

Bernard Madoff and Groucho Marx

Posted by Steve Berman on Dec. 15, 2008

Persuasion is a funny thing.

On one hand, I can't talk a flight attendant into giving me an extra packet of peanuts. On the other, a New York con man convinced thousands of wheel-healed investors to give him billions of dollars to invest.

The Bernard Madoff story is a tragic one - he allegedly defrauded thousands of investors out of billions of dollars, but how did he do it? How did he dupe so many investors, for so long?

Enter Julius Henry Marx, better known as Groucho Marx. It was Marx who said: "I would never join a club that would have me as a member."

Therein lays the magic behind Madoff's power of persuasion, or more accurately, deception. He successfully played off investors' desire to be a part of something they perceived to be bigger, better and smarter.

That's what Marx points out - to some degree everyone is driven by a desire to be included, and that's what Madoff banked on. He created such a mystique around his operations, such a patina of exclusivity, that when you were invited to join, you jumped at the chance.

As Jason Zweig points out in his very insightful article in the Wall Street Journal, if you are invited to join an exclusive club "... you do not go rummaging around in the kitchen to make sure that the health code is being followed."

Intelligent investors flocked toward Madoff for fear of being left out. The idea of being handpicked for exclusive "membership" struck a chord, and drove people to decisions they now regret.

Some media are dismissing this story as ultra-rich folks losing a few million off the top. Sure, we've heard from folks who lost two, five, and even 20 million dollars. But I can also tell you about retirees of moderate wealth, wiped out. One e-mail from this morning told of a 90-year old who has to immediately put his home up for sale - his entire retirement savings were tied up with Madoff.

We are investigating Madoff and his investments and invite any investors to contact us. We'll keep you posted on the latest from our camp.