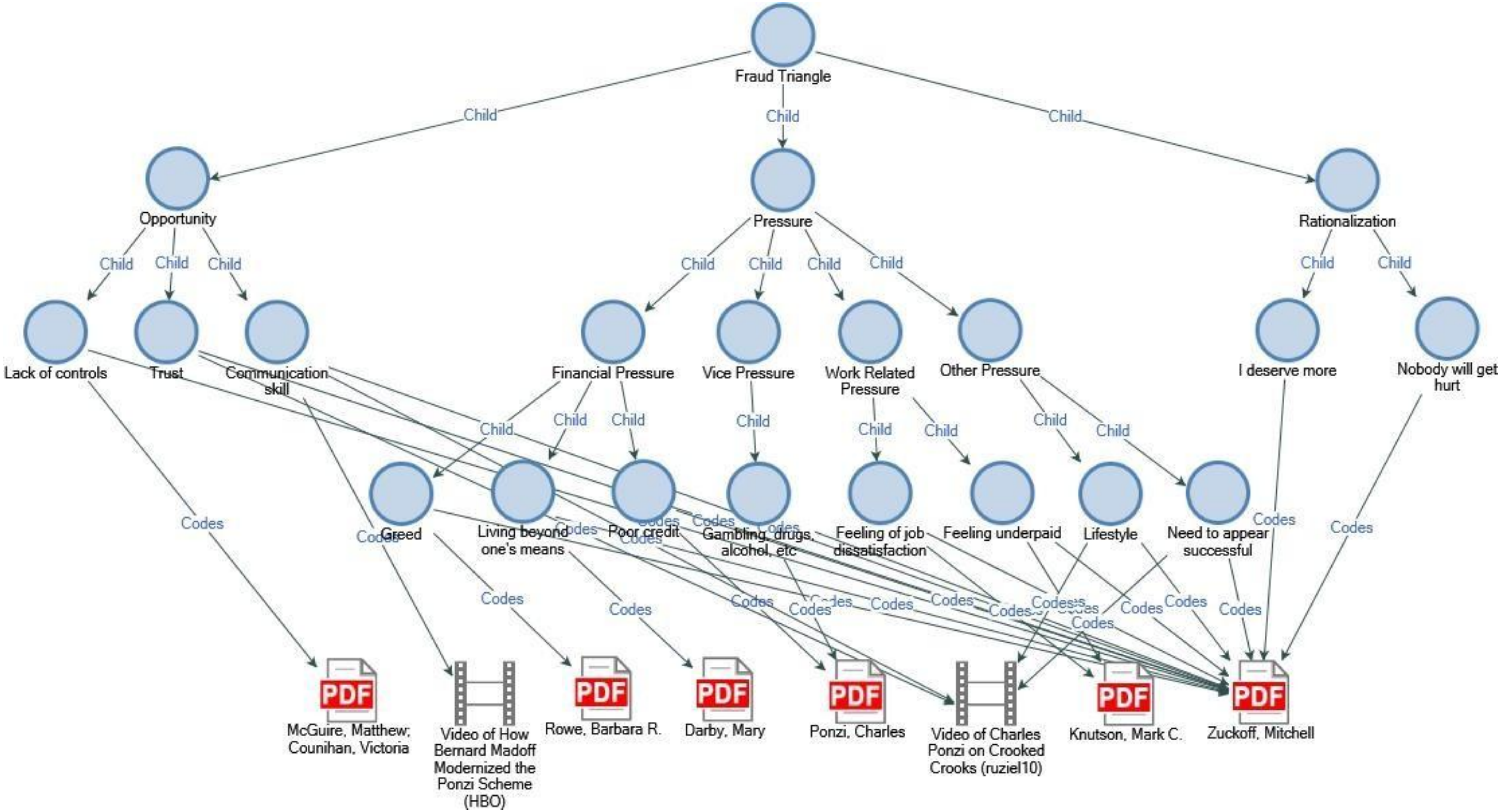
To commit fraud, perpetrator needed a rationalization that allows him/her to maintain this image of himself. Perpetrator must be able to justify his actions as something other than criminal; he need to find a morally acceptable excuse as to why his fraud is not a crime, which helps him to avoid guilty feelings and makes it easier to commit their crime (Bonita, 2015). In Bernard Madoff’s case, the rationalization he thinks according to the analysis by researcher is blaming investors for their greed. Azim and Azam (2016) mentioned that Bernard Madoff had several blaming investors for their greed rationalizations that he thinks it was nothing to worry about. They mentioned that Bernard Madoff thought that he did the right things, he did the acceptable things, he blamed his investors for believing in him, he argued that his investors were rich people and none of them would face poverty after losing their investment. He tried to justify his fraudulent engagement by persuading himself that the market was rigged anyway.

While according to Parsons (2010), Bernard Madoff assumed that many persons who invested in his Ponzi scheme were accused of being greedy to the point of being willfully blind to the dangers of a scheme. According to Smith (2011), Bernard Madoff blame his investors for their greed by mentioning Bernard Madoff told a reporter that his victims were "greedy" and the U.S. government was a "Ponzi scheme," though he insisted that he was a "good person”. Bernard Madoff also claimed that everyone was greedy. He just went along and it was not an excuse. From the analysis above, it can be concluded that Bernard Madoff was blamed for his investors for their greed to justify his reason to commit fraud.

4.7 Charles Ponzi Case Analysis with Fraud Triangle

Just like Bernard Madoff, Charles Ponzi case also occurred because of several elements that had three categories which were then illustrated in Figure 4.5 below.

Figure 4.5 Analytical Map of Charles Ponzi Case Analysis with Fraud Triangle



Source: Analysis by researcher

When he first entered the United States in 1903, at the age of 21, he went straight into Canada. In 1909, Ponzi was convicted of forgery in events surrounding the collapse of the Montreal banking firm of "Zarossi & Co.", of which he was a member. For this he was sentenced to a three years term in the St. Vincent De Paul Penitentiary in Montreal. After released from Canadian Prison after only twenty months because of good behavior, Ponzi entered the United States again on July 30, 1910, and within ten days of his release he violated immigration laws while bringing five Italians over the border from Canada. For this offense he served two years in Atlanta, Georgia during 1911 and 1912. After his release from the Atlanta prison, he made his way to Boston and toiled in relative obscurity until he seized upon the postal reply coupon scheme and formed the Securities Exchange Company. He admitted to being arrested for some reason in Boston, at the time claiming it was his only brush with the law. He said that the case was dismissed in municipal court, but refused to elaborate (Knutson, 2011). Charles Ponzi suffered considerable pressure. Especially with the journey of his life that went back and forth to the prison. He felt that America was too cruel to his life but he did not want to work that earns a little money because of his desire to live above average.

In Charles Ponzi's case, the element of opportunity is divided into three elements, such as: communication skill, lack of controls, and trust. Pressure element is divided into four elements, namely: financial pressure, vice pressure, work related pressure, and other pressure. Financial pressure had the proxy of three parts, greed, living beyond one's means, and poor credit. Vice pressure had th proxy of gambling, drugs, alcohol, etc. Work related pressure had the proxy of feeling of job dissatisfaction and feeling underpaid. Other pressure had the proxy of lifestyle and need to appear successfully. The last element of fraud triangle is rationalization that Charles Ponzi had that were divided into two, I deserve more and nobody will get hurt.

4.7.1 Opportunity

Charles Ponzi has several opportunities which his motivations towards his investment fraud can be. In this study, the researcher categorizes the element of opportunity of the fraud triangle into three, such as: communication skill, lack of controls, and trust.

4.7.1.1 Communication Skill

Charles Ponzi used the opportunity of his communication skills to his people to lure his victims in his investment fraud. Zuckoff (2005) stated that Charles Ponzi went to a Boston post office and confirmed that coupons could be exchanged there for stamps. While according to HBO (2017) that explained how Charles Ponzi used his communication skill by mentioning that Charles Ponzi lured people in with the promised he would double their investment in 90 days. When it came time to pay out, he did so with money he was raising from new clients. In addition, Ruziel10 (2009) soon mentioned that Charles Ponzi's investors started worrying in the panic run ensued. Ponzi paid out two billion dollars in three days to a wild crowd outside his office. He canvassed the crowd passed out coffee and donuts and cheerfully told them they had nothing to worry about. Many changed their minds and left their money with him.

By the above descriptions, the researcher concluded that Charles Ponzi used his communication skill such went to the post office and confirmed whether the coupons he would use was able to work out or not, he also used his communication by lured people to invest with him, and also when his office is under attack, instead of panic, he served the crowded people by passing out coffee and donuts and cheerfully told them to worry nothing then many investors changed their minds and left their money with him.

4.7.1.2 Lack of Controls

The lack of control, especially the internal control became one of Charles Ponzi's chances to run his investment scam scheme. According to McGuire and Counihan (2013), the international reply coupons were slowly gaining popularity among the immigrants who were flocking to the United States in droves. These coupons, issued in every member country of the Universal Postal Union, were redeemable at a post office for a single-rate, ordinary postage stamp for delivery to a foreign country. They were invented to facilitate the equivalent of a “self-addressed stamped envelope” across international lines and were designed to be sent as a courtesy with international correspondence to enable the recipient to send a reply at no cost to him or herself. A recipient needed only to take an international reply coupon to his or her local post office and redeem it for the amount of postage required to mail a letter to the desired country. Because the cost of postage for an equivalent letter varied from country to country based upon currency differences and other considerations, Charles Ponzi recognized that he could profit enormously by purchasing an international reply coupon in one country and redeeming it for postage in another country where the value of the equivalent amount of postage was greater. Consequently, Ponzi set up a business called the "Securities Exchange Company." He contacted his relatives in Italy and asked them to buy up as many international reply coupons as possible and send them to him.

By the above descriptions, the researcher deduced that there was no controls in Charles Ponzi's business, also no control activities (procedures) at all and it can be one of his opportunity to continue his investment scams. While according to Zuckoff (2005), Charles Ponzi's lacked of controls. It was stated in the book that the closest the story came to skepticism to mention that federal and state authorities had looked into Charles Ponzi's extraordinary investment plan. But the reporter defused that land mine in a single sentence, writing, "The authorities have not been able to discover a single illegal thing about it." Ponzi could not have hoped for a more sterling endorsement.

It was also written that the result was an opportunity to profit. The Spaniard who had sent Ponzi the coupon considered it nothing more than an act of proper business etiquette. He was, after all, asking to be sent a copy of the Trader's Guide. But in a flash of insight, some might even say genius, Charles

Ponzi saw something more, a global currency whose value fluctuated wildly depending on where it was used. He took out a pencil and a pad of paper and began calculating the possibilities. By using exchange rates published in Boston newspapers, Ponzi concluded that a dollar was worth six and two-thirds pesetas. Because there were one hundred centavos to a peseta, Ponzi calculated that a dollar was worth 666 centavos. Thus, the researcher concluded that Charles Ponzi's had ingenuity plus his chance since there was no regulation from the authorities regarding the sale of this coupon. He can run his investment scam scheme for about a year.

4.7.1.3 Trust

Trust becomes one of the keys of investee for investors to give cash to be invested. If a potential investor already believes in someone, at least the prospective investor will consider whether his money will be invested in him or not. Zuckoff (2005) mentioned in his book, if there was any reason for the people of Boston to be suspicious of Charles Ponzi, they would not find it in the morning Post. The story was read with all the confidence of the advertisements. While according to Ruziel10 (2009), when Charles Ponzi’s investors started worrying in the panic run ensued. He paid out two billion dollars in three days to a wild crowd outside his office. He canvassed the crowd passed out coffee and donuts and cheerfully told them they had nothing to worry about. Many changed their minds and left their money with him.

Based on the description above, the researcher concluded that Charles Ponzi also used the trust by investor on him to run his investment fraud. Because of the emergence of a trust sense from investors, the money given to Charles Ponzi continued to come and flow.

4.7.2 Pressure

Charles Ponzi had some pressure that made him more compelled to do anything to earn a lot of money. In this research, the researcher categorized the element of pressure of the fraud triangle into four categories where each category was divided into several proxies. The first pressure category was financial pressure that were divided into three elements, such as: greed, living beyond one's means, and poor credit. The second pressure category is vice pressure that proxied into gambling, drugs, alcohol, etc. The third pressure category is work related pressure which had the proxy of two elements, such as: feeling of job dissatisfaction and feeling underpaid. The fourth pressure category is other pressure which proxied into two elements, such as: lifestyle and need to appear successful.

4.7.2.1 Financial Pressure

Financial pressure is the most common type of pressure to commit fraud. It can occur suddenly or be long term. Unfortunately, very few fraud perpetrators inform others when they are having financial problems Albrecht et al. (2011). In Charles Ponzi's case, the researcher had the proxy of financial pressure in Charles Ponzi into three elements. Firstly, it was greed. According to Zuckoff (2005), Charles Ponzi had struck a perfect balance among the forces competing to control the new American identity: altruism and avarice. The Charles Ponzi's family was comfortable but far from wealthy, richer in name and reputation than in savings. In the book also stated that Charles Ponzi was far from satisfied. It remained a long, unsteady climb to the top rung, and at thirty-five Ponzi was impatient about getting there. His impatience grew exponentially at the end of May 1917. His wife, Rose wanted them to be economical, living carefully within their means "in a cozy little place where we can pay our bills." Ponzi, she despaired, "had the air and the tastes of the millionaire." While according to Rowe (2000), greed, however, quickly overran Charles Ponzi's modest intentions and he began to solicit money from other people on the promise that they could expect a 50% profit from their investment in just 45 days.

The second proxy of Charles Ponzi's financial pressure was living beyond one's means. According to Zuckoff (2005), Charles Ponzi gravitated toward a group of wealthy students who lived la dolce vita. Ponzi did everything he could to emulate them, adopt their manners and especially their spending habits. Their funds seemed limitless. Thus, he dug ever deeper into his fast-dwindling inheritance to dress in the latest European fashions and pick up restaurant tabs for his friends and the pretty girls they met. At dusk, he roused himself from his boardinghouse bed and roamed the city's fashionable neighborhoods, carousing in cafés, attending the theater, and refining his taste for opera. At midnight he joined the gamblers and thieves in the casinos of Rome’s underground. He was young, naive, half-drunk, and reckless with money. Ponzi made an appealing mark. At dawn he would trudge to his rooms to sleep, and then the cycle would begin again. It also stated in the book that Charles Ponzi considered himself a gentleman, a member of the elite class of his Roman friends. Taking a mundane job would be beneath him and even humiliating. The thought of physical labor was not even discussed. Ponzi considered himself a mollycoddle, and no one disagreed. He ever to his surprise, Ponzi traveled to Atlanta in style, more like a chief executive than a felon. With deputy U.S. marshals as his escorts, Ponzi went south with a berth in a Pullman sleeping car. He enjoyed his meals in a dining car and lounged in the plush seats as farms and cities rolled past the windows. His small entourage stopped in Washington and enjoyed lunch at a restaurant that Ponzi considered pretentious, then took an afternoon constitutional on the grounds of the Capitol. By the time they reached Atlanta, the marshals had grown fond of the charming convict. They brought him to a bar for a last bracing drink before prison, but to Ponzi’s disappointment the only libation was flat, sour-tasting near beer. His wife, Rose wanted them to be economical, living carefully within their means “in a cozy little place where we can pay our bills.” Ponzi, she despaired, “had the air and the tastes of the millionaire.” After the collapse of Gnecco Brothers, Ponzi found himself without a job. He had no interest in going back to J. R. Poole or seeking similar work. He was “tired of working for expectations that didn’t pay either my rent or my grocery bills, tired of making money for my employers in general and none for myself.” While according to Darby (1998) Charles Ponzi wanted to be "something special." A poor immigrant, he sought to become part of the Boston establishment that had excluded him. It was an impossible goal, but he managed to achieve a little bit of it for a short period of time.

The third proxiy of his financial pressure was poor credit. According to Ponzi (2001) in his autobiography, it mentioned about himself between proclaim his insolvency and face prosecution, or keep up the bluff and trust to luck. He kept up the bluff, hoping that he might eventually hit upon some workable plan to pay all his creditors in full. It never occurred to him to pocket all the ready cash and duck out. While from prospective of Zuckoff (2005) that stated in his book, Charles Ponzi complained that as an employees he always managed, more or less to keep handsomely in debt. He also could not afford the full cost. Thus, he struck a deal with the store’s owner, Joseph Daniels.

From the analysis above, the researcher concluded that Charles Ponzi had a greed pressure, living beyond one’s means pressure, and his poor credit pressure that categorized to the financial pressure.

4.7.2.2 Vice Pressure

Financial pressures are motivation created by vices such as gambling, drugs, alcohol, and expensive extramarital relationships. As an example of these vices motivating a person to commit fraud, consider one individual's confession of how gambling led to his dishonest acts. Vices are the worst kind of pressures to commit fraud (Albrecht et al., 2011).

In the book entitled Ponzi's Scheme The True Story of Financial Legend, Zuckoff (2005) stated that Charles Ponzi gravitated toward a group of wealthy students who lived la dolce vita. Ponzi did everything he could to emulate them, adopting their manners and especially their spending habits. Their funds seemed limitless. Thus, he dug ever deeper into his fast-dwindling inheritance to dress in the latest European fashions and pick up restaurant tabs for his friends and the pretty girls they met. It is also mentioned that at dusk Charles Ponzi roused himself from his boardinghouse bed and roamed the city's fashionable neighborhoods, carousing in cafés, attending the theater, and refining his taste for opera. At midnight, he joined the gamblers and thieves in the casinos of Rome's underground. Young, naive, half-drunk, and reckless with money, Ponzi made an appealing mark. At dawn he would trudge to his rooms to sleep, and then the cycle would begin again. He grew friendly with Carlson's son, Gus Junior, who watched as Ponzi routinely spent whatever money he made on girls or friends.

According to his autobiography, Ponzi (2001) explained that the Pennsylvania Station proved to be the most elusive thing he ever chased after in all his life, girls included. By then, he was 35 years old. A soft of happy-go-lucky fellow with a penchant for good times. A little lonesome now and then.

When he realized that he had no home of his own but otherwise care-free and rather partial to good looking girls, he said that he liked them all. In his book also stated when his salesman suggests him to drink a glass of water, Charles Ponzi refused it and prefer to have some beer.

From the description above, researcher deduced that Charles Ponzi also had a vice pressure which was mostly is about consuming the alcohol, sometimes had played gambling also followed the luxury lifestyle by spending money, and also spent whatever money he made on girls or friends.

4.7.2.3 Work Related Pressure

While financial pressures and vices motivate most frauds, some people commit fraud to get even with their employer or others. Factors such as getting little recognition for job performance, having a feeling of job dissatisfaction, fearing losing one's job, being overlooked for a promotion, and feeling underpaid have motivated many frauds (Albrecht et al., 2011). In this Charles Ponzi's case, the researcher had the proxy of work-related pressure into two categories, that is feeling of job dissatisfaction pressure and feeling underpaid pressure.

According to Zuckoff (2005), there were several arguments about Charles Ponzi's feeling of job dissatisfaction. He stated that before Charles Ponzi's father died, Oreste Ponzi had enlisted one of young Charles Ponzi's uncles to watch over him. Now, the uncle suggested that the twenty-one-year-old college washout find a job, perhaps as an entry-level clerk. Charles Ponzi flatly refused. He considered himself a gentleman, a member of the elite class of his Roman friends. Taking a mundane job would be beneath him. Humiliating, even. The thought of physical labor was not even discussed. Charles Ponzi considered himself a mollycoddle, and no one disagreed. For the next four years, Charles Ponzi worked as a grocery clerk, a road drummer, a factory hand, and a dishwasher. He repaired sewing machines, pressed shirts, painted signs, sold insurance, and waited tables. He rarely lasted long. Sometimes he was fired, sometimes he quit in disgust, and other times he quit to avoid being fired. He cadged meals and slept in parks when he could not afford a bed. For another several months Charles Ponzi also scraped together a living as a translator, a part-time bookkeeper, and, occasionally, a nurse to injured miners. His only consolation was his certainty that he had established a firm foothold on the ladder up from manual labor. He had painted his last sign, washed his last dish, begged his last bowl of macaroni. Never again would he seek a menial job. And after the collapse of Gnecco Brothers, Charles Ponzi found himself without a job. He had no interest in going back to J. R. Poole or seeking similar work. He was "tired of working for expectations that did not pay either my rent or my grocery bills, tired of making money for my employers in general and none for myself."

Another similar argument was also stated by Knutson (2011). He stated that Charles Ponzi was always dreaming of the day he would get enough money on which he could make more money because it is a cinch no man is going to make money unless he has got money to start on. He saved a bit of money from the odd jobs and had the time of his life for a couple of weeks. Then, his cash was gone. In big town of New York he went to find a job. Up at one of the big hotels they needed some waiters and they even furnished him with the tuxedo service coat. He has carried tons of food on the old waiter, and with the small salary and tips he made enough to live. He went from one waiting job to another worked in various hotels, small restaurants, and did his dish washing stunt from necessity at times. He got tired of New York and began to travel, getting jobs all along the way. Once, when he was in Florida, he got it into his head that he could make something painting signs. So, he bought some cardboard and paint and started in. No, he never had the slightest experience, but he got away with it, satisfied folks, and made a little cash. All the time he kept dreaming of the time he was going to do big things.

The second proxy of the work-related pressure that Charles Ponzi had was feeling underpaid. Zuckoff (2005) described several arguments related with the feeling underpaid pressure that Charles Ponzi had. In the book, it is mentioned that Charles Ponzi cadged meals and slept in parks when he could not afford a bed. For months he toiled to keep track of Poole’s extensive foreign businesses, only to be disappointed by his pay of sixteen dollars a week. At first, he considered the job a gamble in the futures market, the company was doing well and lavished its employees with promises of eventual rewards. He won a raise to twenty-five dollars a week, but still he struggled. “By starving one day and eating a little less the next one,” he complained. After the collapse of Gnecco Brothers, Charles Ponzi found himself without a job. He had no interest in going back to J. R. Poole or seeking similar work. He was “tired of working for expectations that did not pay either my rent or my grocery bills, tired of making money for my employers in general and none for myself.”

While according to Knutson (2011) Charles Ponzi thought he was in small jobs, and small jobs, up to the year 1917, when he headed for Boston. Once more, he saw an advertisement in a Boston newspaper, answered it, and took a job with J. R. Poole, the merchandise broker. His salary was $25 a week. From above explanations, the researcher concluded that Charles Ponzi had several feelings of job dissatisfaction pressure and feelings of underpaid pressure, where researcher categorize it into work related pressure in accordance with the fraud triangle theory.

4.7.2.4 Other Pressure

Researcher divided the other pressure into two categories, that is lifestyle pressure and need to appear successful pressure toward Charles Ponzi’s case. According to Zuckoff (2005) Charles Ponzi had capped the interview with a priceless assertion, and again the reporter had obliged him by printing it: “I get no pleasure out of spending money on myself, but a great deal in doing some good with it. Always I have said to myself, if I can get one million dollars, I can live with all the comfort I want for the rest of my life. If I get more than one million dollars, I will spend all over and above the one million trying to do good in the world. Now I have the million. That I have put aside. If my business closed tomorrow I am sure that I will have that amount on which to make myself and family comfortable for the rest of our days." If anyone doubted how secure Ponzi felt, the story continued: "Ponzi estimates his wealth in excess of $8.5 million." It is also stated in the book that the work of delivering mail and selling stamps was steady if not glamorous. Charles Ponzi gravitated toward a group of wealthy students who lived la dolce vita. He did everything he could to emulate them, adopting their manners and especially their spending habits. Their funds seemed limitless, so he dug ever deeper into his fast-dwindling inheritance to dress in the latest European fashions and pick up restaurant tabs for his friends and the pretty girls they met. At dusk he roused himself from his boardinghouse bed and roamed the city's fashionable neighborhoods, carousing in cafés, attending the theater, and refining his taste for opera. At midnight he joined the gamblers and thieves in the casinos of Rome's underground. Young, naive, half-drunk, and reckless with money, Ponzi made an appealing mark. At dawn, he would trudge to his rooms to sleep, and then the cycle would begin again. Once in afternoon, he filled out the check in the legitimate-seeming amount of $423.58. He signed it "D. Fournier" and presented it at a branch of the Bank of Hochelaga. He asked the teller for four one hundred-dollar bills in American currency, but the teller told him that would not be possible. Agitated, he accepted forty-two ten-dollar bills, three singles, and the rest in coins. Cash in hand, then he left the bank and began outfitting himself for his return to the United States. He went from store to store, buying two suits, an overcoat, a pair of boots, and a watch and chain. He completed the spree with thirty-two dollars' worth of shirts, collars, cuffs, ties, and suspenders from a men's clothing store called R. J. Tooke.

According to Ruziel10 (2009), similar arguments regarding the lifestyle pressure of Charles Ponzi stated that Charles Ponzi attended the University of Rome La Sapienza where he spent most of his four years going to bars, cafes, and the Opera.

Another pressure of Charles Ponzi is by need to appear successful pressure. Zuckoff (2005) described in his book that someone shouted when he stepped from the car. On that cue the masses moved as one. They surrounded him and his guard, some pleading for a moment of his time, others content to pat him on the back, and some thrilled simply to lay eyes on the Merlin of money. A few skeptics mingled among the believers. One was loudly labeling the Securities Exchange Company a bogus get-rich quick scheme when Charles Ponzi arrived. "I'd like to see the man who could do it" the doubter shouted. Faced with the challenge, Ponzi called out, "Well, I'm doing it! I'm the man!". He ever gravitated toward a group of wealthy students who lived la dolce vita. Charles Ponzi did everything he could to emulate them, adopting their manners and especially their spending habits. Their funds seemed limitless. Thus, he dug ever deeper into his fast-dwindling inheritance to dress in the latest European fashions and pick up restaurant tabs for his friends and the pretty girls they met. He considered himself a gentleman, a member of the elite class of his Roman friends. Taking a mundane job would be beneath him. Humiliating, even. The thought of physical labor was not even discussed. Charles Ponzi considered himself a mollycoddle, and no one disagreed. It is also stated that going to America and coming home a rich man would make his mother proud. Even better, it would satisfy his thirst for a life of leisure and hers for a prominent son. One day, Charles Ponzi filled out the check in the legitimate-seeming amount of $423.58. He signed it "D. Fournier" and presented it at a branch of the Bank of Hochelaga. He asked the teller for four one hundred-dollar bills in American currency, but the teller told him that would not be possible. Agitated, Ponzi accepted forty-two ten-dollar bills, three singles, and the rest in coins. Cash in hand, Ponzi left the bank and began outfitting himself for his return to the United States. He went from store to store, buying two suits, an overcoat, a pair of boots, and a watch and chain. He completed the spree with thirty-two dollars' worth of shirts, collars, cuffs, ties, and suspenders from a men's clothing store called R. J. Tooke.

While according to the video by Ruziel10 (2009) that explained Charles Ponzi claimed to have come from a well-to-do family. He attended the University of Rome La Sapienza where he reportedly spent most of his four years going to bars, cafes, and the Opera. On November 15th, 1903, at age 21

Charles Ponzi moved to the United States, docking in Boston, Massachusetts. He famously said, “I landed in this country with $2.50 in cash and $1 million in hopes, and those hopes never left me.” He spent the next few years learning English in taking on odd jobs along the East Coast.

From the explanation above, it can be deduced that Charles Ponzi also had lifestyle pressure and needed to appear successful pressure where the researcher categorized them into the other pressure based on fraud triangle theory.

4.7.3 Rationalization

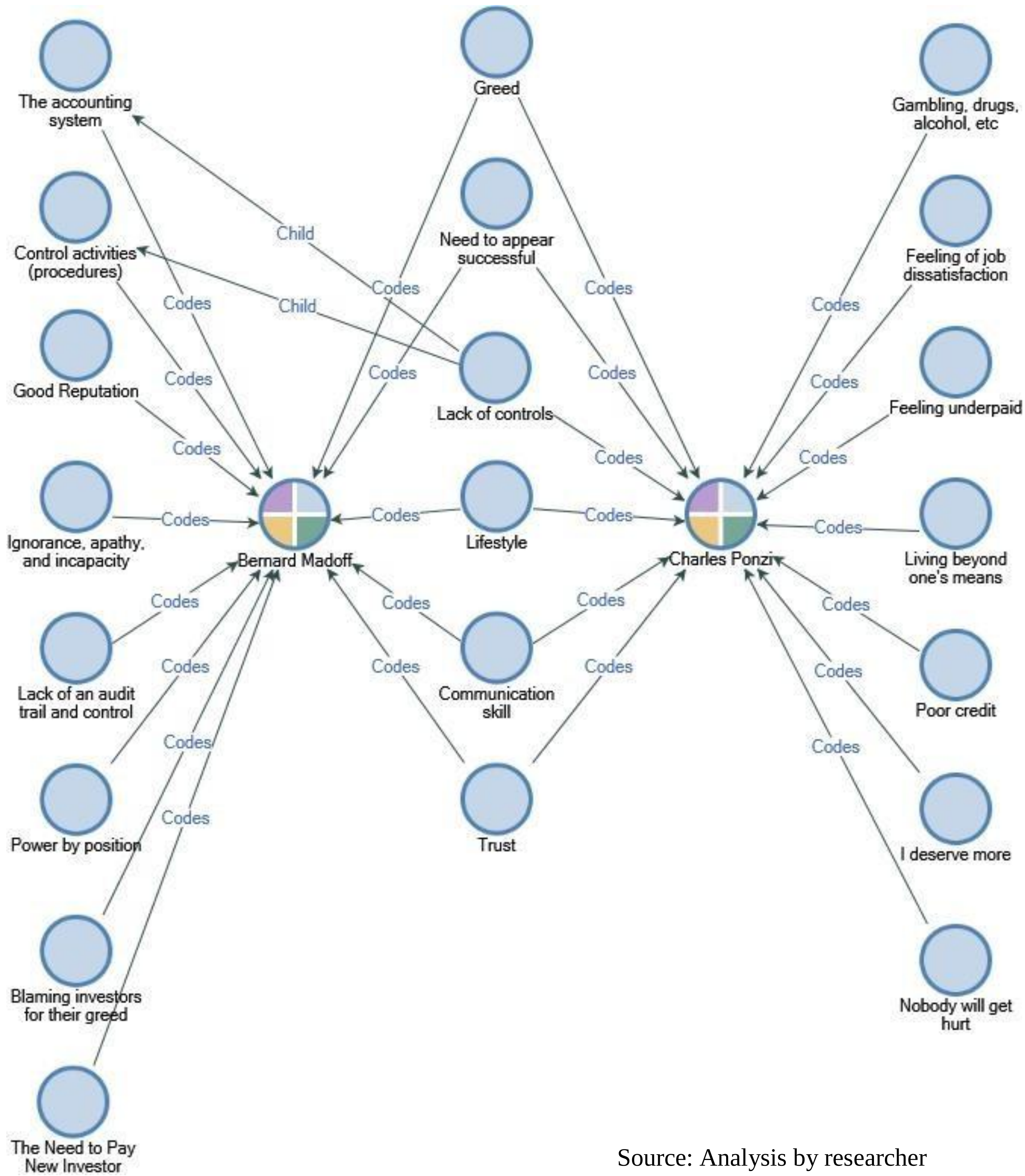
Charles Ponzi also had a rationalization that justifies why he commit investment fraud. According to Zuckoff (2005), Charles Ponzi was merely the first person who was smart enough to figure out how to take advantage of it. On the other hand, he acknowledged, some people might say exploiting exchange rates by trafficking in postal coupons might not be entirely ethical. But he assumes, his experiences during the sixteen years since he had arrived in America, it made that a secondary consideration. He once said: “Environment had made me rather callous on the subject of ethics. Then, as now, nobody gave a rap for ethics. The almighty dollar was the only goal. And its possession placed a person beyond criticism for any breach of ethics incidental to the acquisition of it.”

Based on the explanation above, the researcher concluded that Charles Ponzi used reasons of I deserve more, and nobody will get hurt on rationalization to justify his reason to commit his investment fraud.

4.8 The Differences of Bernard Madoff And Charles Ponzi Cases with Fraud Triangle Analysis

The researcher compared the motive of the Bernard Madoff and Charles Ponzi as fraud perpetrators that did investment scams which occurred due to several elements and included in three categories as seen in Figure 4.6 below.

Figure 4.6 Analytical Map of Comparison Between Bernard Madoff and Charles Ponzi Case Analysis with Fraud Triangle



Source: Analysis by researcher

4.8.1 Opportunity

In the element of opportunity in the fraud triangle, the researcher found that by the number, the opportunity in the case of Bernard Madoff was more than the opportunity in the case of Charles Ponzi. In this case of investment, fraud began with a similar communication skill used by both. Bernard Madoff and Charles Ponzi used a great communication skill. Thus, potential investors finally gave their money. This move could make such a great opportunity for both to make investors to become their victims. The second similarities are the trust they build to their potential investors. Both used their trust as their chance to commit investment fraud. The third similarities are in the lack of controls. Charles Ponzi used the lack of controls of the authorities and also the unclear regulators about trading stamps as his chance in running his fraudulent business while Bernard Madoff also had the opportunity of wider lack of controls. It had the lack of control activities (procedures) of its own company. His office management was not even aware that over the years he runs a ponzi scheme. Another lack of control used by Bernard Madoff is with accounting system. He and his "special team" managed to make all the necessary fake documents with the help of accounting system, which again no one suspects him, even the SEC.

The difference is that Bernard Madoff used his good reputation as his opportunity to run his investment fraud, while Charles Ponzi did not. Of course, because his criminal record has been repeatedly recorded in different prisons, thus from the beginning he wandered to America and did not have a good reputation. The second difference is in the nature of ignorance, apathy, and incapacity to Bernard Madoff. He targeted his investment fraud to anyone indiscriminately, from rich people to retirees who had only a few savings to invest. Thus, Bernard Madoff was analyzed to have the opportunity of his weak victims and lack of knowledge of the investment. While it is known that Charles Ponzi had no opportunity of ignorance, apathy, and incapacity. The third difference in opportunity is in the lack of an audit trail. Bernard Madoff had lack of audit trail opportunity. It was proven that when the SEC and investigators was sent to his office, they found no sign of fraud. Even the banks had never pushed further for more information beyond the false return statements they had received. Meanwhile, Charles Ponzi was analyzed to have no lack of an audit trail due to lack of evidence by researcher.

The fourth difference in opportunity of Bernard Madoff's case that researcher found was he used his power by position as an opportunity to commit investment fraud. With his position and honor, people certainly are looking for him and do not suspect him at all. Therefore, he used power by position as an opportunity to commit investment scams with this Ponzi scheme. While on Charles Ponzi, there was no argument that stated he has power by his position. Thus, he cannot use it as an opportunity in his case. But basically, both Bernard Madoff and Charles Ponzi had an opportunity to commit the investment fraud they had done.

4.8.2 Pressure

Pressure element is a powerful element to make the perpetrator motivated in performing their illegal actions. Researcher found many differences in this pressure element. In the case of Bernard Madoff, he has financial pressure and also other pressure. Financial pressure that he had was greed, which of course was also owned by Charles Ponzi. Bernard Madoff also had other financial pressure such as need to pay new investors. Beside the financial pressure, researcher also analyzed that Bernard Madoff had other pressure that was lifestyle pressure and need to appear successful which was also owned by Charles Ponzi. Meanwhile, Charles Ponzi had four pressures that are: financial pressure, vice pressure, work related pressure, and other pressure. Financial pressure owned by Charles Ponzi beside the greed pressure as mentioned earlier was also a living beyond one's means pressure and also poor credit pressure. In the living beyond one's means pressure and poor credit pressure, the researcher analyzes that Bernard Madoff does not have such pressure, which is arguably because he has been able to live on the abilities of others from his frauds to billions of dollars and also there is no poor credit like Charles Ponzi.

Other differences are also found in vice pressure. Charles Ponzi was known since before he did his fraud business, he had liked his bad habits to gamble, drink alcohol, or spend money with girls. But in Bernard Madoff's case, researcher had no strong evidence of vice pressure on his case. Thus, the researcher concluded that Bernard Madoff had no vice pressure to perform his illegal actions.

The further difference is that Charles Ponzi had work related pressure, while Bernard Madoff did not have it. Charles Ponzi had a feeling of job dissatisfaction pressure. This can be proven by the frequent change of his jobs in a very short time and also from his statement that he was not satisfied with the amount of his salary and so constantly looking for another job. He feels not suitable with the jobs, because he wants to be a millionaire.

The second work related pressure is the feeling underpaid pressure that is owned by Charles Ponzi. He felt that the jobs he had done would not make him a millionaire. Of course, his salary was enough for a modest life, but that was not what Charles Ponzi wanted. Then, he has a feeling of underpaid pressure.

4.8.3 Rationalization

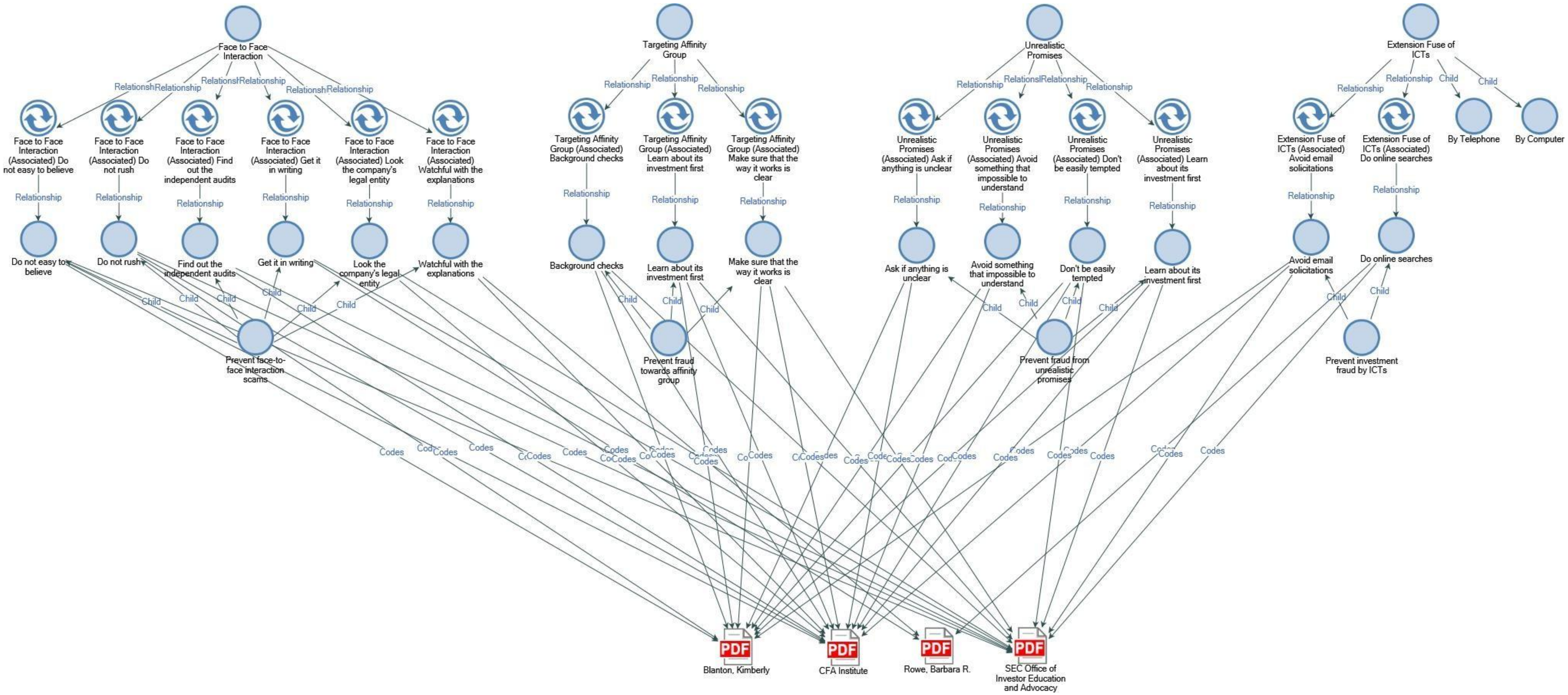
The last element to be discussed from the fraud triangle is rationalization. Both cases of Bernard Madoff and Charles Ponzi had different rationalizations. In the case of Bernard Madoff, the researcher found that he justified his behavior by blaming his investors for their greed. He feels that his investors are very greedy, and he has warned not to give all his money because he does not know the future situation will be. But investors felt that over the years, many people have been successful because they invested in it and are even more confident to give a lot of money and some even give it all of their money to Bernard Madoff. He assumed that people were very greedy about money.

Meanwhile, Charles Ponzi justified his behavior with his thoughts that "I deserve more" and also feels that nobody will get hurt when he used this scheme with its stamps in his fraudulent. He felt that nobody was harmed, he felt that this idea should be implemented immediately so as not to be taken by others. However, instead of running his business in accordance with what he advertises, he run a business by paid old investors' obligation with new investors' money.

4.9 Recommendations to Prevent People from Becoming Victims of Investment Fraud

Based on the above analysis, the researcher described recommendation for potential investors who would invest their money. Thus, the investors would not become the victim of investment fraud based on analysis from several document study sources. In this sub-chapter, researcher categorized recommendations into four sections in which these four sections are interpreted from acts that had been done by both cases discussed in the previous section above and then illustrated in Figure 4.7 below.

Figure 4.7 Analytical Map of Recommendations to Prevent People from Becoming Victims of Investment Fraud



Source: Analysis by researcher

4.9.1 Prevent Face to Face Interaction of Investment Scams

a. Do Not Easy to Believe

Researcher found that "do not easy believe action" was needed to prevent fraudulent investments. According to CFA Institute (2016)**,** people who want to invest their money have to clearly understand the investment strategy. The good investment strategy should have sense. Professional investment should avoid unfamiliar language. People who want to invest their money should also match the investment strategy to the reported performance. One should compare the adviser's performance claims with commonly available benchmarks. Whether these results believable or not, a red flag in the Bernard Madoff affair should have excessive and consistent report on performance. Investor should find out if the firm has its performance figures independently audited, who audits them, and whether the firm complies with the Global Investment Performance Standards, a broadly accepted set of standards for calculating and reporting investment results. It is also stated that people who want to invest their money should assess the personnel, whether the people who will advise the investor and conduct their investing trained and experienced or not, whether have a professional credential or not, whether they abide by a professional Code of Ethics that requires them to place the interests of their clients ahead of their own or not. Be careful not to let down the guard simply because the prospective manager has an elevated social position; a religious, ethnic, or family background, or impressive degrees and designations.

Blanton (2012) also stated that several arguments with the “do not easy to believe prevention” was by mentioning the charge a steep upfront fee in return for the promise of making more money at some unspecified date in the future. People who suggested recipients not to tell family members or friends about the offer was dangerous. What is this person trying to hide? It is probably a fraud. Thus, if it is needed, try to tell or consult with the family members or someone that the potential investor trusted for a decision-making consideration. If there is someone who lured potential investors with a “free lunch”, one should beware. Con men set these up to make their fraudulent pitches in person and increase their chances of success.

Beside that, according to SEC Office of Investor Education and Advocacy (n.d.), there were that also stated several advance to prevent the investment scams by “Do your homework.” and check out everything no matter how trustworthy the person seems who brings the investment opportunity to the attention. Never make an investment based solely on the recommendation of a member of an organization or religious or ethnic group to which someone’s belong. Investigate the investment thoroughly and check the truth of every statement potential investor are told about the investment. Be aware that the person telling about the investment may have been fooled into believing that the investment is legitimate when it is not. Avoid high return "risk free" investments. If an investment seems too good to be true, one should be suspicious. Be extremely leery of any investment that is said to have no risks; very few investments are risk-free. The greater the potential return from an investment, the greater risk of losing money. Promises of fast and high profits, with little or no risk, are classic warning signs of fraud. It is also stated to “take your time”. Do not be pressured or rushed into buying an investment before the potential investor have a chance to think about or investigate the opportunity of investment fraud. Just because potential investor relatives made money, or claims to have made money, it does not mean other will too. Be especially skeptical on investments that are pitched as once in a lifetime opportunity, particularly when the promoter bases the recommendation on "inside" or confidential information.

b. Do Not Rush

CFA Institute (2016) suggested that potential investor should perform a background check before investing their money. Do not get pressured to make a decision before the potential investor have checked past censures, pending investigations, or lawsuits and verified legitimate registration. While according to Blanton (2012), if promoters require an urgent response or cash payment and offers by high pressure salesmen, it should be avoided altogether. Responsible financial advisors do not rush prospective clients into hasty, and regrettable decisions. It also mentioned that potential investor should beware of charge a steep upfront fee in return for the promise of making more money at some unspecified date in the future. Beside that, instill fear that a failure act would be very costly. Coercion is not used as a tactic by someone giving sound financial advice.

While according to SEC Office of Investor Education and Advocacy (n.d.), several investors do not rush prevention ways to avoid investment scams is by mentioning that potential investors should take a time. Do not be pressured or rushed into buying an investment before the potential investors have a chance to think about. Be especially skeptical on investments that are pitched as once in a lifetime opportunity, particularly when the promoter bases the recommendation on "inside" or confidential information.

c. Find Out the Independent Audits

According to CFA Institute (2016), people who want to invest their money should match the investment strategy to the reported performance first. Compare the adviser’s performance claims with commonly available benchmarks. Whether these results believable or not, find out if the firm has its performance figures independently audited, who audits them, and whether the firm complies with the Global Investment Performance Standards, a broadly accepted set of standards for calculating and reporting investment results. Potential investor also should find out about the independent audits and who performs them. As an individual investor, it may be difficult to assess an organization’s financial statements. Independent auditors provide another set of eyes. Be alert, however, to inconsistencies. For example, one might expect large hedge funds to be audited by large accounting firms. In the Madoff scam, the hedge fund auditing firm was operated from a storefront.

While according to SEC Office of Investor Education and Advocacy (n.d.) potential investor should investigate the investment thoroughly and check the truth of every statement you were told about the investment. Be aware that the person telling the potential investor about the investment may had been fooled into believing that the investment is legitimate when it is not.

d. Get in Writing

Although the get in writing does not guarantee there will be no investment fraud, but make sure that the potential investor has got a written proof of the investment transaction. According to SEC Office of Investor Education and Advocacy (n.d.), potential investor should be skeptical of any investment opportunity that is not writen. Fraudsters often avoid putting things in writing, but legitimate investments are usually in writing. Avoid an investment if the potential investor is told that “the investee do not have the time to reduce to writing" the particulars about the investment. The potential investor should also be suspicious if you are told to keep the investment opportunity confidential.

While according to Rowe (2000), demand detailed information in writing. Potential investors are well within your rights to ask for documentation. Be concerned if the promoter is reluctant or hedges by asserting that such information is “confidential.”

e. Look the Company's Legal Entity

CFA Institute (2016) mentioned several advices regarding with the company's legal entity prevention ways. Firstly, match the investment strategy to the reported performance. Compare the adviser's performance claims with commonly available benchmarks. Find out if the firm has its performance figures independently audited, who audits them, and whether the firm complies with the Global Investment Performance Standards, a broadly accepted set of standards for calculating and reporting investment results. Secondly, understand what regulatory oversight exists. Regulation varies by type of investment firm. For instance, hedge funds are less regulated than mutual funds, and advisers registered offshore may not have the same legal requirements as firms in your country. Pay attention to the person who is looking out for you and how he did it. Third, perform a background check. Do not get pressured to make a decision before checked for past censures, pending investigations, or lawsuits and verified legitimate registration.

While according to SEC Office of Investor Education and Advocacy (n.d.), potential investor should check out everything, no matter how trustworthy the person seems who brings the investment opportunity to the attention. Never make an investment based solely on the recommendation of a member of an organization or religious or ethnic group to which you belong. Investigate the investment thoroughly and check the truth of every statement about the investment.

f. Watchful with The Explanations

CFA Institute (2016) mentioned that potential investor must understand clearly the investment strategy and be alert to the possibility that complex jargon hides suspicious inconsistencies. Good investment strategy should make sense. Ask the investment professional or the investee to avoid unfamiliar language. Potential investor also must be wary of those offering “sure things,” quick returns, and special access. These claims should all be red-flag phrases for the wise investor. Legitimate investment professionals do not promise sure bets. Scammers often make the combination of safety and high returns seem plausible by granting you “special access” based on your relationship with a mutual acquaintance or shared affiliation. Beside that, understand clearly how you can redeem shares or exit the investment. Assess the operational risk and infrastructure. It is important that a firm have separate operations for asset management, trading, and custody. Ask about these important firewalls. Whether the entities involved inspire trust or not. Finally, ask whether the firm claims compliance with the Asset Manager Code of Conduct.

Rowe (2000) stated that potential investor should avoid any kind of investment that is not described clearly, in detail, and without hedging. Swindlers often declare that the specifics are “too technical” to describe in layman’s language. They may also avoid mentioning names on the grounds that the geniuses behind the plan “wish to remain anonymous.”

4.9.2 Prevent Fraud from Unrealistic Promises

a. Avoid Something Impossible to Understand

One of the way to avoid the unrealistic promises act is to avoid something impossible to understand. According to CFA Institute (2016)**,** potential investor should understand clearly the investment strategy. Be alert to the possibility that complex jargon hides suspicious inconsistencies. Good investment strategy should make sense. Potential investor also should be wary of those offering “sure things,” quick returns, and special access. These claims should all be red-flag phrases for the wise investor. Legitimate investment professionals do not promise sure bets. Scammers often make the combination of safety and high returns seem plausible by granting you “special access” based on your relationship with a mutual acquaintance or shared affiliation. Also, understand clearly how you can redeem shares or exit the investment.

According to Blanton (2012), offering a high or guaranteed return at no risk to the investor is impossible. This is virtually impossible since the riskiest investments produce the biggest rewards and failure rates. Safe investments typically offer predictable but modest rewards. Resist being questioned or checked out further. Con men flee when someone starts asking serious and detailed questions. It is also explained that scammers often dazzle or intimidate their targets with their superior knowledge of finance or with complex mathematical explanations. A good rule for any financial transaction: if you don’t understand it, don’t do it.

b. Ask If Anything Is Unclear

Do not give up to ask if anything is unclear with the investment. According to CFA Institute (2016)**,** potential investors must clearly understand the investment strategy. It is also important that a firm have separate operations for asset management, trading, and custody. Ask about these important firewalls whether the entities involved inspire trust or not.

According to Blanton (2012), potential investors should be aware with investee that resist being questioned, check out further, con men flee when someone starts asking serious and detailed questions.

c. Don’t Be Easily Tempted

CFA Institute (2016) described several tips to avoid easily getting tempted in investment fraud. It mentioned that potential investor should be wary of those offering sure things, quick returns, and special access. These claims should all be red flag phrases for the wise investor. Legitimate investment professionals do not promise sure bets. Assess the personnel is also needed. Be careful not to let down your guard simply because the prospective manager has an elevated social position; a religious, ethnic, or family background that is similar to yours; or impressive degrees and designations.

Blanton (2012) suggested to beware of something that look too good to be true. Scam products or investments usually appear far more lucrative than standard products on the market. Usually, fraudster also lure potential investors with a “free lunch.” Con men set these up to make their fraudulent pitches in person and increase their chances of success.

According to SEC Office of Investor Education and Advocacy (n.d.), give advices to check out everything, no matter how trustworthy the person seems who brings the investment opportunity to your attention. Never make an investment based solely on the recommendation of a member of an organization or religious or ethnic group to which you belong. Investigate the investment thoroughly and check the truth of every statement you are told about the investment. Be aware that the person telling you about the investment may have been fooled into believing that the investment is legitimate when it is not. Stated to avoid high-return risk free investments. If an investment seems too good to be true, then it probably is. Be extremely leery of any investment that is said to have no risks, very few investments are risk-free. The greater the potential return from an investment, the greater your risk of losing money. Promises of fast and high profits, with little or no risk, are classic warning signs of fraud. At last, take your time. Do not be pressured or rushed into buying an investment before you have a chance to think about or investigate the opportunity of fraud. Just because someone you know made money, or claims to have made money, it does not mean you will have it too.

d. Learn About Its Investment First

It is important to learn about the investment where potential investors want to invest their money. According to CFA Institute (2016), people who want to invest their money should understand clearly the investment strategy and assess the operational risk and infrastructure.

According to Blanton (2012), potential investor should aware that is impossible if there is someone offer a high or guaranteed return at no risk to the investor. This is virtually impossible since the riskiest investments produce the biggest rewards – and failure rates – and safe investments typically offer predictable but modest rewards. Potential investor also must be beware of con men flee when someone starts asking serious and detailed questions. And according to SEC Office of Investor Education and Advocacy (n.d.), people who want to invest their money should check out everything and avoid high return risk free investments. If an investment seems too good to be true, it probably is. Be extremely leery of any investment that is said to have no risks, very few investments are risk-free. The greater the potential return from an investment, the greater your risk of losing money. Promises of fast and high profits, with little or no risk, are classic warning signs of fraud.

4.9.3 Prevent Fraud towards Affinity Group

a. Learn About Its Investment First

CFA Institute (2016) stated that the potential investor should clearly understand the investment strategy. Be alert to the possibility that complex jargon hides suspicious inconsistencies. Be wary of those offering sure things and quick returns. Do not forget to assess the operational risk and infrastructure.

It is important that a firm have separate operations for asset management, trading, and custody. Ask about these important firewalls.

Blanton (2012) mentioned that beware if someone offer a high or guaranteed return at no risk to the investor. This is virtually impossible since the riskiest investments produce the biggest rewards and failure rates. Safe investments typically offer predictable but modest rewards. Resist being questioned or checked out further. Con men flee when someone starts asking serious and detailed questions.

According to SEC Office of Investor Education and Advocacy (n.d.), people who want to invest their money must check out everything, no matter how trustworthy the person seems who brings the investment opportunity to your attention. Never make an investment based solely on the recommendation of a member of an organization or religious or ethnic group to which you belong. Investigate the investment thoroughly and check the truth of every statement you are told about the investment. Be aware that the person telling you about the investment may have been fooled into believing that the investment is legitimate when it is not. Avoid high-return risk free investments. If an investment seems too good to be true, it is probably an investment scam. Be extremely leery of any investment that is said to have no risks, very few investments are risk-free. The greater the potential return from an investment, the greater your risk of losing money. Promises of fast and high profits, with little or no risk, are classic warning signs of fraud.

b. Make Sure That the Way It Works Is Clear

According to CFA Institute (2016), people who want to invest have to understand clearly the investment strategy and be wary of those offering sure things quick returns and "special access." These claims should all be red-flag phrases for the wise investor. Legitimate investment professionals do not promise sure bets. Scammers often make the combination of safety and high returns seem plausible by granting you "special access" based on your relationship with a mutual acquaintance or shared affiliation.

Meanwhile, according to Blanton (2012)**,** potential investor should check out further. Con men flee when someone starts asking serious and detailed questions. If there is so complex that it is difficult or impossible to understand, it should be something suspicious. Scammers often dazzle or intimidate their targets with their superior knowledge of finance or with complex mathematical explanations. A good rule for any financial transaction: if you do not understand it, do not do it

According to SEC Office of Investor Education and Advocacy (n.d.), avoid high-return risk free investments. If an investment seems too good to be true, it is probably an investment scam. Be extremely leery of any investment that is said to have no risks; very few investments are risk-free. The greater the potential return from an investment, the greater your risk of losing money. Promises of fast and high profits, with little or no risk, are classic warning signs of fraud.

c. Background Checks

Background checks could be one of the most important thing before investing your money. CFA Institute (2016) explained that potential investor should match the investment strategy to the reported performance. Compare the adviser's performance claims with commonly available benchmarks. Find out if the firm has its performance figures independently audited, who audits them, and whether the firm complies with the Global Investment Performance Standards, a broadly accepted set of standards for calculating and reporting investment results. Assess the personnel. Be careful not to let down your guard simply because the prospective manager has an elevated social position; a religious, ethnic, or family background that is similar to yours; or impressive degrees and designations. Perform a background check by not get pressured to make a decision before you have checked past censures, postpone investigations, or lawsuits and verified legitimate registration.

According to Blanton (2012), potential investor should beware if the investment looks too good to be true. Scam products or investments usually appear far more lucrative than standard products on the market.

SEC Office of Investor Education and Advocacy (n.d.) also stated a suggestion such as, one should check everything and do not be pressured or rushed into buying an investment before you have a chance to think about.

4.9.4 Prevent Investment Fraud by ICTs

a. Avoid Email Solicitations

According to CFA Institute (2016), potential investor should avoid e-mail solicitations. Unsolicited e-mail claims should be treated with great suspicion. E-mail lists are easy to obtain, and e-mails are easy to send. While according to Blanton (2012), come unsolicited over the Internet, are of unknown origin. Come from overseas or from an individual or company that is in any way unusual or suspect. Anyone can hack a computer and send out an email message and con men often do, so, beware.

According to SEC Office of Investor Education and Advocacy (n.d.), to be careful online. Fraudsters use increasingly the internet to target particular groups through e-mail spams. If you receive an unsolicited e-mail from someone you do not know, containing a "can't miss" investment, your best move is to pass up the "opportunity" of investment fraud.

b. Do Online Searches

According to Rowe (2000), check out the promoters' credentials and background carefully through reliable sources that can alert you to any illegal acts or questionable practices that may color their records. It can be done by doing online searches through the internet.

SEC Office of Investor Education and Advocacy (n.d.) also mentioned that potential investor should "do their homework." Such as check out everything.

Currently, even the important documents such as annual financial reports can be accessed by anyone on the internet. Potential investors can start to check from this stage.

4.10 Conclusion

Based on the results of the analysis conducted with the case study method above, related to the first problem formulation on how the case of Bernard Madoff and Charles Ponzi perpetrated their offense and the differences between the two were analyzed using the fraud elements triangle, it can be concluded that both of them used acts of face to face interaction, targeting affinity group, and unrealistic promises, using concealment by bank deposit slips, convincing office, and promissory notes or check. However, there were several different ways in which both were used. In the case of Bernard Madoff, he used the acts of extension fuse by computer, extension fuse by telephone, and using stock and securities, using concealment by the ICTs system and stocks and securities, and using conversion for fishing boats, jewelry and watches, luxurious office building, residencies, salary + bonus and goodies for employee, self-care, and traveling. While in the case of Charles Ponzi, he used the act of using international reply coupon, using the way concealment by international reply coupon, and using the conversion for exclusive suits, jewelry for wife, open branch offices, and pay debt (furniture).

Related with the second problem formulation, it can be concluded the factor that caused Bernard Madoff and Charles Ponzi cases analyzed by using fraud triangle both had reason of opportunity of communication skill, lack of controls, and trust, and had a reason for pressure by greed, lifestyle, and need to appear successful. However, there were some different reasons for both. In the case of Bernard Madoff, he had the reason of having an opportunity of good reputation, ignorance-apathy-and incapacity, lack of an audit trail, and power by position, have reason for pressure by need to pay new investors, and have rationalization reasons by blaming investors for their greed. While in the case of Charles Ponzi, he had the reason of having pressure by living beyond one's means, poor credit, gambling-drugs-alcohol-etc., feeling of job dissatisfaction, and feeling underpaid, and has a reason of rationalization by stated I deserve more and by nobody will get hurt.

The last part is related with the third problem formulation, the recommendations that can be given to prevent people from becoming the victim of investment fraud in which these recommendations are interpreted from acts elements that had been done by case of Bernard Madoff and Charles Ponzi analysis was classified into four sections. Firstly, prevent face to face interaction scams by finding out the independent audits, do not rush, look at the company’s legal entity, do not believe easily, pay attention to the explanations, and get it in writing. Secondly, prevent fraud from unrealistic promises by avoiding something impossible to understand, ask if anything is unclear, do not be easily tempted, and learn about its investment first. Thirdly, prevent fraud toward affinity group by making sure that the way it works is clear, doing a background checks, and learn about its investment first. Fourthly, prevent investment fraud by ICTs which was by avoiding e-mail solicitations and do online searches.

CHAPTER V

CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter discusses the conclusions of the research that had been done. The conclusions were obtained from the analysis of documents and videos. Thus, the core of the conclusion is the answer to the problem formulation. This chapter also describes the limitations of researcher in conducting this research and recommendations for further research.

5.2 Conclusions

Based on the results of the discussion and analysis that the researcher had done, it can be concluded as follows:

1. Bernard Madoff and Charles Ponzi perpetrated their offense by acts of targeting affinity group, unrealistic promises, and face to face interaction and by concealment of have a convincing office, by giving promissory notes or check, and by bank deposit slips. The differences between those two cases were, in the case of Bernard Madoff, he also perpetrated his offense by 1) acts of using stock and securities, extension fuse of ICTs by computer, and extension fuse of ICTs by telephone, 2) concealment of stocks and securities and conceal by the ICTs system and 3) conversion to fishing boat,

jewelry and watches, luxurious office building, residencies, salary + bonus and goodies for employee, self-care, and traveling. On the other hand, in the case of Charles Ponzi, he perpetrated his offense by 1) act of using international reply coupon, 2) concealment of international reply coupon and 3) conversion into exclusive suit, jewelry for wife, open branch offices, and pay debt (furniture).

2. Factors that caused Bernard Madoff and Charles Ponzi did their illegal acts of investment fraud were by having opportunities of communication skill, lack of controls, and trust had pressures of greed, lifestyle, and need to appear successful. The differences between those two cases are in the case of Bernard Madoff, were 1) opportunities of good reputation, ignorance-apathy-and incapacity, lack of an audit trail, and power by position, has 2) pressures factor of the need to pay new investor, and 3) rationalization factor by blaming investors for their greed. Meanwhile, in the case of Charles Ponzi, the differences were 1) pressure factors of living beyond one's means, poor credit, gambling-drugs-alcohol-etc., feeling of job dissatisfaction and feeling underpaid pressure, and 2) rationalization factor by having thought of "I deserve more", and nobody will get hurt.
3. The final result of this research was recommendation about how someone prevents people from becoming the victim of investment

fraud, namely by categorization 1) prevent face to face interaction scams by finding out the independent audits, check at the company's legal entity, do not rush, do not believe easily, pay attention the explanations, and get it in writing. 2) Prevent fraud from unrealistic promises by avoiding something that was impossible to understand, ask if anything was unclear, do not get tempted easily, and learn about its investment first, 3) Prevent fraud towards affinity group by making sure that the way it works was clear, learn about its investment, and background checks, and 4) Prevent investment fraud by ICTs by avoiding email solicitations and do online searches.

5.3 Research Limitations

In conducting this research, there were several limitations and constraints which had partial influence on the result of the research. The limitations were as follows:

1. Limited data sources, especially in the case of Charles Ponzi due to the events that had happened long time ago.
2. The researcher used only documentary data sources due to constraints of distance, access, time, and opportunity.

5.4 Recommendations

By taking into account several limitations embedded in this research, therefore, some recommendations were expectedly to be fulfilled in future studies to give continuous improvement for the result. The recommendations were as follows:

1. Future studies should seek more data sources to have maximal analysis in the research.
2. Future studies should conduct research of comparative examination investment scams factor with fraud triangle and fraud elements triangle analysis with other case study on investment fraud case in order to get more comprehensive comparison result.
3. Future studies should present more recommendations to people from becoming the victim of investment fraud, not only based on the acts of both cases of Bernard Madoff and Charles Ponzi.

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APPENDICES

Appendix 1

No.	Author	Title	Reference Type	Year
1	Albrecht, W. Steve; Albrecht, Chad O.; Albrecht, Conan C.; Zimbelman, Mark F.	Fraud Examination	Book	2011
2	Strober, Gerald; Strober, Deborah Hart	CATASTROPHE: The Story of BERNARD L. MADOFF, The Man Who Swindled the World	Book	2009
3	Artzrouni, Marc	The Mathematics of Ponzi Schemes	Journal Article	2009
4	Azim, Dr. Mohammad I.; Azam, Dr. Saiful	Bernard Madoff's 'Ponzi Scheme': Fraudulent Behavior and The Role of Auditors	Journal Article	2016
5	Henriques, Diana B.; Rouwe, Zachery	Prominent Trader Accused of Defrauding Clients	Journal Article	2008
6	NASAA Investor Education Section	Madoff - A 21st Century Ponzi Scheme	Journal Article	2009
7	Parsons, Louise	Gullible, Greedy or Just Unlucky? How Bernie Madoff Scammed About 15,000 Investors	Journal Article	2010
8	Quisenberry, William L	Ponzi of All Ponzis: Critical Analysis of the Bernie Madoff Scheme	Journal Article	2017

9	Federal Bureau of Investigation	Peter Madoff, Former Chief Compliance Officer and Senior Managing Director at Bernard L. Madoff Investment Securities LLC, Sentenced in Manhattan Federal Court to 10 Years in Prison	Report	2012
10	SEC Office of Investor Education and Advocacy	Investigation of Failure of the SEC to Uncover Bernard Madoff' s Ponzi Scheme	Report	2009
11	Zarrabi, Shahin; Lundberg, Lennart	The Madoff Fraud	Report	2012
12	AP	Five Bernie Madoff Employees Found Guilty of Fraud	Newspaper Article	2014
13	Arvedlund, Erin	How Bernard Madoff Escaped Detection	Newspaper Article	2009
14	Calder, Rich	Ex-Madoff Exec Said to Have Written His Own Bonus Checks	Newspaper Article	2013
15	Creswell, Julie; Jr., Landon Thomas	The Talented Mr. Madoff - The New York Times	Newspaper Article	2009
16	Gelles, David; Tett, Gillian	From Behind Bars, Madoff Spins His Story	Newspaper Article	2011
17	McGreal, Chris	Madoff Suicide: Son Was 'Upset' By Lawsuits Filed Against His Children	Newspaper Article	2010

18	Quinn, James	Bernard Madoff `fraud': Betrayed by their best friend	Newspaper Article	2008
19	Schwartz, Joe	Madoff Rip-Off Shattered Trust, Changed Investment Behavior	Web Page	2017
20	Seal, Mark	Madoff's World	Newspaper Article	2009
21	Smith, Aaron	Prison exclusive: Bernie Madoff can't sleep	Newspaper Article	2013
22	Smith, Aaron	Madoff says his victims were 'greedy'	Newspaper Article	2011
23	Thompson, Paul	EXCLUSIVE: Shopping in Ikea for $30 TV stands and driving a Prius - the humbling of Bernie Madoff ' s wife who once had four homes and three boats at her disposal	Newspaper Article	2015
24	Ponzi, Charles	The Rise of Mr. Ponzi	Book	2001
25	Zuckoff, Mitchell	Ponzi's Scheme: The True Story of Financial Legend	Book	2005
26	Busch, Kevin M.	Charles Ponzi is Not Your Friend	Journal Article	2009
27	Darby, Mary	In Ponzi We Trust	Journal Article	1998
28	Knutson, Mark C.	The Remarkable Criminal Financial Career of Charles Ponzi	Journal Article	2011
29	Lowenstein, Roger	WEEKEND JOURNAL; Review / Books: Con Man for The Ages	Journal Article	2005

30	McGuire, Matthew; Counihan, Victoria	Ponzi Schemes	Report	2013
31	Ruziel10	Charles Ponzi On Crooked Crooks	Video	2009
32	HBO	The Wizard of Lies- How Bernie Madoff Modernized the Ponzi Scheme (HBO)	Video	2017
33	Gomstyn, Alice	Different Worlds, One Scam	Newspaper Article	2009
34	Blanton, Kimberly	The Rise of Financial Fraud: Scams Never Change but Disguises Do	Journal Article	2012
35	CFA Institute	Ten Ways to Avoid Investment Fraud	Journal Article	2016
36	Rowe, Barbara R.	Ponzi Schemes	Journal Article	2000
37	SEC Office of Investor Education and Advocacy	AFFINITY FRAUD: How to Avoid Investment Scams That Target Groups	Report	No Date

Appendix 2

	A : Bernard Madoff	B : Charles Ponzi
1 : By Computer	3	0
2 : By Telephone	2	0
3 : Face to Face Interaction	2	3
4 : Targeting Affinity Group	2	3
5 : Unrealistic Promises	5	2
6 : Using International Reply Coupon	0	5
7 : Using Stock and Securities	6	0
8 : Bank Deposit Slips	2	2
9 : Convincing Office	2	3
10 : International Reply Coupon	0	5
11 : Promissory Notes or check	2	3
12 : Stocks and Securities	6	0
13 : The ICTs System	3	0
14 : Exclusive Suit	0	3
15 : Fishing Boat	2	0
16 : Jewelry and Watches	3	0
17 : Jewelry for Wife	0	2
18 : Luxurious Office Building	2	0
19 : Open Branch Offices	0	3
20 : Pay Debt (Furniture)	0	2
21 : Residencies	3	0
22 : Salary + Bonus and Goodies for Employee	3	0
23 : Self Care	2	0
24 : Traveling	3	0

	A : Bernard Madoff	B : Charles Ponzi
1 : Communication skill	3	3
2 : Good Reputation	2	0
3 : Ignorance, apathy, and incapacity	3	0
4 : Lack of an audit trail and control	4	0
5 : Lack of controls	0	2
6 : Control activities (procedures)	2	0
7 : The accounting system	3	0
8 : Power by position	4	0
9 : Trust	3	2
10 : Greed	3	2
11 : Living beyond one's means	0	2
12 : Poor credit	0	2
13 : The Need to Pay New Investor	2	0
14 : Lifestyle	3	2
15 : Need to appear successful	2	2
16 : Gambling, drugs, alcohol, etc.	0	2
17 : Feeling of job dissatisfaction	0	2
18 : Feeling underpaid	0	2
19 : Blaming investors for their greed	3	0
20 : I deserve more	0	1
21 : Nobody will get hurt	0	1

Appendix 3

Person (Madoff)	Education Background	Gender	Occupation	Origin	Relationship (Colleagues)	Relationship (Family)	Working Period	Year of Birth
Bernard Madoff	Hofstra University	Male	Founder of Bernard L. Madoff Investment Securities	New York, U.S.	Fraudster	Unassigned	1987 - 2008	1938
Andrew Madoff	University of Pennsylvania's Wharton School	Male	Director of Trading of Bernard Madoff Investment Securities, LLC (BMIS)	New York, U.S.	Directors of the London office, Madoff Securities International Ltd.	Younger Son	1988 - 2008	1966
Annette Bongiorno	High School Graduate	Female	Longtime Assistant, Former Computer Programmers	New York, U.S.	Long Time Personal Secretary and Aide to Madoff	Unassigned	1969 - 2008	1949
Daniel Bonventre	Unassigned	Male	Company Director of Operations, Accountant	Unassigned	Company Director of Operations, Accountant for Madoff	Unassigned	1960s - 2008	1944
Eleanor Squillari	Unassigned	Female	Secretary	Unassigned	Bernard Madoff's Secretary	Unassigned	Unassigned	Unassigned

Person (Madoff)	Education Background	Gender	Occupation	Origin	Relationship (Colleagues)	Relationship (Family)	Working Period	Year of Birth
Enrica Cotellessa-Pitz	Unassigned	Female	Former Controller at Bernard L. Madoff Investment Securities LLC	New York, U.S.	The liaison between the SEC and BLMIS regarding the firm's financial statements	Unassigned	1978 - 2008	1959
Frank DiPascali	St. John's University	Male	Director of Options Trading	New York, U.S.	Manager on The Seventeenth Floor	Unassigned	1986 - 2008	1956
George Perez	Unassigned	Male	Former Computer Programmer	New Jersey, U.S.	Former Computer Programmer of Madoff	Unassigned	1991 - 2008	1966
Harry Markopolos	Loyola College in Maryland	Male	Financial Fraud Investigator	Erie, Pennsylvania	Whistleblower in Madoff' Scandal	Unassigned	2000, 2001, and 2005	1956
Jeffry Picower	Pennsylvania State University	Male	Lawyer	New York, U.S.	Investor	Unassigned	1983 - 2008	1942
Jerome O'Hara	Unassigned	Male	Former Computer Programmer	Unassigned	Former Computer Programmer of Madoff	Unassigned	1991 - 2008	1964

Person (Madoff)	Education Background	Gender	Occupation	Origin	Relationship (Colleagues)	Relationship (Family)	Working Period	Year of Birth
Joann Crupi	Unassigned	Female	Former Investment Advisor	New Jersey, U.S.	Former Investment Advisor to Madoff	Unassigned	1983 - 2008	1962
Mark Madoff	University of Pennsylvania's Wharton School	Male	Director of Proprietary Trading of Bernard Madoff Investment Securities, LLC (BMIS)	New York, U.S.	Directors of the London office, Madoff Securities International Ltd.	Elder Son	1988 - 2008	1964
Peter Madoff	Fordham University School of Law	Male	Chief Compliance Officer at Bernard L. Madoff Investment Securities	New York, U.S.	Chief Compliance Officer at Bernard L. Madoff Investment Securities	Younger Brother	1965 - 2008	1947
Ruth Madoff	New York University	Female	Nutritionist	New York, U.S.	Unassigned	Spouse	Unassigned	1941

Person (Ponzi)	Education Background	Gender	Occupation	Origin	Relationship (Colleagues)	Relationship (Family)	Year of Birth
Charles Ponzi	University of Rome La Sapienza	Male	Founder of Securities Exchange Company	Lugo, Italy	Unassigned	Unassigned	1882
Guglielmo Bertollotti	Unassigned	Male	Unassigned	Parma, Italy	Partnership of the Securities Exchange Company	Ponzi's landlord at one time in Italy	Unassigned
Imelde Ponzi	Unassigned	Female	Unassigned	Bologna, Italy	Unassigned	Mother	Unassigned
John S. Dondero	Unassigned	Male	North End liquor business	Unassigned	Investor	Wife's Uncle	1876
Lamb	Unassigned	Male	Sorter in a wool house on Summer Street	America	Serve the millworkers of Lawrence of Securities Exchange Company's first branch office	Unassigned	Unassigned
Lucy Meli	High School in Revere and Business School	Female	Bookkeeper and Stenographer	Sicily, Italy	Ponzi's Employee and Investor	Unassigned	Unassigned

Person (Ponzi)	Education Background	Gender	Occupation	Origin	Relationship (Colleagues)	Relationship (Family)	Year of Birth
Oreste Ponzi	Unassigned	Male	Postman	Milan, Italy	Unassigned	Father	Unassigned
Rose Gnecco	Unassigned	Female	Unassigned	Boston, U.S.	Unassigned	Spouse	Unassigned

Appendix 4

	Extension Fuse of ICTs By Computer	Extension Fuse of ICTs By Telephone	Face to Face Interaction
Albrecht, W. Steve; Albrecht, Chad O.; Albrecht, Conan C.; Zimbelman, Mark F.			On July 26, 1920, Ponzi's house of cards began to collapse. The Boston Post headlined a story on the front page questioning the legitimacy of Ponzi's scheme. Later that day, the district somehow convinced Ponzi to suspend taking in new investments until an auditor examined his books. Within hours, crowds of people lined up outside Ponzi's door demanding that they get their investment back. Ponzi obliged and assured the public that his organization was financially stable and that he could meet all obligations By continuing to meet all of his obligations, the angry masses began to dwindle, and public support swelled. Crowds followed Ponzi's every move. He was urged by many to enter politics and was hailed as a hero. Loud cheers and applause were coupled with people eager to touch his hand and assure him of their confidence.

	Extension Fuse of ICTs By Computer	Extension Fuse of ICTs By Telephone	Face to Face Interaction
Arvedlund, Erin	And that boss used state-of-the-art computers to match buy and sell orders for important, big-name customers - institutions such as Bear Stearns, Charles Schwab, Fidelity and Lehman Brothers.	The offices were immaculate, decked out in modern, grey and black tones - and buzzing: phones rang, traders shouted.	
Henriques, Diana B.; Rouwe, Zachery			At exclusive retreats like the Palm steakhouse in East Hampton, Mr. Madoff would work the tables or receive friends at his own, building a following that came to include lawyers, doctors, real estate developers and accountants. Tomas Romano, a manager at the Palm, recalled that “people always came to talk with him” at the restaurant. “He was very well known.” “He did not look like a huge spender; seemed like a family man,” said one veteran Geneva banker, whose firm had money with Mr. Madoff but insisted on anonymity because of the likelihood of lawsuits from angry clients. “He talked about the markets.”
McGuire, Matthew; Counihan, Victoria			Ponzi set up a business called the "Securities Exchange Company." He contacted his relatives in Italy and asked them to buy up as many IRCs as possible and send them to him.

	Extension Fuse of ICTs By Computer	Extension Fuse of ICTs By Telephone	Face to Face Interaction
Zarrabi, Shahin; Lundberg, Lennart	The firm was initially a small penny stock trader, but it grew fast due to its use of innovative computer technology. The firm became one of the largest market makers in the US		
Strober, Gerald; Strober, Deborah Hart	“They found a niche that they exploited that helped customers a lot. Remember that at that time there were fixed, high commissions, and the Madoffs found a way in which retail customers could trade with some benefits. They were able to interface computer-wise with the retail brokerage firms and reduce costs all over the place.”	In an era when stock trades were still laboriously conducted by telephone, we are told that he intuitively grasped the need for a rapid way of conducting and finalizing transactions in an ever more computer driven world. SIPC spokeswoman Allis Aaron Wolf explained that the list had been developed using BMIS records, as well as telephone inquiries.	Meyer found Madoff to be “very pleasant, very nice, very honorable; all the things that you would expect in a gentleman of his stature at that time, not ostentatious in any way.” She continued, “I have no idea what his lifestyle was; I never questioned it. He was very low-key-he was all over the world, I guess. Everybody was interested in getting to know him. I never thought much about it until all this happened.” “I never met Madoff,” Greenfield said. “It was my father, who lived in Lake Worth. Friends of friends recommended that he invest with Madoff because Madoff’s reputation was stellar. My father, who was a CPA, was very knowledgeable. He was involved in securities and knew exactly what was going on. But something about Madoff made him feel that this was really the right place to put his money.

	Extension Fuse of ICTs By Computer	Extension Fuse of ICTs By Telephone	Face to Face Interaction
Strober, Gerald; Strober, Deborah Hart	We met in one of his New York trading rooms, and in hindsight I find it strange, because that trading room had no traders in it, just lots of desks, lots of computers, and workstations. I suspect he may have been doing a little Enron of his own-Enron had all those work areas where they were going to trade weather futures, and electricity, and they more or less put traders in those rooms to dummy it up to make it look like they were doing something. SIPC spokeswoman Allis Aaron Wolf explained that the list had been developed using BMIS records, as well as telephone inquiries.		In an interview distributed by Bloomberg News, he said he found Madoff to be "very personable, very charming, probably one of the best social networkers in America, who moved in the best circles-he was a pro at it." From the vantage points of Manhattan, the Hamptons, and Palm Beach, Madoff observed his wealthy neighbors, joined their exclusive clubs, established their trust, and soon had them literally begging to be given the opportunity to invest in BMIS. So much so that between 1997 and 2008, he spent $590,000 on lobbying efforts, almost all of it with Lent, Scrivner & Roth, a firm concerned with market regulation, security transactions fees, and stock exchange mergers.

	Extension Fuse of ICTs By Computer	Extension Fuse of ICTs By Telephone	Face to Face Interaction
Zuckoff, Mitchell			Investors slid their cash to one of the young tellers. Often, they were three particular girls: Angela Locarno, her sister Marie Locarno, and their friend Bessie Langone. In return for cash, the investors received promissory notes, receipts really, that guaranteed the original investment plus 50 percent interest in forty-five days. The receipts bore Ponzi's ink-stamped signature, which led many to call them simply "Ponzi notes." Lately the waves of cash had come crashing over the counter so quickly that the bills were dumped into wire baskets, to be sorted when the tide rolled out. At slower times the cash was funneled from the clerks directly to a man named Louis Cassullo, an unpleasant acquaintance from Ponzi's past whom Ponzi neither liked nor trusted. Where Cassullo was concerned, Ponzi applied the old adage about keeping friends close and enemies closer. From Cassullo, the cash was counted, bundled, and deposited into one of Ponzi's fast-growing bank accounts. That is, minus any stray bills Cassullo siphoned off.

	Extension Fuse of ICTs By Computer	Extension Fuse of ICTs By Telephone	Face to Face Interaction
Zuckoff, Mitchell			Two detectives sent to talk to Ponzi about his operation had been so impressed that they'd pulled out their wallets and invested on the spot. In time, five Boston police inspectors and a lieutenant would hold certificates of the Securities Exchange Company, along with hundreds of rank-and-file officers. Several policemen even worked for Ponzi as agents, collecting the usual 10 percent and, even better as far as Ponzi was concerned, lending his enterprise the respectability of their badges. Just for show, Ponzi himself took out a few notes, and his own Rose came by the office for a visit on April 17 and proudly deposited her pin money, seventy dollars. A twenty-seven-year-old English immigrant named Abe Rhodes outdid her, investing fifteen hundred dollars the same day. But even he fell short of the North End's Antonio D'Avanzo, who bet two thousand. All three would be back to collect their winnings on June 1.

	Targeting Affinity Group	Unrealistic Promises	Using International Reply Coupon	Using Stock and Securities
Azim, Dr. Mohammad I.; Azam, Dr. Saiful		He promised his clients a 50 percent return rate within 45 days or 100 percent profit within 90 days by buying discounted postal reply coupons in other countries and redeeming them at face value in the United States.	He promised his clients a 50 percent return rate within 45 days or 100 percent profit within 90 days by buying discounted postal reply coupons in other countries and redeeming them at face value in the United States.	Madoff was struggling to generate sufficient profits to cover returns for investors that required him to repay early investors with new investors' money.
McGuire, Matthew; Counihan, Victoria			Because the cost of postage for an equivalent letter varied from country to country based upon currency differences and other considerations, Ponzi recognized that he could profit enormously by purchasing an IRC in one country and redeeming it for postage in another country where the value of the equivalent amount of postage was greater.	

	Targeting Affinity Group	Using International Reply Coupon
McGuire, Matthew; Counihan, Victoria		Ponzi set up a business called the "Securities Exchange Company." He contacted his relatives in Italy and asked them to buy up as many IRCs as possible and send them to him.
Gomstyn, Alice	Beginning in 1919, Ponzi, an Italian immigrant, targeted other Italian immigrants, convincing them to give him millions for what he billed as investments in postage with 40 percent returns. In reality, Ponzi was using money contributed by new investors to provide returns for old investors. The scheme collapsed when Ponzi ran out of funds. (He was convicted of mail fraud in 1920 and eventually deported to Italy.) "If you're an Italian-American, why would you target other Italian-Americans?" Cass asked. "Not because you don't like them, but because those are the people who are going to be most trusting of you."	

	Targeting Affinity Group	Using International Reply Coupon
Knutson, Mark C.	As Ponzi paid the matured notes held by early investors, word of enormous profits spread through the community, whipping greedy and credulous investors into a frenzy.	Ponzi claimed he was giving investors just a portion of the 400 per cent. profit he was earning through trade in postal reply coupons. As Ponzi paid the matured notes held by early investors, word of enormous profits spread through the community, whipping greedy and credulous investors into a frenzy. Investigation later revealed that there were no coupons or profits--earlier notes were paid at maturity from the proceeds of later ones. The coupon in Spain cost the equivalent of about one cent in American money, I got six cents in stamps for the coupon here. Then I investigated the rates of exchange in other countries. I tried it in a small way first. It worked. The first month $1,000 became $15,000. I began letting in my friends. First I accepted deposits on my note, payable in ninety days, for $150 for each $100 received. Though promised in ninety days I have been paying in forty-five days.

	Unrealistic Promises	Using Stock and Securities
NASAA Investor Education Section		For decades, Madoff investors received consistent and steady annual returns through elaborate, fabricated account statements and other documentation that were provided to investors to convince them that their money had been placed in actual investments. But in reality, there were no actual investments and no actual returns. Madoff paid the initial investors "returns" with money provided him by a steady flow of new investors.
Video of Charles Ponzi on Crooked Crooks (ruziel10)	Investigative reporters from the Boston Post started paying him closer attention and so did the Commonwealth of Massachusetts. The post contacted Clarence Baron, the financial analyst who published the Barron's financial paper to examine Ponzi scheme. Barron observed that the Ponzi was offering fantastic returns on investments. Ponzi himself wasn't investing in his own company.	
Zarrabi, Shahin; Lundberg, Lennart	"A fraudulent investing scam promising high rates of return with little risk to investors. The Ponzi scheme generates returns for older investors by acquiring new investors". This was basically how the advisory and investment management division of Bernard L. Madoff investment securities LLC operated.	"A fraudulent investing scam promising high rates of return with little risk to investors. The Ponzi scheme generates returns for older investors by acquiring new investors" [3]. This was basically how the advisory and investment management division of Bernard L. Madoff investment securities LLC operated.

	Unrealistic Promises	Using Stock and Securities
Zarrabi, Shahin; Lundberg, Lennart		When a customer made an investment, he simply put the money into a bank account, and when asked for a withdrawal he took the money piled up in that account. Withdrawals were simply covered by new investments.
Video of How Bernard Madoff Modernized the Ponzi Scheme (HBO)	Here's how it worked: Ponzi lured people in with the promised he would double their investment in 90 days. When it came time to pay out, he did so with money he was raising from new clients. Once he was no longer to raise additional funds, however, the whole operation fell apart.	Madoff collected funds from clients and instead of investing them as advertised, paid out returns with money he was raising from new customers. While taking a cut along the way. There he was, however, a key difference between Bernie Madoff and Charles Ponzi: subtlety. A charismatic and intelligent figure with a squeaky-clean record, Madoff promised reasonable returns that didn't raise red flags. People saw no reason to doubt him. The scheme ran for decades without exposure, until the financial collapse of 2008. Hit by the crisis, clients began to withdraw their cash to cover losses from other failing investments. Madoff was unable to secure the new funds he needed to pay them.
Quisenberry, William L	The way that Ponzi schemes work is the fraudster offers excessively high returns to potential investors, in a very short time period.	However, unbeknown to investors, they are not receiving returns from any investments, but instead are collecting money that was invested by other victims of the Ponzi scheme. The fraud is structured in a manner that requires the scam artist to continuously receive new investments from others, so that the money can be redistributed to previous investors as returns.

	Targeting Affinity Group	Using Stock and Securities
Quisenberry, William L	Madoff had successfully fooled extremely savvy investors, charitable organizations, and large investment funds by operating what is termed a Ponzi scheme, which essentially is the act of collecting money from multiple investors, and redistributing the funds to previous investors as if they are legitimate investment returns (SEC, 2012)	Madoff had successfully fooled extremely savvy investors, charitable organizations, and large investment funds by operating what is termed a Ponzi scheme, which essentially is the act of collecting money from multiple investors, and redistributing the funds to previous investors as if they are legitimate investment returns (SEC, 2012)
Strober, Gerald; Strober, Deborah Hart	These were but a few of the anguished cries of disbelief and prophecies of doom uttered by individual philanthropists and officials of a wide range of Jewish philanthropic organizations, whose very existence now hangs in the balance in the wake of a loss of between $600 million and $1 billion. “It’s an embarrassment, but the real opposite side of the question is the fact that he stole from the Jews,” said Harry S. Taubenfeld, a New York attorney specializing in real estate transactions and a former member of the Board of Governors of the Jewish Agency for Israel. On the evening of Thursday, December 18, the more than 1,000 attendees at the United Jewish Appeal-Federation’s annual Wall Street Dinner managed to raise approximately $18.8 million, down from the previous year’s $21.6 million.	In the wake of Madoff’s arrest, the next morning, Agent Cacioppi stated that BMIS had “deceived investors by operating a securities business in which [Madoff] traded and lost investor money, and then paid certain investors purported returns on investment with the principle received from other, different investors, which resulted in investors’ losses of approximately $50 billion.” “They talk about that in their circle of influence; they say to their country club friends and their business acquaintances, ‘You know, my friend John has been getting ten percent with Madoff year after year and I tried to get in.’ And everyone becomes like a moth drawn to the flame. People were vying for his attention to get into this Ponzi scheme.”

	Targeting Affinity Group	Using Stock and Securities
Strober, Gerald; Strober, Deborah Hart	Noting that "most of the organizations were Jewish ones," Taubenfeld excoriated Madoff for having "taken advantage of his Jewish connections to steal. It is unfortunate that communities honor the people for the money they donate rather than the quality of the people they are dealing with. But this is something that has been going on for ages." Gary Tobin, somewhat of a contrarian on the issue, maintained that "The way the story is being told in the Jewish community is that this is a person who was very involved in Jewish organizational life and is seen through the lens of the Jewish community, when, in fact, he is a former chairman of NASDAQ and was involved in financial and communal institutions of all kinds. On December 15, 2008, the Jewish Community Foundation of Los Angeles disclosed that it had invested $18 million- approximately five percent of its total assets-with BMIS. He committed a nasty crime. He cheated organizations that are providing health care, meals on wheels, and education to students. To steal knowingly for decades, especially from widows, orphans, and charities	This is not someone who sat down and said, 'I am going to steal fifty billion dollars.' That's not what happened. What happened in the case is that this is a guy who started robbing Peter to pay Paul." "I say to them: If someone came to you and said, 'There is this fabulous financial adviser. It's very hard to place your money with him because he is overwhelmed with people who want to invest with him, he's the former head of NASDAQ, he's treasurer of Yeshiva University, he's head of the Sy Sims School of Business, and Ira Rennert, Ezra Merkin, Elie Wiesel's foundation, and Hadassah all invest with him,' would I really worry that there's a problem? 'If you're lucky enough for him to take your money, this guy has been averaging ten to fifteen percent a year. And he's been doing it for thirty years.' If I heard that and invested with him, I'm not sure I could be fairly portrayed as doing something idiotic. I can see how you could be involved with him without investigating it thoroughly. I can see it because of this guy's bona fide, his incredible credentials."

	Unrealistic Promises	Using International Reply Coupon
Strober, Gerald; Strober, Deborah Hart	"I say to them: If someone came to you and said, 'There is this fabulous financial adviser. It's very hard to place your money with him because he is overwhelmed with people who want to invest with him, he's the former head of NASDAQ, he's treasurer of Yeshiva University, he's head of the Sy Sims School of Business, and Ira Rennert, Ezra Merkin, Elie Wiesel's foundation, and Hadassah all invest with him,' would I really worry that there's a problem? 'If you're lucky enough for him to take your money, this guy has been averaging ten to fifteen percent a year. And he's been doing it for thirty years.' If I heard that and invested with him, I'm not sure I could be fairly portrayed as doing something idiotic. I can see how you could be involved with him without investigating it thoroughly. I can see it because of this guy's bona fide, his incredible credentials." "They talk about that in their circle of influence; they say to their country club friends and their business acquaintances, 'You know, my friend John has been getting ten percent with Madoff year after year and I tried to get in.' And everyone becomes like a moth drawn to the flame. People were vying for his attention to get into this Ponzi scheme."	Charles Ponzi, an Italian immigrant who from 1919 to 1920 collected millions of dollars by convincing thousands of people to buy postage stamps using international coupons. He promised a fifty-percent gain in ninety days, based on the fact that an international reply coupon purchased at European currency rates could be redeemed at a higher price in the United States-and, as the money poured in, he diverted late investors' money to support payments to earlier investors.

	Convincing Office	Promissory Notes or check
Albrecht, W. Steve; Albrecht, Chad O.; Albrecht, Conan C.; Zimbelman, Mark F.	With an estimated income of $1,000,000 per week at the height of his scheme, his newly hired staff couldn't take in the money fast enough. They were literally filling all of the desk drawers, wastepaper baskets, and closets in the office with investors' cash.	Thousands of people purchased Ponzi promissory notes at values ranging from $10 to $50,000. The average investment was estimated to be about $300, a large sum of money in the 1920s.
Arvedlund, Erin	The offices were immaculate, decked out in modern, grey and black tones - and buzzing: phones rang, traders shouted. To visitors, it looked like the vibrant, money-making, healthy operation it was on paper: Bernard L. Madoff Investment Securities. Madoff had built up the broker-dealer and proprietary trading businesses over more than four decades. What the regulators - and the world - came to know this spring was the firm's other purpose: to lure wealthy investors into a massive Ponzi scheme being operated one floor down. The 17th-floor offices were a shamble. There were papers and printouts everywhere. Where the men and women upstairs were required to wear suits, people here dressed casually; where upstairs, employees worked hard and long hours, downstairs the workers clocked in at 9am and out at 5pm. And while floors 18 and 19 were used to showcase the Madoff operation to the world, visitors to floor 17 were few and far between. The entrance was almost hidden - left of the elevator bank, part of a dark mahogany wall, without a sign or other markings.	

	International Reply Coupon	Promissory Notes or check	Stocks and Securities
Azim, Dr. Mohammad I.; Azam, Dr. Saiful	He promised his clients a 50 percent return rate within 45 days or 100 percent profit within 90 days by buying discounted postal reply coupons in other countries and redeeming them at face value in the United States.		Madoff was struggling to generate sufficient profits to cover returns for investors that required him to repay early investors with new investors' money.
Federal Bureau of Investigation		Madoff received approximately $15,700,000 from Bernard L. Madoff and his wife, and executed sham promissory notes to make it appear that the transfers were loans, in order to avoid paying taxes Madoff gave approximately $9,900,000 to family members, and in order to avoid paying taxes, executed sham promissory notes to make it appear that the transfers of these funds Madoff did were loans.	

	Bank Deposit Slips	International Reply Coupon	Promissory Notes or Check
Knutson, Mark C.	On May 20, 1920, Ponzi opened a deposit account with the Hanover Trust Company. The bank was to become the financial hub of his multi-state network	Ponzi claimed he was giving investors just a portion of the 400 per cent. profit he was earning through trade in postal reply coupons. As Ponzi paid the matured notes held by early investors, word of enormous profits spread through the community, whipping greedy and credulous investors into a frenzy. Investigation later revealed that there were no coupons or profits--earlier notes were paid at maturity from the proceeds of later ones. The coupon in Spain cost the equivalent of about one cent in American money, I got six cents in stamps for the coupon here. Then I investigated the rates of exchange in other countries. I tried it in a small way first. It worked. The first month $1,000 became $15,000. I began letting in my friends. First, I accepted deposits on my note, payable in ninety days, for $150 for each $100 received. Though promised in ninety days I have been paying in forty-five days.	Charles Ponzi had collected $9,500,000 from 10,000 investors by selling promissory notes paying “fifty per cent. profit in forty-five days.”
McGuire, Matthew; Counihan, Victoria		Because the cost of postage for an equivalent letter varied from country to country based upon currency differences and other considerations, Ponzi recognized that he could profit enormously by purchasing an IRC in one country and redeeming it for postage in another country where the value of the equivalent amount of postage was greater. Ponzi set up a business called the "Securities Exchange Company." He contacted his relatives in Italy and asked them to buy up as many IRCs as possible and send them to him.	

	Convincing Office	Stocks and Securities	The ICTs System
Lowenstein, Roger	By summer, it was common to see School Street, outside Ponzi's office, jammed with workers bearing their small but hard-won savings, soon to be handed over.		
NASAA Investor Education Section		For decades, Madoff investors received consistent and steady annual returns through elaborate, fabricated account statements and other documentation that were provided to investors to convince them that their money had been placed in actual investments. But in reality, there were no actual investments and no actual returns. Madoff paid the initial investors "returns" with money provided him by a steady flow of new investors.	For decades, Madoff investors received consistent and steady annual returns through elaborate, fabricated account statements and other documentation that were provided to investors to convince them that their money had been placed in actual investments.
Quisenberry, William L		However, unbeknown to investors, they are not receiving returns from any investments, but instead are collecting money that was invested by other victims of the Ponzi scheme. The fraud is structured in a manner that requires the scam artist to continuously receive new investments from others, so that the money can be redistributed to previous investors as returns.	

	Bank Deposit Slips	Stocks and Securities
Quisenberry, William L		Madoff had successfully fooled extremely savvy investors, charitable organizations, and large investment funds by operating what is termed a Ponzi scheme, which essentially is the act of collecting money from multiple investors, and redistributing the funds to previous investors as if they are legitimate investment returns (SEC, 2012)
Schwartz, Joe	From the 1990s through the late 2000s, Madoff deposited his clients' money into his personal bank account, rather than invest it and generate steady returns as his clients had expected. When his clients wanted to liquidate their investments for cash, he dipped into the bank account to fund their requests.	
Strober, Gerald; Strober, Deborah Hart		In the wake of Madoff's arrest the next morning, Agent Cacioppi stated that BMIS had "deceived investors by operating a securities business in which [Madoff] traded and lost investor money, and then paid certain investors purported returns on investment with the principle received from other, different investors, which resulted in investors' losses of approximately $50 billion." This is not someone who sat down and said, 'I am going to steal fifty billion dollars.' That's not what happened. What happened in the case is that this is a guy who started robbing Peter to pay Paul."

	International Reply Coupon	Stocks and Securities
Strober, Gerald; Strober, Deborah Hart	Charles Ponzi, an Italian immigrant who from 1919 to 1920 collected millions of dollars by convincing thousands of people to buy postage stamps using international coupons. He promised a fifty-percent gain in ninety days, based on the fact that an international reply coupon purchased at European currency rates could be redeemed at a higher price in the United States-and, as the money poured in, he diverted late investors' money to support payments to earlier investors.	"I say to them: If someone came to you and said, 'There is this fabulous financial adviser. It's very hard to place your money with him because he is overwhelmed with people who want to invest with him, he's the former head of NASDAQ, he's treasurer of Yeshiva University, he's head of the Sy Sims School of Business, and Ira Rennert, Ezra Merkin, Elie Wiesel's foundation, and Hadassah all invest with him,' would I really worry that there's a problem? 'If you're lucky enough for him to take your money, this guy has been averaging ten to fifteen percent a year. And he's been doing it for thirty years.' If I heard that and invested with him, I'm not sure I could be fairly portrayed as doing something idiotic. I can see how you could be involved with him without investigating it thoroughly. I can see it because of this guy's bona fide, his incredible credentials." "They talk about that in their circle of influence; they say to their country club friends and their business acquaintances, 'You know, my friend John has been getting ten percent with Madoff year after year and I tried to get in.' And everyone becomes like a moth drawn to the flame. People were vying for his attention to get into this Ponzi scheme."

	Promissory Notes or check	The ICTs System	Convincing Office
Strober, Gerald; Strober, Deborah Hart	We kept getting reports on a regular basis. We kept getting confirmations of sales. We even got a check in September when we asked for it. It seems that there was yet another shocking revelation: The government claims that Federal investigators searching Madoff's office desk had found a cache of "approximately one hundred signed checks, totaling more than $173 million, ready to be sent out."	they started with a guy who was very successful in this computerized trading operation In an era when stock trades were still laboriously conducted by telephone, we are told that he intuitively grasped the need for a rapid way of conducting and finalizing transactions in an ever more computer driven world. And in doing so, Bernie Madoff set off the computerization of the entire financial industry. So impressive were the Madoff firm's computer trading programs to others "They found a niche that they exploited that helped customers a lot. Remember that at that time there were fixed, high commissions, and the Madoffs found a way in which retail customers could trade with some benefits. They were able to interface computer-wise with the retail brokerage firms and reduce costs all over the place." SIPC spokeswoman Allis Aaron Wolf explained that the list had been developed using BMIS records, as well as telephone inquiries.	The following day, Mark and Andrew met with their father in his inner sanctum on the 17th floor of 885 Third Avenue, known as the Lipstick Building- a 453-foot-high, 34-story, red granite and steel tower designed by the John Burgee firm with the doyen of American architects, Philip Johnson, and so named due to its distinctive oval shape and color.

	Stocks and Securities	Bank Deposit Slips	The ICTs System
Video of How Bernard Madoff Modernized the Ponzi Scheme (HBO)	Madoff collected funds from clients and instead of investing them as advertised, paid out returns with money he was raising from new customers. While taking a cut along the way. There he was, however, a key difference between Bernie Madoff and Charles Ponzi: subtlety. A charismatic and intelligent figure with a squeaky-clean record, Madoff promised reasonable returns that didn't raise red flags. People saw no reason to doubt him. The scheme ran for decades without exposure, until the financial collapse of 2008. Hit by the crisis, clients began to withdraw their cash to cover losses from other failing investments. Madoff was unable to secure the new funds he needed to pay them.		
Zarrabi, Shahin; Lundberg, Lennart	"A fraudulent investing scam promising high rates of return with little risk to investors. The Ponzi scheme generates returns for older investors by acquiring new investors" [3]. This was basically how the advisory and investment management division of Bernard L. Madoff investment securities LLC operated. When a customer made an investment, he simply put the money into a bank account, and when asked for a withdrawal he took the money piled up in that account. Withdrawals were simply covered by new investments.	When a customer made an investment, he simply put the money into a bank account, and when asked for a withdrawal he took the money piled up in that account. Withdrawals were simply covered by new investments.	The firm was initially a small penny stock trader, but it grew fast due to its use of innovative computer technology. The firm became one of the largest market makers in the US,

	Bank Deposit Slips	Convincing Office
Zuckoff, Mitchell	Investors slid their cash to one of the young tellers. Often, they were three particular girls: Angela Locarno, her sister Marie Locarno, and their friend Bessie Langone. In return for cash, the investors received promissory notes, receipts really, that guaranteed the original investment plus 50 percent interest in forty-five days. The receipts bore Ponzi's ink-stamped signature, which led many to call them simply "Ponzi notes." Lately the waves of cash had come crashing over the counter so quickly that the bills were dumped into wire baskets, to be sorted when the tide rolled out. At slower times the cash was funneled from the clerks directly to a man named Louis Cassullo, an unpleasant acquaintance from Ponzi's past whom Ponzi neither liked nor trusted. Where Cassullo was concerned, Ponzi applied the old adage about keeping friends close and enemies closer. From Cassullo, the cash was counted, bundled, and deposited into one of Ponzi's fast-growing bank accounts. That is, minus any stray bills Cassullo siphoned off. He had been keeping the accounts himself, and sloppily, at that. He had barely any idea how much money he had taken in. When he wanted to check his cash assets, he simply added his bank deposit slips. He had less interest in counting his liabilities. He knew they would exceed his assets.	He stepped through a glass-paneled door into a small anteroom his company used as a waiting area. There, each investor was met by one of the sixteen clerks and assistants, many of them added to the payroll in recent weeks to handle the torrents of cash. Moving deeper into the office, prospective investors would be turned over to a team of agents led by one John A. Dondero, a distant relative of Ponzi's by marriage. After making sure the investors had cash on hand or endorsed money orders, Dondero would lead them to a second, larger room, divided roughly in half by a four-foot wooden barrier topped by iron bars. Between the bars and the counter were slim openings for three tellers. The other half of the room, a space perhaps eight by fourteen feet, was partitioned off for an office shared by Ponzi and a pretty, dark-haired girl named Lucy Meli, his eighteen-year-old chief bookkeeper, secretary, and gal Friday. The walls of the office were bare, and the furniture consisted of three chairs and a single flattop desk, at which Ponzi and his young assistant sat on opposite sides, facing each other. Visitors were surprised to see no adding machines or file cabinets. Despite the enormous sums of money pouring in, the offices of the Securities Exchange Company were dark and dingy, with a few scuffed, mismatched pieces of furniture and the lingering smell of the Turkish cigarettes Ponzi smoked in a five-inch, ivory-and-gold holder.

	International Reply Coupon	Convincing Office	Promissory Notes or check
Zuckoff, Mitchell	Ponzi mailed a dollar to each of three acquaintances, one in Spain, one in Italy, and one in France, with instructions to exchange the dollars for the local currency, go to a post office, buy as many reply coupons as possible, and then send them to him in Boston. A few weeks later Ponzi had his answer: His calculations were correct. The Spanish and French deals were a wash, a small profit from Spain and a small loss from France, but the Italian effort was a big moneymaker	Investors slid their cash to one of the young tellers. Often, they were three particular girls: Angela Locarno, her sister Marie Locarno, and their friend Bessie Langone. In return for cash, the investors received promissory notes, receipts really, that guaranteed the original investment plus 50 percent interest in forty-five days. The receipts bore Ponzi's ink-stamped signature, which led many to call them simply "Ponzi notes." Lately the waves of cash had come crashing over the counter so quickly that the bills were dumped into wire baskets, to be sorted when the tide rolled out. At slower times the cash was funneled from the clerks directly to a man named Louis Cassullo, an unpleasant acquaintance from Ponzi's past whom Ponzi neither liked nor trusted. Where Cassullo was concerned, Ponzi applied the old adage about keeping friends close and enemies closer. From Cassullo, the cash was counted, bundled, and deposited into one of Ponzi's fast-growing bank accounts. That is, minus any stray bills Cassullo siphoned off.	Just for show, Ponzi himself took out a few notes, and his own Rose came by the office for a visit on April 17 and proudly deposited her pin money, seventy dollars. A twenty-seven-year-old English immigrant named Abe Rhodes outdid her, investing fifteen hundred dollars the same day. But even he fell short of the North End's Antonio D'Avanzo, who bet two thousand. All three would be back to collect their winnings on June 1.

	International Reply Coupon	Promissory Notes or check
Zuckoff, Mitchell	By redeeming them in Boston rather than Barcelona, Ponzi would earn a profit before expenses of ten cents, or 10 percent, on each dollar’s worth of coupons he bought in Spain and redeemed in the United States.	Investors slid their cash to one of the young tellers. Often, they were three particular girls: Angela Locarno, her sister Marie Locarno, and their friend Bessie Langone. In return for cash, the investors received promissory notes, receipts really, that guaranteed the original investment plus 50 percent interest in forty-five days. The receipts bore Ponzi’s ink-stamped signature, which led many to call them simply “Ponzi notes.” Lately the waves of cash had come crashing over the counter so quickly that the bills were dumped into wire baskets, to be sorted when the tide rolled out. At slower times the cash was funneled from the clerks directly to a man named Louis Cassullo, an unpleasant acquaintance from Ponzi’s past whom Ponzi neither liked nor trusted. Where Cassullo was concerned, Ponzi applied the old adage about keeping friends close and enemies closer. From Cassullo, the cash was counted, bundled, and deposited into one of Ponzi’s fast-growing bank accounts. That is, minus any stray bills Cassullo siphoned off.

	Exclusive Suit	Open Branch Offices	Salary + Bonus and Goodies for Employee
Albrecht, W. Steve; Albrecht, Chad O.; Albrecht, Conan C.; Zimbelman, Mark F.	Ponzi dressed in the finest suits, had dozens of gold-handled canes, showered his wife in fine jewels, and purchased a 20-room Lexington mansion.	Branch offices opened, and copycat schemes popped up across New England.	
AP			The defendants were described by prosecutors as "necessary players" in Madoff's fraud. They said Bongiorno, hired in 1968, and Crupi, hired in 1983, used old stock tables to fabricate account statements and other fake records that kept the Securities and Exchange Commission in the dark. The government said they also rewarded themselves with tens of millions of dollars in salary and bonuses, including $2.5m for a beach house for Crupi as the Ponzi scheme was falling apart.
Calder, Rich			The news of the “secret” bonuses came two days after a former data-entry operator for Madoff Securities testified that Bonventre - with Madoff’s blessing - had the company directly reimburse tens of thousands of dollars in personal credit card expenses racked up by Bonventre and his wife. This included two family trips to St. Barthelemy totaling nearly $19,000 in hotel bills, a $3,224 bill from Barney’s, thousands of dollars in dues for his Richmond County Country Club in Staten Island, and other expenses.

	Jewelry and Watches	Luxurious Office Building	Salary + Bonus and Goodies for Employee
Calder, Rich			Schmidt, of the firm AlixPartners, recalled Bonventre saying Madoff authorized the under-the-radar payments because the operations chief's salary was "already so high" that he didn't want extra bonuses "scrutinized by other employees." Prosecutors displayed payroll records showing Bonventre earned $1.1 million in 2008 - including his final company bonus of $200,000. He also cut himself a check that year for another $50,000 "secret" bonus not included in his yearly salary.
Arvedlund, Erin		The offices were immaculate, decked out in modern, grey and black tones - and buzzing: phones rang, traders shouted.	
Creswell, Julie; Jr., Landon Thomas	He was, for instance, an avid collector of vintage watches and took time each morning to match his wedding ring - he owned at least two - to the platinum or gold watch band he was wearing that day.		

	Jewelry for Wife	Pay Debt (Furniture)	Exclusive Suit
Darby, Mary	By then, Ponzi had built the lifestyle he had pursued for so many years: a 12-room mansion in upscale Lexington; servants; a couple of automobiles, including a custom-built limousine; and fine clothes and gold-handled Malacca canes for himself, and diamonds and other baubles for Rose.	Daniels, a furniture salesman, laid claim to a share of Ponzi's fortune on the basis of an old debt.	
Zuckoff, Mitchell	Ponzi flashed a wad of big bills and peeled off a few to redeem Rose’s diamond rings	He began paying off old debts whenever possible, including the two-hundred-dollar loan the furniture dealer Joseph Daniels had given him the previous December. To further satisfy Daniels, in March Ponzi bought more office furniture for his growing business.	Long eager to relive the sartorial splendor of his college days, Ponzi had decked himself out in a sharp new suit at the height of fashion.
Lowenstein, Roger			With his dapper Palm Beach suits, silk handkerchiefs and snazzy cars, he exuded confidence. Even when the tide began to turn, and lines of anxious sellers formed outside his office, Ponzi refused to run.

	Jewelry and Watches	Traveling
Gelles, David; Tett, Gillian	To hear Madoff say it was not about the money strikes us as improbable. He spent lavishly on his lifestyle; after the fraud was revealed, authorities uncovered $75m in a Gibraltar bank account and millions in jewelry and luxury goods.	These were reminders of how much Madoff personally had to lose. He was on the board of Yeshiva University and a regular at charity balls in Manhattan. He and Ruth holidayed in Monte Carlo, where she liked to shop.
Seal, Mark		"Bernie Madoff was the son Carl Shapiro never had," wrote Shannon Donnelly in the Palm Beach Daily News five days after Madoff was arrested. The story had a photograph of Madoff sitting at the family table at Carl Shapiro's 95th-birthday celebration, wearing a tuxedo and a Cheshire-cat grin. As with Norman F. Levy, Madoff became a surrogate son to the wealthy Shapiro, not only looking after the older man's money but also, according to Donnelly's story, traveling with him and appearing "on the short list of invitees to every family birthday, anniversary, bat mitzvah, wedding or graduation."
Strober, Gerald; Strober, Deborah Hart	Sorkin also revealed details of why and how the jewelry had been mailed. It seems that the Madoffs decided on Christmas Eve that they would "reach out" to members of their immediate family, as well as to close friends, by sending them "a few sentimental personal items Among those items was Madoff's watch collection, as he realized that "due to the sudden change" in his circumstances, he would "never have a chance to wear these watches again.	

	Jewelry and Watches	Fishing Boat	Residencies
Strober, Gerald; Strober, Deborah Hart	According to Sorkin, his client, who must surely understand the value of assets-real or imagined-had no idea that gifting diamond-encrusted timepieces from Tiffany and Cartier, as well as diamond brooches, an emerald ring, and other valuables, could possibly violate explicit provisions of an agreement to which he had affixed his signature.	In addition to acquiring his three homes, Madoff had treated himself to a fifty-five-foot wooden fishing boat in 1977, which he purchased for $462,000. that figure arrived at by estimating the value of his defunct brokerage firm, his Lipstick Building office, his Upper East Side and Wall Street apartments, his three properties in Palm Beach, and his houses in Key Largo, Florida and Antibes, France, his four boats, and three automobiles.	Madoff knew when he awoke on that chilly December morning that it was only a matter of time before there would be a knock on the door of Apartment 12A, the elegant duplex penthouse he shares with his wife, Ruth, at 133 East 64th Street "The fact that Madoff traveled the country club circuit here on Long Island, and also had homes here, where many of his victims have homes and businesses, made it a likely spot. He spent $3.25 million on a Manhattan duplex in 1990 and also bought houses in Montauk, in Long Island's trendy Hamptons, and in Palm Beach, Florida, described as being worth $9.3 to $21 million. In addition to acquiring his three homes, Madoff had treated himself to a fifty-five-foot wooden fishing boat in 1977, which he purchased for $462,000.

	Residencies	Fishing Boat	Traveling
Strober, Gerald; Strober, Deborah Hart	that figure arrived at by estimating the value of his defunct brokerage firm, his Lipstick Building office, his Upper East Side and Wall Street apartments, his three properties in Palm Beach, and his houses in Key Largo, Florida and Antibes, France, his four boats, and three automobiles.		
Thompson, Paul	With millions at her disposal she only ever visited high end stores buying the best furniture and fittings for her penthouse apartment in New York, a $11m home in Palm Beach, Florida, a $3m home in The Hamptons and a $1m villa in Cap D'Antibes in the south of France.	There was also a 55ft yacht called The Bull that was valued at $5.5m, had an elevator to reach the bridge, and had two sister ships - Sitting Bull, a 38-foot 'runabout' in Florida, and Little Bull, an open cabin boat with an outboard motor.	
Smith, Aaron	Certainly, his surroundings in a medium-security prison are a lot less comfortable. When his massive Ponzi scheme unraveled in 2008, Madoff had to give up his $7 million Manhattan penthouse, a beach house in Montauk, N.Y, his homes in Florida, and France		
Strober, Gerald; Strober, Deborah Hart			Bernard Madoff has traveled the world for many years.

	Self Care	Open Branch Offices
Quinn, James	The 70-year-old was a pillar of the community, living - when he was not in New York, or at his beachfront house in the Hamptons - in a woodclad, tropically styled house on North Lake Way. Just two weeks ago, according to Bloomberg, he stopped off at the Everglades barber shop in the town for his "usual" - a $65 haircut, a $40 shave, a $50 pedicure and a $22 manicure.	
Strober, Gerald; Strober, Deborah Hart	Bernie Madoff enjoyed one of his $65 haircuts, as well as his customary $40 shave, $22 manicure, and $50 pedicure at the Everglades Barber Shop	
Zuckoff, Mitchell		Soon Ponzi had Massachusetts branch offices not only in Lawrence but also in Brockton, Clinton, Fall River, Framingham, Lynn, Plymouth, Quincy, and Worcester. He opened a second Boston branch in the North End, at 196 Hanover Street, next door to the Daniels & Wilson Furniture Company. Then came Manchester and Portsmouth, New Hampshire; Barre and Burlington, Vermont; Hartford, Bridgeport, and New Haven, Connecticut; Bangor and Portland, Maine; Pawtucket, Providence, and Woonsocket, Rhode Island; and Bayonne and Clifton, New Jersey. Agents in Boston and the ever-expanding branches-some little more than a traveling salesman, others modeled after 27 School Street-began doing so much business that they hired subagents, splitting with them the 10 percent commissions that became Ponzi’s going rate. And the money kept coming.

	Open Branch Offices	Salary + Bonus and Goodies for Employee	Luxurious Office Building
Knutson, Mark C.	He also had an office on Hanover street, next to the Daniels & Wilson Furniture Company, on the corner of Washington and Walter streets.		
Strober, Gerald; Strober, Deborah Hart		Then on Tuesday, December 9, Madoff, who, according to his sons, had been very stressed out for several weeks, said that he wanted to pay company bonuses immediately. On a much lighter note, eBay, capitalizing on Bernard Madoff's notoriety, was now offering the following items- BMIS promotional giveaways emblazoned with the firm's name and offered to well-heeled clients and prospective investors-for sale: flashlights, beach tote bags, beach chairs, backpacks, golf caps, Corporate Challenge T-shirts, fleece blankets, and desktop cigar humidors.	The following day, Mark and Andrew met with their father in his inner sanctum on the 17th floor of 885 Third Avenue, known as the Lipstick Building-a 453-foot-high, 34-story, red granite and steel tower designed by the John Burgee firm with the doyen of American architects, Philip Johnson, and so named due to its distinctive oval shape and color.

	Salary + Bonus and Goodies for Employee	Luxurious Office Building
Strober, Gerald; Strober, Deborah Hart	And, the pièce de résistance: a disaster recovery bag given by Bernard Madoff to all employees and replete with New York City bus and subway maps, air-filter mask, whistle, emergency blanket, sanitary wipes, and a water pack. One can only wonder: Was the Ponzi King anticipating that his gift to employees would one day come in handy? Was he thinking: When everything falls apart, they'll be able to use the maps to escape from the Lipstick Building before the Feds get here. In the meantime, they can protect themselves from the hot air emanating from the 17th floor by using their masks; if so disposed, they can use their whistles to become whistle-blowers; if they find themselves out on the street when they discover that there's no money left in the till to pay their salaries or to allow them to redeem their own small investments in BMIS, they can always shelter atop the subway grate on East 53rd Street, using their fleece blankets for extra warmth, and washing off daily with their sanitary wipes. And, last but not least, they can sustain themselves with fluids from their water packs.	that figure arrived at by estimating the value of his defunct brokerage firm, his Lipstick Building office, his Upper East Side and Wall Street apartments, his three properties in Palm Beach, and his houses in Key Largo, Florida and Antibes, France, his four boats, and three automobiles.

Appendix 5

	Communication skill	Trust
Azim, Dr. Mohammad I.; Azam, Dr. Saiful	Due to the implicit trust gained from the wider community, Madoff had no difficulty in recruiting reputed clients, in terms of both quantity and quality, for his Ponzi scheme without raising any skepticism.	Madoff took advantage of his position as head of the company, which gave him more chance to commit a crime without being questioned. Madoff had enough management power and authority to design the level of internal control and corporate governance in such an advantageous way for himself. Firstly, it is obvious that the typical segregation of duties 128 are left to complete the tasks without their senior partners' Accountancy Business and the Public Interest 2016 in Madoff's hedge fund was missing (Fuerman, 2009). Normally, an investment manager should have segregated duties in his capacity as a manager of assets, a broker who executes trades, a fund administrator who calculates the net asset values and a custodian who has custody of assets. However, BMIS's hedge fund performed all four of these functions without any distinct separation, which led to a very low level of internal control. Secondly, the corporate governance of BMIS had all the key players being the Madoffs with his brother as the chief compliance officer, his nephew as the director of administration, his sons as directors, his niece as the general counsel and rules compliance attorney (Fuerman, 2009). Thirdly, Madoff approved of and insisted on using a solo auditor. The auditing company that Madoff hired was Friehling & Horowitz, as mentioned before, a firm consisting of only three employees and one office and was extremely small despite the scale and scope of BMIS's activities. Another great opportunity that Madoff found was people's trust in his reputation. Madoff had gained a remarkable reputation by his efforts in the 1970s and 1980s to establish a competitive advantage and increase the influence of NASDAQ, which then became one of the largest stock exchanges in North America (Henriques, 2012). Madoff was appointed a non-executive chairman of NASDAQ and this position brought him considerable respect and trust from both investors and regulators. Besides, the trading arm of BMIS was highly lucrative, which further enhanced the public's trust in his business.

	Communication skill	Trust
Azim, Dr. Mohammad I.; Azam, Dr. Saiful		During the next four decades, Madoff's firm kept growing and gained a reputation on Wall Street as one of the largest buying and selling market makers at the NASDAQ. Investors were blinded by the resumé, his perceived wealth, and his lofty status in the community and therefore did not feel the need to dig beneath the surface when conducting due diligence. Due to the implicit trust gained from the wider community, Madoff had no difficulty in recruiting reputed clients, in terms of both quantity and quality, for his Ponzi scheme without raising any skepticism.
Video of Charles Ponzi on Crooked Crooks (ruziel10)	Soon, Ponzi's investors started worrying in the panic run ensued. Ponzi paid out two billion dollars in three days to a wild crowd outside his office. He canvassed the crowd passed out coffee and donuts and cheerfully told them they had nothing to worry about. Many changed their minds and left their money with him. He then hired of publicist, William McMasters, to ward off the bad talk. However, McMasters himself was doubtful, he called Ponzi a financial idiot, who didn't seem to know how to add.	Soon, Ponzi's investors started worrying in the panic run ensued. Ponzi paid out two billion dollars in three days to a wild crowd outside his office. He canvassed the crowd passed out coffee and donuts and cheerfully told them they had nothing to worry about. Many changed their minds and left their money with him. He then hired of publicist, William McMasters, to ward off the bad talk. However, McMasters himself was doubtful, he called Ponzi a financial idiot, who didn't seem to know how to add.
Zuckoff, Mitchell	Ponzi went to a Boston post office and confirmed that coupons could be exchanged there for stamps.	If there was any reason for the people of Boston to be suspicious of Ponzi, they would not find it in the morning Post. The story read with all the confidence of the advertisements the paper ran that promised

	Lack of controls
McGuire, Matthew; Counihan, Victoria	Introduced in 1906, IRCs were slowly gaining popularity among the immigrants who were flocking to the United States in droves. These coupons, issued in every member country of the Universal Postal Union, were redeemable at a post office for a single-rate, ordinary postage stamp for delivery to a foreign country. They were invented to facilitate the equivalent of a "self-addressed stamped envelope" across international lines and were designed to be sent as a courtesy with international correspondence to enable the recipient to send a reply at no cost to him or herself. A recipient need only take an IRC to his or her local post office and redeem it for the amount of postage required to mail a letter to the desired country. Because the cost of postage for an equivalent letter varied from country to country based upon currency differences and other considerations, Ponzi recognized that he could profit enormously by purchasing an IRC in one country and redeeming it for postage in another country where the value of the equivalent amount of postage was greater. Consequently, Ponzi set up a business called the "Securities Exchange Company." He contacted his relatives in Italy and asked them to buy up as many IRCs as possible and send them to him.
Zuckoff, Mitchell	The closest the story came to skepticism was to mention that federal and state authorities had looked into Ponzi’s extraordinary investment plan. But the reporter defused that land mine in a single sentence, writing, “The authorities have not been able to discover a single illegal thing about it.” Ponzi could not have hoped for a more sterling endorsement. The result was an opportunity to profit. The Spaniard who’d sent Ponzi the coupon considered it nothing more than an act of proper business etiquette. He was, after all, asking to be sent a copy of the Trader’s Guide. But in a flash of insight, some might even say genius, Ponzi saw something more, a global currency whose value fluctuated wildly depending on where it was used. He took out a pencil and a pad of paper and began calculating the possibilities. Using exchange rates published in Boston newspapers, Ponzi concluded that a dollar was worth six and two-thirds pesetas. Because there were one hundred centavos to a peseta, Ponzi calculated that a dollar was worth 666 centavos.

	Lack of an audit trail and control	Power by position
Azim, Dr. Mohammad I.; Azam, Dr. Saiful	Madoff took advantage of his position as head of the company, which gave him more chance to commit a crime without being questioned. Madoff had enough management power and authority to design the level of internal control and corporate governance in such an advantageous way for himself. Firstly, it is obvious that the typical segregation of duties are left to complete the tasks without their senior partners' Accountancy Business and the Public Interest 2016 in Madoff's hedge fund was missing (Fuerman, 2009). Normally, an investment manager should have segregated duties in his capacity as a manager of assets, a broker who executes trades, a fund administrator who calculates the net asset values and a custodian who has custody of assets. However, BMIS's hedge fund performed all four of these functions without any distinct separation, which led to a very low level of internal control. Secondly, the corporate governance of BMIS had all the key players being the Madoffs with his brother as the chief compliance officer, his nephew as the director of administration, his sons as directors, his niece as the general counsel and rules compliance attorney (Fuerman, 2009). Thirdly, Madoff approved of and insisted on using a solo auditor. The auditing company that Madoff hired was Friehling & Horowitz, as mentioned before, a firm consisting of only three employees and one office and was extremely small despite the scale and scope of BMIS's activities.	Madoff took advantage of his position as head of the company, which gave him more chance to commit a crime without being questioned. Madoff had enough management power and authority to design the level of internal control and corporate governance in such an advantageous way for himself. Firstly, it is obvious that the typical segregation of duties are left to complete the tasks without their senior partners' Accountancy Business and the Public Interest 2016 in Madoff's hedge fund was missing (Fuerman, 2009). Normally, an investment manager should have segregated duties in his capacity as a manager of assets, a broker who executes trades, a fund administrator who calculates the net asset values and a custodian who has custody of assets. However, BMIS's hedge fund performed all four of these functions without any distinct separation, which led to a very low level of internal control. Secondly, the corporate governance of BMIS had all the key players being the Madoffs with his brother as the chief compliance officer, his nephew as the director of administration, his sons as directors, his niece as the general counsel and rules compliance attorney (Fuerman, 2009). Thirdly, Madoff approved of and insisted on using a solo auditor. The auditing company that Madoff hired was Friehling & Horowitz, as mentioned before, a firm consisting of only three employees and one office and was extremely small despite the scale and scope of BMIS's activities.

	Lack of an audit trail and control	Power by position
Azim, Dr. Mohammad I.; Azam, Dr. Saiful	The banks, according to Madoff, never pushed further for more information beyond the false return statements they had received	During the next four decades, Madoff's firm kept growing and gained a reputation on Wall Street as one of the largest buying and selling market makers at the NASDAQ. He was a former chairman of the NASDAQ and sat on several industry association boards and he had family members who occupied key positions in the company. Another great opportunity that Madoff found was people's trust in his reputation. Madoff had gained a remarkable reputation by his efforts in the 1970s and 1980s to establish a competitive advantage and increase the influence of NASDAQ, which then became one of the largest stock exchanges in North America (Henriques, 2012). Madoff was appointed a non-executive chairman of NASDAQ and this position brought him considerable respect and trust from both investors and regulators. Besides, the trading arm of BMIS was highly lucrative, which further enhanced the public's trust in his business.
Video of How Bernard Madoff Modernized the Ponzi Scheme (HBO)	Flash forward to 2008, Bernie Madoff, a trusted Wall Street entrepreneur, was running a successful stock trading business that served a host of well-known firms. But hidden alongside his legitimate dealings, Madoff was running a scheme that mirrored Ponzi's.	Flash forward to 2008, Bernie Madoff, a trusted Wall Street entrepreneur, was running a successful stock trading business that served a host of well-known firms. But hidden alongside his legitimate dealings, Madoff was running a scheme that mirrored Ponzi's.

	Lack of an audit trail and control	The accounting system
Video of How Bernard Madoff Modernized the Ponzi Scheme (HBO)	Madoff collected funds from clients and instead of investing them as advertised, paid out returns with money he was raising from new customers. While taking a cut along the way. There he was, however, a key difference between Bernie Madoff and Charles Ponzi: subtlety. A charismatic and intelligent figure with a squeaky-clean record, Madoff promised reasonable returns that didn't raise red flags. People saw no reason to doubt him. The scheme ran for decades without exposure, until the financial collapse of 2008. Hit by the crisis, clients began to withdraw their cash to cover losses from other failing investments. Madoff was unable to secure the new funds he needed to pay them.	
Strober, Gerald; Strober, Deborah Hart	Peter was highly skilled technically and was able to implement some of the systems; Bernie was very astute in understanding the regulatory environment. “We would answer, ‘Yes, we are competitors, but it’s not a fair competition.’ He has none of the overhead that we have as far as regulatory and all the rest, and, as it turns out, he had no regulatory oversight, it seems,” Najarian said. “We thought it was unfair and would ultimately result in fewer participants in the market. The SEC never wanted to hear it.”	they started with a guy who was very successful in this computerized trading operation It was thanks to the efforts of people like Bernie Madoff that NASDAQ was able to attract listings from top-tier tech companies such as Apple, Sun Microsystems, Cisco Systems, and later search powerhouse Google. And in doing so, Bernie Madoff set off the computerization of the entire financial industry. So impressive were the Madoff firm’s computer trading programs to others.

	Lack of an audit trail and control	The accounting system
Strober, Gerald; Strober, Deborah Hart	In 1999 there was a probe of the BMIS operation, but investigators came up empty, and Madoff went on to score even greater financial coups. So much so that between 1997 and 2008, he spent $590,000 on lobbying efforts, almost all of it with Lent, Scrivner & Roth, a firm concerned with market regulation, security transactions fees, and stock exchange mergers. "So, if there is a real problem they would deal with it internally," Gefner added, explaining that "the SEC has limited resources and prioritizes complaints. So, a complaint against Madoff, although it would have received some form of attention, may not have gone too far because of his reputation." One of the most intriguing questions concerning the U.S. government's involvement with BMIS is: What did the SEC know, and when did the regulatory body know it? After the scandal broke, the New York Times' Deal book reported that the agency's current chairman, Christopher Cox, acknowledged that "our initial findings have been deeply troubling," in announcing that the SEC had ignored specific, credible evidence of problems going back at least to 1999. Perhaps the most striking example of the SEC's malfeasance regarding Madoff was its refusal to take seriously the claims of Harry Markopolos, a well-respected figure in the financial world, who for nine years had tried to persuade the agency to respond to his charge that Madoff was a fraud.	They found a niche that they exploited that helped customers a lot. Remember that at that time there were fixed, high commissions, and the Madoffs found a way in which retail customers could trade with some benefits. They were able to interface computer-wise with the retail brokerage firms and reduce costs all over the place." Peter was highly skilled technically and was able to implement some of the systems; Bernie was very astute in understanding the regulatory environment.

	Lack of an audit trail and control	Ignorance, apathy, and incapacity
Strober, Gerald; Strober, Deborah Hart	Having fallen victim to a company supervised by a U.S. regulator, as did many of the world's most illustrious financial institutions, does not ease the pain.	Noting that "most of the organizations were Jewish ones," Taubenfeld excoriated Madoff for having "taken advantage of his Jewish connections to steal. It is unfortunate that communities honor the people for the money they donate rather than the quality of the people they are dealing with. But this is something that has been going on for ages." He committed a nasty crime. He cheated organizations that are providing health care, meals on wheels, and education to students. To steal knowingly for decades, especially from widows, orphans, and charities
SEC Office of Inspector General Report of Investigation	The SEC focused its investigation too narrowly and seemed not to have considered the possibility that Madoff could have taken the money that was used to pay back his associate's customers from other clients for which Madoff may have had held discretionary brokerage accounts.	The SEC focused its investigation too narrowly and seemed not to have considered the possibility that Madoff could have taken the money that was used to pay back his associate's customers from other clients for which Madoff may have had held discretionary brokerage accounts.
Quisenberry, William L		Madoff had successfully fooled extremely savvy investors, charitable organizations, and large investment funds by operating what is termed a Ponzi scheme, which essentially is the act of collecting money from multiple investors, and redistributing the funds to previous investors as if they are legitimate investment returns (SEC, 2012)

	The accounting system	Power by position
NASAA Investor Education Section	For decades, Madoff investors received consistent and steady annual returns through elaborate, fabricated account statements and other documentation that were provided to investors to convince them that their money had been placed in actual investments.	
Zarrabi, Shahin; Lundberg, Lennart	The firm was initially a small penny stock trader, but it grew fast due to its use of innovative computer technology. The firm became one of the largest market makers in the US	The Madoff family had through the years gained access to the Washington lawmakers and regulators. Madoff himself was a chairman on the board of the Securities Industry Association, later merged into SIFMA where his brother Peter Madoff sat as a member of the board
Strober, Gerald; Strober, Deborah Hart		Bernard Madoff, the much sought-after Wall Street adviser, trader, and former NASDAQ chairman, known for his social graces and "soft-sell" approach to potential investors. Gary Tobin, somewhat of a contrarian on the issue, maintained that "The way the story is being told in the Jewish community is that this is a person who was very involved in Jewish organizational life and is seen through the lens of the Jewish community, when, in fact, he is a former chairman of NASDAQ and was involved in financial and communal institutions of all kinds. It was thanks to the efforts of people like Bernie Madoff that NASDAQ was able to attract listings from top-tier tech companies such as Apple, Sun Microsystems, Cisco Systems, and later search powerhouse Google.

	Control activities (procedures)	Power by position
Strober, Gerald; Strober, Deborah Hart	It was thanks to the efforts of people like Bernie Madoff that NASDAQ was able to attract listings from top-tier tech companies such as Apple, Sun Microsystems, Cisco Systems, and later search powerhouse Google. Peter was highly skilled technically and was able to implement some of the systems; Bernie was very astute in understanding the regulatory environment. In 1999 there was a probe of the BMIS operation, but investigators came up empty, and Madoff went on to score even greater financial coups.	"I say to them: If someone came to you and said, 'There is this fabulous financial adviser. It's very hard to place your money with him because he is overwhelmed with people who want to invest with him, he's the former head of NASDAQ, he's treasurer of Yeshiva University, he's head of the Sy Sims School of Business, and Ira Rennert, Ezra Merkin, Elie Wiesel's foundation, and Hadassah all invest with him,' would I really worry that there's a problem? 'If you're lucky enough for him to take your money, this guy has been averaging ten to fifteen percent a year. And he's been doing it for thirty years.' If I heard that and invested with him, I'm not sure I could be fairly portrayed as doing something idiotic. I can see how you could be involved with him without investigating it thoroughly. I can see it because of this guy's bona fide, his incredible credentials."
Zarrabi, Shahin; Lundberg, Lennart	The firm was initially a small penny stock trader, but it grew fast due to its use of innovative computer technology. The firm became one of the largest market makers in the US, When a customer made an investment, he simply put the money into a bank account, and when asked for a withdrawal he took the money piled up in that account. Withdrawals were simply covered by new investments.	

	Trust	Good Reputation
Strober, Gerald; Strober, Deborah Hart	Meyer found Madoff to be “very pleasant, very nice, very honorable; all the things that you would expect in a gentleman of his stature at that time, not ostentatious in any way.” She continued, “I have no idea what his lifestyle was; I never questioned it. He was very low-key-he was all over the world, I guess. Everybody was interested in getting to know him. I never thought much about it until all this happened.” “I never met Madoff,” Greenfield said. “It was my father, who lived in Lake Worth. Friends of friends recommended that he invest with Madoff because Madoff’s reputation was stellar. My father, who was a CPA, was very knowledgeable. He was involved in securities and knew exactly what was going on. But something about Madoff made him feel that this was really the right place to put his money. “At that point, the early 1990s, he had enough to go into one of Madoff’s trusts. He believed in Madoff, who was apparently the king of Palm Beach at that time. My father felt very, very comfortable about putting his money there. but I believe that [Madoff’s] reputation was so good that people felt that their money was secure, and they were going to make a nice income	Bernard Madoff, the much sought-after Wall Street adviser, trader, and former NASDAQ chairman, known for his social graces and “soft-sell” approach to potential investors. Meyer found Madoff to be “very pleasant, very nice, very honorable; all the things that you would expect in a gentleman of his stature at that time, not ostentatious in any way.” She continued, “I have no idea what his lifestyle was; I never questioned it. He was very low-key-he was all over the world, I guess. Everybody was interested in getting to know him. I never thought much about it until all this happened.” but I believe that [Madoff’s] reputation was so good that people felt that their money was secure and they were going to make a nice income As his reputation grew, Bernard Madoff hobnobbed with the rich and famous, befriended some of the world’s most successful entrepreneurs, advised major financial entities and government agencies, and attempted to influence the legislative process.

	Trust	Good Reputation
Strober, Gerald; Strober, Deborah Hart	"I say to them: If someone came to you and said, 'There is this fabulous financial adviser. It's very hard to place your money with him because he is overwhelmed with people who want to invest with him, he's the former head of NASDAQ, he's treasurer of Yeshiva University, he's head of the Sy Sims School of Business, and Ira Rennert, Ezra Merkin, Elie Wiesel's foundation, and Hadassah all invest with him,' would I really worry that there's a problem? 'If you're lucky enough for him to take your money, this guy has been averaging ten to fifteen percent a year. And he's been doing it for thirty years.' If I heard that and invested with him, I'm not sure I could be fairly portrayed as doing something idiotic. I can see how you could be involved with him without investigating it thoroughly. I can see it because of this guy's bona fide, his incredible credentials." "Unlike other financial consultants who came in with flashy suits and elaborate presentations, Madoff was modest and kept things simple," Seal said, adding that Madoff displayed "a couple of pieces of paper with annualized returns. You got an explanation of covered options. It wasn't slick, and that, in some ways, endeared him to people. It was almost like he didn't need your money. Everyone else always seemed a little hungry and eager to get your business."	"I never met Madoff," Greenfield said. "It was my father, who lived in Lake Worth. Friends of friends recommended that he invest with Madoff because Madoff's reputation was stellar. My father, who was a CPA, was very knowledgeable. He was involved in securities and knew exactly what was going on. But something about Madoff made him feel that this was really the right place to put his money. In an interview distributed by Bloomberg News, he said he found Madoff to be "very personable, very charming, probably one of the best social networkers in America, who moved in the best circles-he was a pro at it." Thus, for many highly intelligent, successful people, investing with Bernard Madoff became a badge of honor and pride.

	Trust	Good Reputation
Strober, Gerald; Strober, Deborah Hart	“They talk about that in their circle of influence; they say to their country club friends and their business acquaintances, ‘You know, my friend John has been getting ten percent with Madoff year after year and I tried to get in.’ And everyone becomes like a moth drawn to the flame. People were vying for his attention to get into this Ponzi scheme.”	“I say to them: If someone came to you and said, ‘There is this fabulous financial adviser. It’s very hard to place your money with him because he is overwhelmed with people who want to invest with him, he’s the former head of NASDAQ, he’s treasurer of Yeshiva University, he’s head of the Sy Sims School of Business, and Ira Rennert, Ezra Merkin, Elie Wiesel’s foundation, and Hadassah all invest with him,’ would I really worry that there’s a problem? ‘If you’re lucky enough for him to take your money, this guy has been averaging ten to fifteen percent a year. And he’s been doing it for thirty years.’ If I heard that and invested with him, I’m not sure I could be fairly portrayed as doing something idiotic. I can see how you could be involved with him without investigating it thoroughly. I can see it because of this guy’s bona fide, his incredible credentials.”
Video of How Bernard Madoff Modernized the Ponzi Scheme (HBO)	Flash forward to 2008, Bernie Madoff, a trusted Wall Street entrepreneur, was running a successful stock trading business that served a host of well-known firms. But hidden alongside his legitimate dealings, Madoff was running a scheme that mirrored Ponzi’s.	Madoff collected funds from clients and instead of investing them as advertised, paid out returns with money he was raising from new customers. While taking a cut along the way. There he was, however, a key difference between Bernie Madoff and Charles Ponzi: subtlety. A charismatic and intelligent figure with a squeaky-clean record, Madoff promised reasonable returns that didn't raise red flags. People saw no reason to doubt him. The scheme ran for decades without exposure, until the financial collapse of 2008. Hit by the crisis, clients began to withdraw their cash to cover losses from other failing investments. Madoff was unable to secure the new funds he needed to pay them.

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	Communication skill
Strober, Gerald; Strober, Deborah Hart	Bernard Madoff, the much sought-after Wall Street adviser, trader, and former NASDAQ chairman, known for his social graces and "soft-sell" approach to potential investors. Meyer found Madoff to be "very pleasant, very nice, very honorable; all the things that you would expect in a gentleman of his stature at that time, not ostentatious in any way." She continued, "I have no idea what his lifestyle was; I never questioned it. He was very low-key-he was all over the world, I guess. Everybody was interested in getting to know him. I never thought much about it until all this happened." In an interview distributed by Bloomberg News, he said he found Madoff to be "very personable, very charming, probably one of the best social networkers in America, who moved in the best circles-he was a pro at it." "Unlike other financial consultants who came in with flashy suits and elaborate presentations, Madoff was modest and kept things simple," Seal said, adding that Madoff displayed "a couple of pieces of paper with annualized returns. You got an explanation of covered options. It wasn't slick, and that, in some ways, endeared him to people. It was almost like he didn't need your money. Everyone else always seemed a little hungry and eager to get your business." From the vantage points of Manhattan, the Hamptons, and Palm Beach, Madoff observed his wealthy neighbors, joined their exclusive clubs, established their trust, and soon had them literally begging to be given the opportunity to invest in BMIS. "They talk about that in their circle of influence; they say to their country club friends and their business acquaintances, 'You know, my friend John has been getting ten percent with Madoff year after year and I tried to get in.' And everyone becomes like a moth drawn to the flame. People were vying for his attention to get into this Ponzi scheme."

	Communication skill
Strober, Gerald; Strober, Deborah Hart	As his reputation grew, Bernard Madoff hobnobbed with the rich and famous, befriended some of the world's most successful entrepreneurs, advised major financial entities and government agencies, and attempted to influence the legislative process.
Video of How Bernard Madoff Modernized the Ponzi Scheme (HBO)	Madoff collected funds from clients and instead of investing them as advertised, paid out returns with money he was raising from new customers. While taking a cut along the way. There he was, however, a key difference between Bernie Madoff and Charles Ponzi: subtlety. A charismatic and intelligent figure with a squeaky-clean record, Madoff promised reasonable returns that didn't raise red flags. People saw no reason to doubt him. The scheme ran for decades without exposure, until the financial collapse of 2008. Hit by the crisis, clients began to withdraw their cash to cover losses from other failing investments. Madoff was unable to secure the new funds he needed to pay them. Here's how it worked: Ponzi lured people in with the promised he would double their investment in 90 days. When it came time to pay out, he did so with money he was raising from new clients. Once he was no longer to raise additional funds, however, the whole operation fell apart

	Greed	Need to appear successful	The Need to Pay New Investor
Albrecht, W. Steve; Albrecht, Chad O.; Albrecht, Conan C.; Zimbelman, Mark F.		for example, experts believe that one of the pressures that led Madoff to commit fraud was the need to appear successful. When investments were not performing well, in order to save face, Madoff would simply make up fictitious returns.	
Azim, Dr. Mohammad I.; Azam, Dr. Saiful	Bernard Madoff's incentive was simply a desire to maintain the lucrative lifestyle to which he had become accustomed or just a "lure of greed"	Besides, Madoff faced the pressure of maintaining the reputation and profit of the firm.	Madoff was struggling to generate sufficient profits to cover returns for investors that required him to repay early investors with new investors' money.
Creswell, Julie; Jr., Landon Thomas	An easy answer is that Mr. Madoff was a charlatan of epic proportions, a greedy manipulator so hungry to accumulate wealth that he did not care whom he hurt to get what he wanted.		
Parsons, Louise			Madoff had to pay back their principal 'investment' plus any interest to protect the scheme and he was therefore under pressure to obtain new investors at a time when the GFC had 6 Bond University Faculty of Law proudly supports the National Legal Eagle

	Greed	Need to appear successful
Quisenberry, William L	The researcher proposes greed as a major component to Ponzi schemes, because investors in these networks are typically promised large, quick, financial returns on investments	
Rowe, Barbara R.	Greed, however, quickly overran his modest intentions and he began to solicit money from other people on the promise that they could expect a 50% profit from their investment in just 45 days.	
Video of Charles Ponzi on Crooked Crooks (ruziel10)		Charles Ponzi was born Carlo Pietro Giovanni Guglielmo Tebaldo Ponzi in Lugo, Italy in 1882. He claimed to have come from a well-to-do family. He attended the University of Rome La Sapienza where he reportedly spent most of his four years going to bars, cafes, and the Opera. On November 15th, 1903, at age 21 Charles Ponzi moved to the United States, docking in Boston, Massachusetts. He famously said, "I landed in this country with $2.50 in cash and $1 million in hopes, and those hopes never left me." He spent the next few years learning English in taking on odd jobs along the East Coast.
Zuckoff, Mitchell	His only consolation was his certainty that he had established a firm foothold on the ladder up from manual labor. He had painted his last sign, washed his last dish, begged his last bowl of macaroni. Never again would he seek a menial job. But he was far from satisfied. It remained a long, unsteady climb to the top rung, and at thirty-five Ponzi was impatient about getting there. His impatience grew exponentially at the end of May 1917.	he gravitated toward a group of wealthy students who lived la dolce vita. Ponzi did everything he could to emulate them, adopting their manners and especially their spending habits. Their funds seemed limitless, so he dug ever deeper into his fast-dwindling inheritance to dress in the latest European fashions and pick up restaurant tabs for his friends and the pretty girls they met.

	Greed	Need to appear successful
Zuckoff, Mitchell	With a maestro's touch, Ponzi had struck a perfect balance among the forces competing to control the new American identity: altruism and avarice. The family was comfortable but far from wealthy, richer in name and reputation than in savings. Rose wanted them to be economical, living carefully within their means "in a cozy little place where we can pay our bills." Ponzi, she despaired, "had the air and the tastes of the millionaire."	"There's Ponzi!" someone shouted when he stepped from the car. On that cue the masses moved as one. They surrounded him and his guard, some pleading for a moment of his time, others content to pat him on the back, and some thrilled simply to lay eyes on the Merlin of money. A few skeptics mingled among the believers. One was loudly labeling the Securities Exchange Company a bogus get-richquick scheme when Ponzi arrived. "I'd like to see the man who could do it-" the doubter shouted. Faced with the challenge, Ponzi called out, "Well, I'm doing it! I'm the man!" He considered himself a gentleman, a member of the elite class of his Roman friends. Taking a mundane job would be beneath him. Humiliating, even. The thought of physical labor was not even discussed. Ponzi considered himself a mollycoddle, and no one disagreed. Going to America and coming home a rich man would make her proud. Even better, it would satisfy his thirst for a life of leisure and hers for a prominent son. That afternoon, Ponzi filled out the check in the legitimate-seeming amount of $423.58. He signed it "D. Fournier" and presented it at a branch of the Bank of Hochelaga. He asked the teller for four onehundred-dollar bills in American currency, but the teller told him that would not be possible. Agitated, Ponzi accepted forty-two ten-dollar bills, three singles, and the rest in coins. Cash in hand, Ponzi left the bank and began outfitting himself for his return to the United States. He went from store to store, buying two suits, an overcoat, a pair of boots, and a watch and chain. He completed the spree with thirty-two dollars' worth of shirts, collars, cuffs, ties, and suspenders from a men's clothing store called R. J. Tooke.

	Living beyond one's means	Lifestyle
Darby, Mary	Ponzi wanted to be "something special." A poor immigrant, he sought to become part of the Boston establishment that had excluded him, Ault believes. "It was an impossible goal, but he managed to achieve a little bit of it for a short period of time."	
Zuckoff, Mitchell	he gravitated toward a group of wealthy students who lived la dolce vita. Ponzi did everything he could to emulate them, adopting their manners and especially their spending habits. Their funds seemed limitless, so he dug ever deeper into his fast-dwindling inheritance to dress in the latest European fashions and pick up restaurant tabs for his friends and the pretty girls they met. He considered himself a gentleman, a member of the elite class of his Roman friends. Taking a mundane job would be beneath him. Humiliating, even. The thought of physical labor was not even discussed. Ponzi considered himself a mollycoddle, and no one disagreed. After the collapse of Gnecco Brothers, Ponzi found himself without a job. He had no interest in going back to J. R. Poole or seeking similar work. He was “tired of working for expectations that didn’t pay either my rent or my grocery bills, tired of making money for my employers in general and none for myself.”	Ponzi had capped the interview with a priceless assertion, and again the reporter had obliged him by printing it: “I get no pleasure out of spending money on myself, but a great deal in doing some good with it. Always I have said to myself, if I can get one million dollars, I can live with all the comfort I want for the rest of my life. If I get more than one million dollars, I will spend all over and above the one million trying to do good in the world. Now I have the million. That I have put aside. If my business closed tomorrow I am sure that I will have that amount on which to make myself and family comfortable for the rest of our days.” If anyone doubted how secure Ponzi felt, the story continued: “Ponzi estimates his wealth in excess of $8.5 million.” The work of delivering mail and selling stamps was steady if not glamorous
Azim, Dr. Mohammad I.; Azam, Dr. Saiful		Bernard Madoff’s incentive was simply a desire to maintain the lucrative lifestyle to which he had become accustomed or just a “lure of greed”

	Living beyond one's means	Lifestyle
Zuckoff, Mitchell	At dusk he roused himself from his boardinghouse bed and roamed the city's fashionable neighborhoods, carousing in cafés, attending the theater, and refining his taste for opera. At midnight he joined the gamblers and thieves in the casinos of Rome's underground. Young, naive, half-drunk, and reckless with money, Ponzi made an appealing mark. At dawn he would trudge to his rooms to sleep, and then the cycle would begin again. To his surprise, Ponzi traveled to Atlanta in style, more like a chief executive than a felon. With deputy U.S. marshals as his escorts, Ponzi went south with a berth in a Pullman sleeping car. He enjoyed his meals in a dining car and lounged in the plush seats as farms and cities rolled past the windows. His small entourage stopped in Washington and enjoyed lunch at a restaurant that Ponzi considered pretentious, then took an afternoon constitutional on the grounds of the Capitol. By the time they reached Atlanta, the marshals had grown fond of the charming convict. They brought him to a bar for a last bracing drink before prison, but to Ponzi's disappointment the only libation was flat, sour-tasting near beer. Rose wanted them to be economical, living carefully within their means "in a cozy little place where we can pay our bills." Ponzi, she despaired, "had the air and the tastes of the millionaire."	That afternoon, Ponzi filled out the check in the legitimate-seeming amount of $423.58. He signed it "D. Fournier" and presented it at a branch of the Bank of Hochelaga. He asked the teller for four one hundred-dollar bills in American currency, but the teller told him that would not be possible. Agitated, Ponzi accepted forty-two ten-dollar bills, three singles, and the rest in coins. Cash in hand, Ponzi left the bank and began outfitting himself for his return to the United States. He went from store to store, buying two suits, an overcoat, a pair of boots, and a watch and chain. He completed the spree with thirty-two dollars' worth of shirts, collars, cuffs, ties, and suspenders from a men's clothing store called R. J. Tooke. At dusk he roused himself from his boardinghouse bed and roamed the city's fashionable neighborhoods, carousing in cafés, attending the theater, and refining his taste for opera. At midnight he joined the gamblers and thieves in the casinos of Rome's underground. Young, naive, half-drunk, and reckless with money, Ponzi made an appealing mark. At dawn he would trudge to his rooms to sleep, and then the cycle would begin again.

	Poor Credit	Lifestyle
Zuckoff, Mitchell	he complained, “we employees always managed, more or less, to keep handsomely in debt.” Ponzi picked out $350 worth of used desks, chairs, a typewriter, filing cabinets, and a small rotary printing press called a Multigraph. He could not afford the full cost, so he struck a deal with the store’s owner, Joseph Daniels, a deceitful man who had anglicized his name from Giuseppe Danieli. Under their agreement, Ponzi would pay fifty dollars down and five dollars a month.	he gravitated toward a group of wealthy students who lived la dolce vita. Ponzi did everything he could to emulate them, adopting their manners and especially their spending habits. Their funds seemed limitless, so he dug ever deeper into his fast-dwindling inheritance to dress in the latest European fashions and pick up restaurant tabs for his friends and the pretty girls they met.
Ponzi, Charles	"What was I going to do? Proclaim my insolvency and face prosecution or keep up the bluff and trust to luck. I kept up the bluff, hoping that I might eventually hit upon some workable plan to pay all my creditors in full. It never occurred to me to pocket all the ready cash and duck out. If I had, I wouldn't have been called the darn fool as many times as I have been.	
McGreal, Chris		"Investment firm funds paid for all aspects of his lavish lifestyle from the purchases of his high-end homes to the mattress and box spring he slept on, the television he watched in his home gym, and the outdoor shower in his home," the lawsuit said.
Strober, Gerald; Strober, Deborah Hart		Bernie Madoff enjoyed one of his $65 haircuts, as well as his customary $40 shave, $22 manicure, and $50 pedicure at the Everglades Barber Shop

	Feeling of job dissatisfaction	Feeling underpaid
Knutson, Mark C.	I was always dreaming of the day I would get enough money on which I could make more money, because it is a cinch no man is going to make money unless he has got money to start on. I saved a bit of money from the odd jobs and had the time of my life for a couple of weeks. Then my cash was gone. So, into the big town of New York I went to find a job. Up at one of the big hotels they needed some waiters, and they even furnished me with the tuxedo service coat. Yep, I've carried tons of food on the old waiter, and with the small salary and tips I made enough to live. I went from one waiting job to another worked in various hotels, small restaurants, and did my dish washing stunt [sic] from necessity at times. I got tired of New York and began to travel, getting jobs all along the way. Once, when I was in Florida, I got it into my head that I could make something painting signs. So, I bought some cardboard and paint and started in. No, I never had the slightest experience, but I got away with it, satisfied folks, and made a little cash. And all the time I kept dreaming of the time I was going to do big things.	It was small jobs, and small jobs, up to the year 1917, when I headed for Boston. Once more, saw an advertisement in a Boston newspaper, answered it, and took a job with J. R. Poole, the merchandise broker. My salary was $25 a week.
Zuckoff, Mitchell	Before he died, Oreste Ponzi had enlisted one of young Carlo's uncles to watch over him. Now, the uncle suggested that the twenty-one-year-old college washout find a job, perhaps as an entry-level clerk. Carlo flatly refused. He considered himself a gentleman, a member of the elite class of his Roman friends. Taking a mundane job would be beneath him. Humiliating, even. The thought of physical labor was not even discussed. Ponzi considered himself a mollycoddle, and no one disagreed.	After the collapse of Gnecco Brothers, Ponzi found himself without a job. He had no interest in going back to J. R. Poole or seeking similar work. He was "tired of working for expectations that didn't pay either my rent or my grocery bills, tired of making money for my employers in general and none for myself."

	Feeling of job dissatisfaction	Feeling underpaid
Zuckoff, Mitchell	For the next four years, Ponzi worked as a grocery clerk, a road drummer, a factory hand, and a dishwasher. He repaired sewing machines, pressed shirts, painted signs, sold insurance, and waited tables. He rarely lasted long-sometimes he was fired, sometimes he quit in disgust, and other times he quit to avoid being fired. He cadged meals and slept in parks when he could not afford a bed. For several months Ponzi scraped together a living as a translator, a part-time bookkeeper, and, occasionally, a nurse to injured miners. His only consolation was his certainty that he had established a firm foothold on the ladder up from manual labor. He had painted his last sign, washed his last dish, begged his last bowl of macaroni. Never again would he seek a menial job. After the collapse of Gnecco Brothers, Ponzi found himself without a job. He had no interest in going back to J. R. Poole or seeking similar work. He was "tired of working for expectations that didn't pay either my rent or my grocery bills, tired of making money for my employers in general and none for myself."	He cadged meals and slept in parks when he could not afford a bed. For months Ponzi toiled to keep track of Poole's extensive foreign businesses, only to be disappointed by his pay of sixteen dollars a week. At first, Ponzi considered the job a gamble in the futures market-the company was doing well and lavished its employees with promises of eventual rewards. He won a raise to twenty-five dollars a week, but still he struggled. "By starving one day and eating a little less the next one," he complained, "we employees always managed, more or less, to keep handsomely in debt."

	Gambling, drugs, alcohol, etc.
Ponzi, Charles	The Pennsylvania Station proved to be the most elusive thing I ever chased after in all my life, girls included. A couple of days after the accident, Dr. Thomas, the company's doctor, came over to the camp. We were very friendly. He never failed to call on me whenever he was at the camp. He did not fail that day. He stopped at the house where I was staying, and we drank a bottle of beer. Our conversation drifted to the nurse. By then I was 35 years old. A soft of happy-go-lucky fellow with a penchant for good times. A little lonesome now and then. When I realized that I had no home of my own. But otherwise care-free. And rather partial to good looking girls. I liked them all, God bless them! In a sort of good fellowship way. You know how it is. Never giving a thought that in the same community, within a few blocks from where I was rooming, lived the girl whom a kind to had destined to be my wife. "Water?" I repeated horrified." No. I guess not. I see enough of it on Saturday nights. I want some beer."
Zuckoff, Mitchell	he gravitated toward a group of wealthy students who lived la dolce vita. Ponzi did everything he could to emulate them, adopting their manners and especially their spending habits. Their funds seemed limitless, so he dug ever deeper into his fast-dwindling inheritance to dress in the latest European fashions and pick up restaurant tabs for his friends and the pretty girls they met. At dusk he roused himself from his boardinghouse bed and roamed the city’s fashionable neighborhoods, carousing in cafés, attending the theater, and refining his taste for opera. At midnight he joined the gamblers and thieves in the casinos of Rome’s underground. Young, naive, half-drunk, and reckless with money, Ponzi made an appealing mark. At dawn he would trudge to his rooms to sleep, and then the cycle would begin again. He grew friendly with Carlson’s son, Gus Junior, who watched as Ponzi routinely spent whatever money he made on girls or friends.

	Lifestyle
Video of Charles Ponzi on Crooked Crooks (ruziel10)	Charles Ponzi was born Carlo Pietro Giovanni Guglielmo Tebaldo Ponzi in Lugo, Italy in 1882. He claimed to have come from a well-to-do family. He attended the University of Rome La Sapienza where he reportedly spent most of his four years going to bars, cafes, and the Opera. On November 15th, 1903, at age 21 Charles Ponzi moved to the United States, docking in Boston, Massachusetts. He famously said, “I landed in this country with $2.50 in cash and $1 million in hopes, and those hopes never left me.” He spent the next few years learning English in taking on odd jobs along the East Coast.

	Blaming investors for their greed
Azim, Dr. Mohammad I.; Azam, Dr. Saiful	Madoff rationalized his action by assuring that he was doing the right thing for himself and for his family by exploiting his investors he always tried to justify his fraud as being morally acceptable according to a startlingly perverse rationalization. Firstly, Madoff rationalized that “it was their fault for trusting me”. From his point of view, the banks and funds that he tricked should have known that there were some problems with the scheme because they were financial professionals. Secondly, he argued that his victims were rich and none of them would face poverty after losing their investment. In reality, not everyone was trapped by Madoff’s hedge fund and the investors who lost were the players joining the game at the very last second. Thirdly, Madoff tried to justify his fraudulent engagement by persuading himself that the market was rigged anyway so if he had not done that, others would. There is no room for investors to earn profits from the market without bearing any risk of being tricked
Parsons, Louise	Whilst many persons who invest in Ponzi or other fraudulent schemes are accused of being greedy to the point of being willfully blind to the dangers of a scheme, the investors on Bernie Madoff’s list hardly fall into that category
Smith, Aaron.	In his second jailhouse interview, Wall Street scammer Bernard Madoff told a reporter that his victims were "greedy”, and the U.S. government is a "Ponzi scheme," though he insisted that he's a "good person." "Everyone was greedy," said Madoff, according to New York Magazine. "I just went along. It's not an excuse."

	I deserve more	Nobody will get hurt
Zuckoff, Mitchell	He was merely the first person smart enough to figure out how to take advantage of it. On the other hand, he acknowledged, some people might say exploiting exchange rates by trafficking in postal coupons might not be entirely ethical. But his experiences during the sixteen years since he'd arrived in America made that a secondary consideration: "Environment had made me rather callous on the subject of ethics. . .. Then, as now, nobody gave a rap for ethics. The almighty dollar was the only goal. And its possession placed a person beyond criticism for any breach of ethics incidental to the acquisition of it."	He was merely the first person smart enough to figure out how to take advantage of it. On the other hand, he acknowledged, some people might say exploiting exchange rates by trafficking in postal coupons might not be entirely ethical. But his experiences during the sixteen years since he'd arrived in America made that a secondary consideration: "Environment had made me rather callous on the subject of ethics. . .. Then, as now, nobody gave a rap for ethics. The almighty dollar was the only goal. And its possession placed a person beyond criticism for any breach of ethics incidental to the acquisition of it."

Appendix 6

	Do not easy to believe	Get it in writing
Blanton, Kimberly	Charge a steep upfront fee in return for the promise of making more money at some unspecified date in the future. An honest contractor will ask you not to pay for a kitchen renovation until the work is done Suggest recipients do not tell family members or friends about the offer. Ask yourself, what is this person trying to hide? Probably a fraud. Lure prospective investors with a “free lunch.” Con men set these up to make their fraudulent pitches in person and increase their chances of success.	
SEC Office of Investor Education and Advocacy	Do your homework. Check out everything - no matter how trustworthy the person seems who brings the investment opportunity to your attention. Never make an investment based solely on the recommendation of a member of an organization or religious or ethnic group to which you belong. Investigate the investment thoroughly and check the truth of every statement you are told about the investment. Be aware that the person telling you about the investment may have been fooled into believing that the investment is legitimate when it is not.	Be skeptical of any investment opportunity that is not in writing. Fraudsters often avoid putting things in writing, but legitimate investments are usually in writing. Avoid an investment if you are told they do "not have the time to reduce to writing" the particulars about the investment. You should also be suspicious if you are told to keep the investment opportunity confidential.
Rowe, Barbara R.		Demand detailed information in writing. You are well within your rights to ask for documentation. Be concerned if the promoter is reluctant or hedges by asserting that such information is “confidential.” It’s your money!!

	Do not easy to believe	Do not rush
CFA Institute	Match the investment strategy to the reported performance-Compare the adviser’s performance claims with commonly available benchmarks. Are these results believable? A red flag in the Madoff affair should have been excessively consistent reported performance. Find out if the firm has its performance figures independently audited, who audits them, and whether the firm complies with the Global Investment Performance Standards, a broadly accepted set of standards for calculating and reporting investment results. Clearly understand the investment strategy-Be alert to the possibility that complex jargon hides suspicious inconsistencies. Good investment strategy should make sense. Ask that your investment professional avoid unfamiliar language.	Perform a background check-Don’t get pressured to make a decision before you have checked for past censures, pending investigations, or lawsuits and verified legitimate registration.
SEC Office of Investor Education and Advocacy	Avoid high-return "risk free" investments. If an investment seems too good to be true, then it probably is. Be extremely leery of any investment that is said to have no risks; very few investments are risk-free. The greater the potential return from an investment, the greater your risk of losing money. Promises of fast and high profits, with little or no risk, are classic warning signs of fraud. Take your time. Don't be pressured or rushed into buying an investment before you have a chance to think about - or investigate - the "opportunity." Just because someone you know made money, or claims to have made money, doesn't mean you will too. Be especially skeptical of investments that are pitched as "once-in-a-lifetime" opportunities, particularly when the promoter bases the recommendation on "inside" or confidential information.	Take your time. Don't be pressured or rushed into buying an investment before you have a chance to think about - or investigate - the "opportunity." Just because someone you know made money, or claims to have made money, doesn't mean you will too. Be especially skeptical of investments that are pitched as "once-in-a-lifetime" opportunities, particularly when the promoter bases the recommendation on "inside" or confidential information.

	Do not easy to believe	Find out the independent audits
CFA Institute	Assess the personnel-Are the people who will advise you and conduct your investing trained and experienced? Do they have a professional credential, like the Chartered Financial Analyst (CFA) designation? Do they abide by a professional Code of Ethics that requires them to place the interests of their clients ahead of their own? Be careful not to let down your guard simply because the prospective manager has an elevated social position; a religious, ethnic, or family background that is similar to yours; or impressive degrees and designations.	Match the investment strategy to the reported performance-Compare the adviser's performance claims with commonly available benchmarks. Are these results believable? A red flag in the Madoff affair should have been excessively consistent reported performance. Find out if the firm has its performance figures independently audited, who audits them, and whether the firm complies with the Global Investment Performance Standards, a broadly accepted set of standards for calculating and reporting investment results. Find out about independent audits and who performs them-As an individual investor, you may find it difficult to assess an organization's financial statements on your own. Independent auditors provide another set of eyes. Be alert, however, to inconsistencies. For example, one might expect large hedge funds to be audited by large accounting firms. In the Madoff scam, the hedge fund auditing firm operated from a storefront.
SEC Office of Investor Education and Advocacy		Do your homework. Check out everything - no matter how trustworthy the person seems who brings the investment opportunity to your attention. Never make an investment based solely on the recommendation of a member of an organization or religious or ethnic group to which you belong. Investigate the investment thoroughly and check the truth of every statement you are told about the investment. Be aware that the person telling you about the investment may have been fooled into believing that the investment is legitimate when it is not.

	Do not rush	Get it in writing
Blanton, Kimberly	Require an urgent response or cash payment. Offers by high-pressure salesmen should be avoided altogether. Responsible financial advisors do not rush prospective clients into hasty, and regrettable, decisions. Charge a steep upfront fee in return for the promise of making more money at some unspecified date in the future. An honest contractor will ask you not to pay for a kitchen renovation until the work is done Instill fear that a failure to act would be very costly. Coercion is not used as a tactic by someone giving sound financial advice.	
Rowe, Barbara R.		Demand detailed information in writing. You are well within your rights to ask for documentation. Be concerned if the promoter is reluctant or hedges by asserting that such information is “confidential.” It’s your money!!
SEC Office of Investor Education and Advocacy		Be skeptical of any investment opportunity that is not in writing. Fraudsters often avoid putting things in writing, but legitimate investments are usually in writing. Avoid an investment if you are told they do "not have the time to reduce to writing" the particulars about the investment. You should also be suspicious if you are told to keep the investment opportunity confidential.

	Look the company's legal entity	Watchful with the explanations
CFA Institute	Match the investment strategy to the reported performance-Compare the adviser's performance claims with commonly available benchmarks. Are these results believable? A red flag in the Madoff affair should have been excessively consistent reported performance. Find out if the firm has its performance figures independently audited, who audits them, and whether the firm complies with the Global Investment Performance Standards, a broadly accepted set of standards for calculating and reporting investment results. Understand what, if any, regulatory oversight exists- Regulation varies by type of investment firm. For instance, hedge funds are less regulated than mutual funds, and advisers registered offshore may not have the same legal requirements as firms in your country. Pay attention to who is looking out for you and how. Perform a background check-Don't get pressured to make a decision before you have checked for past censures, pending investigations, or lawsuits and verified legitimate registration.	Clearly understand the investment strategy-Be alert to the possibility that complex jargon hides suspicious inconsistencies. Good investment strategy should make sense. Ask that your investment professional avoid unfamiliar language. Be wary of those offering "sure things," quick returns, and special access-These claims should all be red-flag phrases for the wise investor. Legitimate investment professionals do not promise sure bets. Scammers often make the combination of safety and high returns seem plausible by granting you "special access" based on your relationship with a mutual acquaintance or shared affiliation. Also, understand clearly how you can redeem shares or exit the investment. When can it be done, and what are the fees? Assess the operational risk and infrastructure-It is important that a firm have separate operations for asset management, trading, and custody. Ask about these important firewalls. Do the entities involved inspire trust? Also, ask whether the firm claims compliance with the Asset Manager Code of Conduct.

	Look the company's legal entity	Watchful with the explanations
SEC Office of Investor Education and Advocacy	Do your homework. Check out everything - no matter how trustworthy the person seems who brings the investment opportunity to your attention. Never make an investment based solely on the recommendation of a member of an organization or religious or ethnic group to which you belong. Investigate the investment thoroughly and check the truth of every statement you are told about the investment. Be aware that the person telling you about the investment may have been fooled into believing that the investment is legitimate when it is not.	
Rowe, Barbara R.		Avoid any kind of investment that is not described clearly, in detail, and without hedging. Swindlers often declare that the specifics are “too technical” to describe in layman’s language. They may also avoid mentioning names on the grounds that the geniuses behind the plan “wish to remain anonymous.” Why would you invest in something you don’t understand by somebody who won’t give his or her name?

	Ask if anything is unclear	Avoid something that impossible to understand
Blanton, Kimberly	Resist being questioned or checked out further. Con men flee when someone starts asking serious and detailed questions	Offer a high or “guaranteed” return at “no risk” to the investor. This is virtually impossible since the riskiest investments produce the biggest rewards - and failure rates - and safe investments typically offer predictable but modest rewards Resist being questioned or checked out further. Con men flee when someone starts asking serious and detailed questions Are so complex that it is difficult or impossible to understand. Scammers often dazzle or intimidate their targets with their superior knowledge of finance or with complex mathematical explanations. A good rule for any financial transaction: if you don’t understand it, don’t do it
CFA Institute	Clearly understand the investment strategy-Be alert to the possibility that complex jargon hides suspicious inconsistencies. Good investment strategy should make sense. Ask that your investment professional avoid unfamiliar language. Assess the operational risk and infrastructure-It is important that a firm have separate operations for asset management, trading, and custody. Ask about these important firewalls. Do the entities involved inspire trust? Also, ask whether the firm claims compliance with the Asset Manager Code of Conduct.	Clearly understand the investment strategy-Be alert to the possibility that complex jargon hides suspicious inconsistencies. Good investment strategy should make sense. Ask that your investment professional avoid unfamiliar language. Be wary of those offering “sure things,” quick returns, and special access-These claims should all be red-flag phrases for the wise investor. Legitimate investment professionals do not promise sure bets. Scammers often make the combination of safety and high returns seem plausible by granting you “special access” based on your relationship with a mutual acquaintance or shared affiliation. Also, understand clearly how you can redeem shares or exit the investment. When can it be done, and what are the fees?

	Don't be easily tempted	Learn about its investment first
Blanton, Kimberly	Look too good to be true. Scam products or investments usually appear far more lucrative than standard products on the market Lure prospective investors with a “free lunch.” Con men set these up to make their fraudulent pitches in person and increase their chances of success.	Offer a high or “guaranteed” return at “no risk” to the investor. This is virtually impossible since the riskiest investments produce the biggest rewards - and failure rates - and safe investments typically offer predictable but modest rewards Resist being questioned or checked out further. Con men flee when someone starts asking serious and detailed questions
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	Background checks	Learn about its investment first	Make sure that the way it works is clear
SEC Office of Investor Education and Advocacy	Take your time. Don't be pressured or rushed into buying an investment before you have a chance to think about - or investigate – the "opportunity." Just because someone you know made money, or claims to have made money, doesn't mean you will too. Be especially skeptical of investments that are pitched as "once in-a-lifetime" opportunities, particularly when the promoter bases the recommendation on "inside" or confidential information.	Avoid high-return "risk free" investments. If an investment seems too good to be true, then it probably is. Be extremely leery of any investment that is said to have no risks; very few investments are risk-free. The greater the potential return from an investment, the greater your risk of losing money. Promises of fast and high profits, with little or no risk, are classic warning signs of fraud.	
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	Avoid email solicitations	Do online searches
Blanton, Kimberly	Come unsolicited over the Internet, are of unknown origin, or come from overseas or from an individual or company that is in any way unusual or suspect. Anyone can hack a computer and send out an email message - and con men often do.	
CFA Institute	Avoid e-mail solicitations-Unsolicited e-mail claims should be treated with great suspicion. E-mail lists are easy to obtain, and e-mails are easy to send.	
Rowe, Barbara R.		Check out the promoters' credentials and background carefully through reliable sources that can alert you to any illegal acts or questionable practices that may color their records.
SEC Office of Investor Education and Advocacy	Be careful online. Fraudsters are increasingly using the Internet to target particular groups through e-mail spams. If you receive an unsolicited e-mail from someone you don't know, containing a "can't miss" investment, your best move is to pass up the "opportunity"	Do your homework. Check out everything - no matter how trustworthy the person seems who brings the investment opportunity to your attention. Never make an investment based solely on the recommendation of a member of an organization or religious or ethnic group to which you belong. Investigate the investment thoroughly and check the truth of every statement you are told about the investment. Be aware that the person telling you about the investment may have been fooled into believing that the investment is legitimate when it is not.