Big or Small—a Con Wants 'em All

Madoff stole billions. Stanford's alleged to have done the same. Even some relatively "smaller" cons stole many millions. That may make smaller investors think they're safe. If you don't have a big bundle, a con artist won't be interested, right?

Dead wrong. The scandals you read about are sensational size-wise, but these scams go on endlessly on smaller scales in small towns everywhere. These don't make the papers—maybe not outside their regions—because the scams get outed before getting too big. But victims don't care if it was a big scam or small—they still lost everything. And even the biggest scams started small, once.

And successful con artists rely on their communities to supply victims (detailed in Chapter 4). Many intentionally prey on friends and neighbors—which means the small-town angle suits them fine. Madoff was based in Manhattan. But plenty of cons focus on smaller communities where their connections buy them less scrutiny—like Darren Palmer who terrorized Idaho Falls, Idaho, or Nicholas Cosmo, who based himself in Hauppauge, New York—a hamlet in Long Island a ways outside slick Manhattan.

Small Fish, Big Rats

But smaller investors needn't fear con artists, right? Why would a con artist bother with them? Because they're rats. Big or small—they want them all. If you have money to invest—whether $10,000 or $10 million—some con wants you. They need constant incoming funds to support the pyramid—wherever they can get them. And as the scam wears on and they get desperate, they may increasingly turn to smaller investors—any investors—to keep money flowing in. And that's when you can get really hurt. They have no hesitation at all to take all your money and leave you penniless, knowing full well what they're doing and how it will impact you. There is no sympathy there. No soul. No guilt or remorse. It is a form of intentional activity that is no different from simple stealing—just gone about differently so they can get much more money from you than they could steal at gun point.

Also, don't be fooled by claims of exclusivity! First, this is a red flag. Second, it's a lie. Madoff claimed to be very exclusive. And you know from media reports he had big clients—hedge funds, billionaires, banks. *But he also accepted tiny, not-so-exclusive-at-all investors*—including retired school teachers.[1] Nothing wrong with school teachers, but they typically don't have billions. Some victims reported losing their life savings—of $100,000. Some victims had still less.[2]

Madoff, though a long-time successful rat, is no different from any other con artist rat. They *project* exclusivity intentionally, hoping you'll feel grateful they're letting you into their club. They want victims to *think* they're safe so they won't be fearful and suspicious as the scam is put in place and continued. They want victims to think that an adviser for really big investors can't be a con artist—those big investors are smart. Wrong way to think! Cons have ways of netting big fish, but they want little fish, too—and more of them. Little fish, medium fish, big fish—they can all get conned. As long as you don't think the rat himself smells fishy, *you* can get conned. (But no more, because you'll follow this book's prescriptions and avoid getting embezzled.)

In fact, smaller investors *should* be disproportionately worried. These kinds of financial frauds typically create a façade mimicking a discretionary adviser. Many discretionary advisers, particularly larger, legit ones, have firm minimums—discussed more in Chapter 4. Maybe that's $100,000, $1 million, or vastly more. They set some level under which they feel they're too inefficient to help clients much. That's fine and normal. Why charge you fees if you won't get much benefit?

What's *not* normal is for some swaggering, supposed big-time adviser with big-time clients to claim to have high minimums, but just this once, just for you, he'll gladly take you, Mr. Little-For-Now, with your ten grand. This is just the opposite of what a legit adviser will do. If a legit adviser has account minimums, they stick to them pretty strictly. If you meet an adviser who talks like Mr. Big Shot and is anxious to invest your $5,000 IRA contribution, be very, very worried. Some clever cons will specifically cast for small fish—because they know they won't have a long investing history to compare them to.

Big or small—$10,000 to invest or $100 million—all five of this book's rules apply.

Fool Me Once

Folks may think, "Those people were fooled. But I wouldn't be fooled. I'm very smart." Probably very true! Just remember: Victims were fooled, but they weren't stupid. People who aren't fools are often fooled. Of Madoff's alleged $65 billion swindle, $36 billion came from just 25 investors—including hedge funds, charities, and even some super big, rich, influential and sophisticated individuals. You don't become a $1 billion-plus investor by being stupid or a fool. Perhaps they weren't suspicious enough, but not overt fools. They were smart and they were fooled. A dose of cynicism can help protect you from becoming so victimized.