

1/29/01 - Call w/ [REDACTED]

- Returns are too consistently high for this strategy
- Funds use ^{benmoff} brokerage accts - concern
- Speculate ^{about the use of} Market Making

Not doing that strategy b/c option trading strategy is not as high

- entry & exit points of stocks
- how does he trade the options

- ~~He~~ (He) doesn't understand how he consistently makes money off this strategy
- Perhaps he doesn't really use the strategy
 - " he uses the info from his mkt making
 - ~~He~~ He must ~~be~~ have some knowledge about when to get in & out of positions
 - The opt vol. of options trading doesn't seem to be enough to protect the size of the equity trading.
 - Perhaps he trades options differently.

DIVISION
EXHIBIT

10

Split Strike Forward Conversion

- Long Strangle

- buying call w/ high strike & put w/ low st
- expecting significant movement in stock w/o knowing which way
- loss = $\frac{\text{Fixed}}{\text{Cost}}$ of strategy; profit is unlimited

- Conversion/reversal

- buys basket of 25-35 index stocks
- hedges downward risk by selling out of the money calls & buying out of the money puts
- Strategy for MMs b/c profit can be small & commissions may bory profit
- Profit if stock went up & no loss
(buys puts for downside protection & pays for puts w/ by selling covered calls)

- Split Strike Conversion

- buying basket of stocks
- buying strangle (selling OEX calls & buying OEX puts)

Feeder Funds

- Fairfield Sentry
- Tremont Advisors' Broad Market
- Kingate (operated by FIM of London)
- Thema (Swiss based)

provide admin, mktg, raise capital & deal w/ investors

Madoff provides investment strategy & executes trades for a commission.

Develop Strategy

> Madoff Hedge Funds <

offshore

Yents/shore

Management

> Fairview

Fairfield

> designed Hedging Model <

Black Boy
Dress Model

- 45 S&P 100 Securities

> Split Strike forward Conversion

Covered option Model

Executing Trade primarily through

> NO DISCRETION \approx 10% Return

> 4 Funds - offshore Funds

> Own Investment Managers

Capability to execute the strategy

Proprietary trading??

London A
Budget = 95

9/20

Letter

P/L ~~from funds~~ / by security
last 3 yrs

- ! Commission Rev generated
- All Inst. & commission rates
- All ^{past} customer history strategy
- All employees & private equity investments
identify & amounts
- All securities part of strategy

Bernie
Madoff

Hedge Fund

front runs large trades from his MKT MKS desk

Look at our Hedge Fund Rpt.

Hedge Fund
Article -

| |

|

CX
③ ↗

Planning Memo - COURSE of Action

Period of Time

Fairfield - registered IA

NASDAQ/NASD -

Securities
Madoff executions from 01 x 02



MILLENNIUM
HOTELS AND RESORTS

MILLENNIUM HOTELS
COPTHORNE HOTELS

www.millennium-hotels.com