

Subject: Personal Privacy
From: Investment Adviser #1 Risk Manager
Date: Fri, 14 Nov 2003 12:33:19 -0500
To:
CC: Investment Adviser #1 Portfolio Manager, Investment Adviser #1 Scientist, Personal Privacy

Personal Privacy

Like background radiation my concern about Madoff has never really gone away. Law Enforcement

But if cherry picking is the reason for highly-favourable fills - who is taking the hit on the other side?

Law Enforcement

Investment Adviser #1 Risk Manager

Law Enforcement

Investment Adviser #1 Portfolio Manager writes:

>>> Committee members,
>>> We at Personal Privacy are concerned about our Personal Privacy investment. First of all, we
>>> spoke to an ex-Madoff trader (who was applying for a position at
>>> Personal Privacy and he said that Madoff cherry-picks trades and "takes them
>>> for the hedge fund". He said Madoff is pretty tight-lipped and
>>> therefore he didn't know much about it, but he didn't really know how
>>> they made money. Personal Privacy heard a similar story from a large
>>> hedge fund consultant who also interviewed an ex-trader. The head of
>>> this well-respected group told us in confidence that he believes that
>>> Madoff will have a serious problem within a year. We are going to be
>>> speaking to him in 11 days to see if we can get more specifics.

>>> Another point to make here is that not only are we unsure as to how Personal Privacy
>>> makes money for us, we are even more unsure as to how Personal Privacy makes money
>>> from us; i.e. why does he let us make so much money? Why doesn't he
>>> capture that for himself? There could well be a legitimate reason, but
>>> I haven't heard any explanation we can be sure of. Additionally, there
>>> is a \$4 billion Madoff pass-through fund (Fairfield Sentry) that charges
>>> 0 and 20% and it's not clear why Madoff allows an outside group to make
>>> \$100 million per year in fees for doing absolutely nothing (unless he
>>> gets a piece of that). The point is that as we don't know why he does
>>> what he does we have no idea if there are conflicts in his business that
>>> could come to some regulator's attention. Throw in that his
>>> brother-in-law is his auditor and his son is also high up in the
>>> organization (imagine that!) and you have the risk of some nasty
>>> allegations, the freezing of accounts, etc., etc. To put things in
>>> perspective, if Personal Privacy went to zero it would take out 80% of this year's
>>> profits.

>>> Perhaps the best reason to get out is that we really don't expect to
>>> make an outsized return on this investment. Sure it's the best
>>> risk-adjusted fund in the portfolio, but on an absolute return basis
>>> it's not that compelling (12.16% average return over last three years).
>>> If one assumes that there's more risk than the standard deviation would
>>> indicate, the investment loses it's luster in a hurry.

>>> It's high season on money managers, and Madoff's head would look pretty
>>> good above Elliot Spitzer's mantle. I propose that unless we can figure
>>> out a way to get comfortable with the regulatory tail risk in a hurry,

> > > we get out. The risk-reward on this bet is not in our favor.

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> > > Please keep this confidential.

> > > Investment Adviser #1 Portfolio Manager

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Personal Privacy

