



## Bernie Madoff: Ponzi Scheme Reading Comprehension

Name \_\_\_\_\_

Bernie Madoff was born in Queens, New York, in 1938. He met and began dating his future wife, Ruth, in his teenage years. Madoff's father started a sporting goods store which promptly went out of business during the Korean War. His father's failure served as a motivating factor for Madoff and made him determined to obtain the success his father never could. At age 22, he started his own company: Bernard L. Madoff Investment Securities LLC. He convinced family and friends to invest in his company, but when the stock market shifted in 1962, his father-in-law had to lend him money to prevent from closing. After this initial roadblock, Madoff tried to change with the times. He and his brother Peter developed electronic trading capabilities for the company, adding a more modern and technological component. This digitization made the company more promising and boosted overall business significantly. By the late 1980s, Madoff was making close to 100 million dollars per year. Little did his investors know it was all a scheme – a Ponzi scheme.

In most Ponzi schemes, the perpetrator promises his or her clients a large amount of profit, with little to no risk—ideal for attracting investors. Madoff himself used the money coming in from new investors to pay back older investors that wanted to cash out. Much of the money that should have been kept in the business was used to fund his family's lavish lifestyle. Madoff would even make up fake earnings reports to satisfy his customers. As long as money continues to flow from new investors, a Ponzi scheme can endure. When the market turns, however, and large numbers of investors want to cash out at the same time, the scheme implodes, leaving countless investors empty-handed. Madoff's scheme cheated investors and nonprofit organizations out of tens of billions of dollars over at least seventeen years. Organizations such as Hadassah, a women's charity, and the Elie Wiesel Foundation for Peace, were almost completely wiped out by Madoff's criminal Ponzi scheme. Many lost their life savings.

In late 2008, the market dropped, and Madoff's luck finally ran out. Unable to keep his fraud going, he confessed his dealings to his sons, who immediately turned him into the authorities. Madoff pleaded guilty to eleven federal felony charges in 2009, including wire fraud, perjury, money laundering, and securities fraud. He was sentenced to 150 years in prison and ordered to give away 170 million dollars in assets to make reparations. Some of the investors he'd initially paid back had to deposit some of their money into a victim's fund to help pay back the investors left penniless after Madoff's elaborate fraud operation.

### **1. How did Madoff's father's situation affect Madoff's own life motivations?**

- a. Madoff developed a passion for entrepreneurship from his father.
- b. Madoff's father taught him how to persevere and be determined.
- c. Madoff grew up not wanting to make the mistakes his father made.
- d. Madoff lost his passion for starting a sporting goods store.

- 2. Which of the following highlights Madoff's adaptability when it came to business?**
  - a. Madoff started an investment company instead of a sporting goods company.
  - b. Madoff made close to 100 million dollars a year by the late 1980s.
  - c. Madoff added a digital aspect to his company to make it more applicable to modern times.
  - d. Madoff tried to make even more money despite already having enough to support his family.
  
- 3. Which of the following inferences might help explain why Madoff created the Ponzi scheme despite not even needing the extra money?**
  - a. Madoff's father wanted him to make more money to support him.
  - b. Madoff got greedy for success and didn't realize when he had gone too far.
  - c. Madoff's passion for business made him want to try something new.
  - d. Madoff wanted to see how long he could go without getting caught.
  
- 4. Why is a Ponzi scheme not sustainable for an unlimited period of time?**
  - a. Without an actual money flowing in, it is impossible to pay all the investors back with only money from new ones.
  - b. Nonprofit organizations will lose all of their money and sue the investors for fraud.
  - c. There is a lot of risk for the investors, but very little profit gain.
  - d. The creator of the scheme eventually grows tired of maintaining it, but is unable to get out of it.
  
- 5. What is the best possible explanation for why Madoff's sons immediately turned him into the authorities?**
  - a. They were hoping to profit off of the business their father had created.
  - b. Even though he was their father, they had to hold him accountable for his crimes.
  - c. They were worried that their father would not be able to pay back his initial investors.
  - d. They wanted their father to start over with a more profitable business.
  
- 6. Which of the following groups were not negatively affected by Madoff's Ponzi scheme?**
  - a. Hadassah
  - b. New investors in the business
  - c. His father's sporting goods company
  - d. The Elie Wiesel Foundation for Peace
  
- 7. Which of the following best describes the process of cleaning up the financial mess Madoff created with his Ponzi scheme?**
  - a. It was completed within a matter of months.
  - b. Madoff had to personally oversee the cleanup operation.
  - c. It pulled money solely from Madoff's bank account.
  - d. It required old and new investors to come together and help each other.