

1/29/04 - 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 options trading strategy is not as high

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

- [REDACTED]
- * (He) doesn't understand how he consistently makes money off this strategy
 - Perhaps he doesn't really use the strategy
 - " he uses ~~his~~ info from his mkt making
 - * 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

22

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 = $\text{Fixed Cost} + \text{of strategy}$; 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 bc profit can be small & commissions may hurt 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
 - Kingsale (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

Management

> Fairview <

Fairfield

> designed Hedging Model <

Years/share

Black Box
Dress Model

- 45 SP 100 Securities

> Split Strike forward Conversion <

Covered option Model

Executing Trades primarily through

> NO DISCRETION \approx 10% Return

> 4 Funds - offshore Funds

> Own Investment Manager <

Capability to execute the strategy

Proprietary trading??

Correlation A
Beta = 95

9/20

Letter

P/C ~~law firms~~
~~by trader~~ / by security
last 3 yrs

1/ Commission Rev guaranteed

- All Inst. & commission later

1/ All ^{inst.} customers using Strategy

- All employees & private equity investments
identify & amounts

1/ - 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 -

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CX (S) ↗

Planning Memo - COURSE of Action

Period of Time

Fairfield - registered IA

NASDAQ/NASD -

Securities
Madoff executions from 01x02



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