

**The New York Times**

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# Despite Exposure of Madoff Fraud, New Ponzi Schemes Emerge

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July 10, 2014 6:38 pm

When the money was rolling in from investors, Scott W. Rothstein, a lawyer in Fort Lauderdale, Fla., bought his wife, Kimberly, more than \$1 million in jewelry, including an opulent 12-carat yellow diamond ring. He lived in a multimillion-dollar waterfront mansion and regularly wrote big checks to charities and politicians.

But the good life ended in 2009, when the government accused him of defrauding investors of up to \$400 million with a Ponzi scheme based on selling stakes in legal settlements. Both Rothsteins went to jail.

Their high-flying lifestyle goes hand in hand with masterminds of Ponzi schemes — named after the American fraudster Charles Ponzi who bilked investors a century ago. And despite efforts by the authorities, particularly after the unmasking of Bernard L. Madoff in 2008 in the largest Ponzi scheme in history, these frauds still surface distressingly often around the country. State and federal financial regulators say a new Ponzi scheme operator is found nearly every week, and legal actions are brought against about 100 such questionable investment operations every year.

“Every other day, you see new schemes uncovered that involve big dollar amounts,” said Jordan D. Maglich, a Tampa, Fla., lawyer who

follows Ponzi schemes. He started [ponzitracker.com](http://ponzitracker.com) in 2009 after working with his law firm to help recover the \$350 million that a Sarasota, Fla., hedge fund manager, Arthur G. Nadel, defrauded from investors, and realized there was no central point of information on such frauds.

Over the last five years, Mr. Maglich said, he has followed about 500 Ponzi schemes on his site, which includes links to legal documents, including those filed by the Securities and Exchange Commission, which posts some of them on its website; the Commodity Futures Trading Commission; and state financial authorities.

Such swindles are largely viewed as distasteful cousins in the high-rolling world of securities, but they still rake in amounts that could be envied on Wall Street. In May alone, at least nine newly discovered Ponzi schemes were claimed to involve more than \$96 million, said Kathy Bazoian Phelps, a Los Angeles lawyer who keeps a running tally on her blog.

“The numbers are extraordinary,” said Ms. Phelps, who co-wrote “The Ponzi Book: A Legal Resource for Unraveling Ponzi Schemes,” “and the totals for earlier months this year were even higher.”

In April, for example, the S.E.C. charged Neal V. Goyal, a Chicago investment adviser, in a \$11.4 million scheme in which Mr. Goyal lost money in initial trades, but hid the losses by paying original investors with proceeds from newer recruits. He also used the money for an array of purchases — two homes, expensive jewelry, watches, artwork and a staff vacation at a luxury Caribbean resort — and to invest in a local tavern and two children’s clothing stores that his wife owned, according to government documents.

The S.E.C. brought charges in June against a Sarasota, Fla., private fund manager, Gaeton S. Della Penna, known as Guy, who gathered \$3.8 million from investors, but spent it on bad investments and diverted more

than \$1 million to pay the mortgage on a 10,000-square-foot home and to subsidize a girlfriend.

Another Ponzi scheme organizer, Brian R. Callahan, who lived lavishly on Long Island, pleaded guilty in April to securities and wire fraud after collecting \$118 million from dozens of investors, including a local fire department, who were told their money would go into mutual funds, hedge funds and securities, according to the S.E.C. He invested instead in a beachfront resort and spent money on lavish residences and cars. He is facing up to 40 years in prison.

The Financial Industry Regulatory Authority, the industry-funded watchdog founded in 2007, also pursues Ponzi offenders. One, Oren E. Sullivan Jr., of Rock Hill, S.C., misappropriated some \$3.7 million in a decades-long scheme that tapped the assets of 15 widows, two Alzheimer's sufferers and a developmentally impaired person. A number of the 30 victims were more than 80 years old.

The authority also expelled the Washington firm Success Trade Securities from its membership and barred the firm's chief executive, Fuad Ahmed, for creating a Ponzi scheme. The firm and Mr. Ahmed were ordered last month to pay almost \$14 million in restitution to 59 investors, many of whom are current and former National Football League or National Basketball Association players.

On the state level, Ponzi schemes were the third-most-frequent source of state enforcement actions in 2012, according to the most recent totals from the North America Securities Administrators Association.

The C.F.T.C.'s enforcement actions jumped 45 percent in the 2011 fiscal year, prompting Bart Chilton, a former C.F.T.C. commissioner, to write the book, "Ponzimonium: How Scam Artists Are Ripping Off America," to tell the stories of 10 schemes in 2009.

“Such mini-Madoff scams are taking place across the nation,” said Mr. Chilton, now an adviser to the DLA Piper law firm. “People were getting ripped off with a lot of foreign exchange deals, which are not as complicated as options, and commodities pools,” Mr. Chilton said, “and they were losing money they had set aside for college funds or health care expenses or retirement.”

Many Ponzi operators like Mr. Della Penna find investors among people they meet at church or at country or sports clubs. “There is an embedded trust factor that gets abused in these affinity frauds, and normal due diligence goes out the window,” said Christopher T. Marquet, who runs an investigative and litigation support firm in Boston and wrote a report on major Ponzi investment fraud cases from 2002 to 2011.

Diana J. Foley, the administrator of the Nevada Securities Division, said she saw such fraudulent schemes every day, and noted that “with the state of current returns on investments, there’s an environment for these people to operate.”

And many have a veneer of prosperity that can be persuasive to investors, she said.

“Individuals who promote Ponzi schemes can be very adept and convincing,” Ms. Foley said. “They live in a nice house and drive nice cars and appear to be very successful. I can’t think of a case where there weren’t some trappings of success.”

No matter how great the returns sound, make sure the investment adviser is legitimately registered, Mr. Chilton advised.

“The rates of return promised are dazzling, but we need to step back and do our due diligence,” he said. “And if you can’t recall the red flags for swindlers, just remember what your mother told you not to do — like don’t take candy from strangers.”

A version of this article appears in print on 07/11/2014, on page B4 of the New York edition with the headline: Despite Exposure of Madoff Fraud, New Schemes Emerge.

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