



## I2 Financial-Psychological Crime: The Madoff Case

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After attending this presentation, attendees will better understand the link between financial fraud and psychopathy.

This presentation will impact the forensic science community by exploring the psychological and forensic profiles of victims and perpetrators, with the goal of demonstrating how some individual attributes and characteristics, such as a respectable front, charisma, or strategic presentation of a self-image, are positively correlated with the fraudster profile.

In 1920, Charles Ponzi was the first to conduct a large-scale tax fraud scheme. The basis of a Ponzi scheme relies on individuals entrusting a portion of their capital to a subject mediating between the individual and the market, in a process known as financial mediation. The trigger of the scheme is the faith the client has in the intermediary and his superior knowledge in this field. In the fraud mechanism, the perpetrator needs to convince future victims to allow him/her to handle their savings in order to make investments that do not actually exist, promising relatively large returns in a limited period of time. The client/victim, who first obtains financial gains that satisfy his/her expectations, continues to invest and convinces other people to do the same.

At the end of 2008, a famous New York broker and ex-president of the National Association of Securities Dealers Automated Quotation (NASDAQ) named Bernard L. Madoff was accused of fraud and was arrested. Madoff succeeded in perpetrating the fraud thanks to his ability to handle first impressions. In other words, he possessed the specific communication trait that can manage the fundamental human tendency to imagine, plan, and regulate social behavior in such a way as to leave a strong impression on others, convincing them of the truth of the self-image presented. In psychological terms, what convinces people to invest in such plans is the fraudster's ability to exploit people's weak points, such as greed, trust, and fear. According to Schiller's theory of the positive feedback investment cycle of large-scale bubbles, when many people believe they will receive good profits, they communicate their belief to other potential investors, making it seem like a mistake to miss out on the investment.<sup>1</sup> This triggers phenomena such as familial bias and imitation: the stories and perceptions of the profit to be gained from a given investment make it appear to be affected by a minimum or negligible risk. As persuasion tools, these are even more effective than the fraudster's own persuasive strategies. In fact, according to Greenspan, the success of the Ponzi scheme was attributable to the human tendency to model actions on those of others, especially when dealing with matters that the client knows little about.<sup>2</sup>

Typical traits of the victims of these schemes are a limited knowledge of financial matters, little available money, older age, or a low level of education (excluding those affected by mental disease).<sup>3</sup> Characteristics of the "fraudster" are being male, between the ages of 35 and 65, an advanced education, "a respectable front" (strictly connected to the self-image presentation strategy), charisma, and a marked ability to handle social relationships.<sup>4</sup> One of the most devastating consequences of such schemes is the fraud trauma syndrome that engenders emotions such as rage, pain, anxiety and fear, mistrust of the future, isolation and devastation, as well as symptoms such as insomnia, panic, anxiety attacks, or depression.<sup>5</sup> The line between fraud trauma syndrome and post-traumatic stress disorder is becoming less and less clearcut.<sup>6</sup> The sense of betrayal of the trust placed in the fraudster provokes a feeling of abuse and violence in the victim. Many victims report that they have even considered committing suicide, or have suffered a worsening of preexisting medical conditions. Similar to victims of rape, victims of fraud tend not to denounce the crime they have suffered due to feelings of guilt induced by the social and legal systems.

### Reference(s):

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### Criminalistic, Financial Fraud, Persuasive Strategies