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Madoff, while not registered as one, is effectively an IA.

Has about \$15 billion under management. Has about 16 hedge fund clients.

We've been provided with the Madoff data for one of these clients. We've also been provided with the client's monthly returns since December 1990. [All 4 files are for this one client.] Note that the returns include a bit (perhaps 5%) of non-Madoff business and expenses.

Madoff's strategy is to buy the S&P 500 [actually, he buys about 35 stocks that a computer model determines are highly correlated with the index], sell out of the money calls on the index, and buy out of the money puts on the index. The trades are done in Europe. Madoff makes the decision as to when to buy and when to sell. The positions typically are open for a month. He may remain in cash for some time. It may take several days to put a position on. He calls this a split-strike conversion strategy.

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Madoff buys the stocks during the day in Europe. He puts the collar on at the end of the European trading day. Sometimes it takes him several days to do this. He still puts the collar on every day.

Notionally everything is the same – for example, a \$10M equity position and a \$10M call and a \$10M put.

He's running \$9 billion to \$15 billion. He's making about \$50 million in advisory fees. He's been doing this since the early 1990s.

He doesn't charge a fixed or performance-based fee. Instead, he charges clients 4 cents a share on their equity trades and \$1 a contract on the options. It's an effort to get out of being classified as an IA.

He claims that he puts the trades on in Europe to avoid conflict with his market-making operation.

He claims that he makes money by timing – that is, by being in the market when it is going up and being out when it is going down. He spends a lot of time in cash.

He holds positions for anywhere from several days to a couple months.

Stuart observes that he may be buying the stocks in Europe when they're undervalued because of news that arrived after the U.S. markets closed, and then selling them (with the collar) after the U.S. markets open.