FINANCIAL SERIAL KILLERS

Inside the World of Wall Street Money Hustlers, Swindlers, and Con Men

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"Radix malorum est cupiditas."

Greed is the root of all evil.

—"The Pardoner's Tale," Chaucer

"Rule number one: Never lose money.
Rule number two: Never forget rule number one."

—Warren Buffett

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CHAPTER FIVE

Stockbrokers, Greed, and Laziness

The business of retail securities firms like Merrill Lynch, with 16,000 brokers, and Morgan Stanley, with 18,000, is to sell consumers like you an array of financial products such as stocks, bonds, mutual funds, and variable annuities. Every time your money moves, every time you make a transaction and decide to buy, sell, or move assets around your account, the firm and the broker make money.

That's obvious, of course. A broker is not doing this service for free, nor should he. (Selling stocks has remained an overwhelmingly male-dominated business. A conservative estimate would peg 80 percent of the individuals licensed to sell securities in the United States as male. Therefore, we will stick to assigning brokers, and financial serial killers in general, a male pronoun.) They collect a commission on the transaction to sell the product, say selling 1,000 shares of Apple or IBM stock. Or, they can charge a yearly fee, equal to roughly one percent of the assets the client holds in that account.

Always make sure that your securities firm or investment adviser gives you an account statement, with an account number, which clearly shows what you own. Never give money to a so-called adviser who "comingles" client funds, meaning all money is put into one big pool. Financial serial killers like to siphon cash from such sloshed-together pools of investor money, and frauds and disasters can follow.

There are 634,000 licensed securities brokers in the United States. Not all these people sell securities; a good number work as assistants to brokers or behind the scenes to keep business flowing. About half, 300,000, actually sell securities to clients and have a "book of business."

There are many upstanding, honest stockbrokers and investment advisers who help their clients figure out how to pay for retirement, their kids' college tuition, and manage the cost of long-term care in retirement. This book is not about those kinds of brokers.

It is a fact that some brokers and investment advisers—at some point in time—will put their own interests before those of the client. Brokers and executives who run broker-dealer firms can get greedy and lazy.

Clients can possess those qualities, too. It's part of human nature. Be on guard if a broker is trying to find your "get rich quick" button.

If just one percent of licensed securities professionals who sell products, say roughly 3,000 stockbrokers, are dishonest or unethical, even in the smallest degree, the public faces a risk that needs to be acknowledged and addressed. Keep in mind that the economic collapse of 2008 and 2009 directly affected the business of many stockbrokers, who suffered losses like their clients. How many of them have faced desperate financial situations that pushed them to look for new or alternative ways to make money?

Let's say that each of those ethically shaky 3,000 brokers has one hundred clients. That means 300,000 American consumers could be taking advice and handing over checks to a licensed securities person with questionable ethics. If those clients on average have $50,000 in an account, then $15 billion in hard-earned money, scraped together for retirement or college, could be at risk.

The retail securities business does not like to think of the risk of a dishonest or unethical broker in such a way. The risk, the securities industry says, is not pervasive, but rather isolated to specific individuals. The common wisdom among many executives in the retail securities business is that catching a broker who is a "bad apple" (in our terms, a financial serial killer) in the act of ripping off clients is virtually impossible.

When a reporter asks a typical executive from a retail brokerage firm how on earth could a broker get away with a scam that cost clients millions of dollars, so many executives have the same response it seems scripted. Wearing an expensive gray or navy blue suit, power cuff links gleaming, the executive casts a mournful look, glances down at the tassels on his Italian loafers, and says something like, *If a man is a thief, there is no stopping him. We want that thief out of the securities business as much as you do. If a broker is intent on stealing—and therefore* *harming—clients, he will find a way that will make it impossible to detect.*

In some instances, that is clearly the case. Some financial serial killers are too smart and sophisticated to be detected and caught. However, as we've shown, many financial serial killers use timeworn techniques, such as claiming a secret formula for investment success or returns each year of 15 to 20 percent, to nab prey. (As we will show in Chapter Eight, securities regulators routinely arrive late to a fraud or scam and don't act in time to protect investors.)

Common wisdom of the securities business can indirectly lead to the creation of a financial serial killer. One such notion is that star players, the golden boys, whether stockbrokers, investment bankers, hedge fund managers, whoever, are best off if they are left alone. The common mantra at many securities firms is: Do not bother the heavy hitter in the corner office! He knows what he's doing, he's making it rain, he's racking up the sales. He doesn't need someone from the compliance department bothering him with mundane questions about client account forms, expense reports, or trading documents.

One such heavy-hitting stockbroker, a true financial serial killer, who occupied the corner office at a national brokerage firm, was a wunderkind named Enrique Perusquia. His actions cost one client at least $68 million and he eventually pleaded guilty to securities fraud and was sentenced to six and a half years in federal prison.

Paine Webber Inc. recruited Perusquia from Lehman Brothers in 1994. When Perusquia joined his new firm, Paine Webber continued to allow him to operate his practice of buying and selling securities for wealthy investors by using offshore accounts. These accounts, set up in foreign countries, are legal as long as they are reported and taxes are paid. They are subject to abuse, however, when people use them to hide money from U.S. authorities in order to avoid taxes. Simply put, it was easier for Perusquia to manipulate these accounts because they were in foreign countries.

Now, in a post-9/11 world, federal law mandates that offshore financial transactions be more closely monitored. However, recent cases involving global banks show that firms are still going to great lengths to hide such transactions. That flies in the face of the effort to make brokerage firms scrutinize such offshore business much more closely. The culture that gives special privileges to star brokers still exists on Wall Street.

Perusquia apparently dictated to Paine Webber how he was going to manage part of his business, according to the Securities and Exchange Commission. "Specifically, as a condition of joining Paine Webber, Perusquia requested an account arrangement similar to the one that he had at his prior brokerage firm," the SEC said in a 2003 legal proceeding against Paine Webber. "Under that agreement, Perusquia arranged for certain of his clients [sic] to hold their funds in accounts at Swiss banks, and in the names of offshore companies that he helped establish. The Swiss banks then set up accounts at Paine Webber in the names of the Swiss banks (which were referred to as omnibus accounts)."

Perusquia was able to construct a complex maze of offshore accounts labeled with obscure names. This made the accounts impossible to identify, and they could not be linked to any particular individual or account holder. Anyone looking at the accounts would just see a name, but could not link this name to another account or to a particular person.

This confusing amalgam of accounts intimidated the prying eyes of Perusquia's supervisors or anyone else trying to oversee his activities. "Perusquia established sub-accounts at the Swiss banks in the names of offshore entities controlled by Paine Webber's clients. Perusquia conducted discretionary trades through the omnibus accounts, and then directed the Swiss banks to allocate the trades to specific sub-accounts on behalf of the various offshore entities," the SEC said.

A discretionary trade is one that the broker is allowed to make at his own discretion, without asking for permission in advance from his customer. Brokers will often advise clients to set up their accounts as discretionary accounts in order to give the broker the ability to make trades in the account without having to first get the permission of the customer. The discretionary account is especially attractive to customers who are very busy or those who are relying completely on their broker to make all investment decisions. There is nothing inherently wrong with a discretionary account; these accounts make complete sense for certain types of customers. They are, however, prone to abuse if they fall under the control of an unscrupulous broker.

Such complete discretion allowed Perusquia to get his hands on millions of dollars through theft or kickbacks, according to the SEC. "Perusquia's fraud involved investing large portions of his clients' funds in a small group of highly speculative gold mining firms while he simultaneously received secret payments from the mining companies, misappropriating money from the client accounts, and engaging in unauthorized margin trading."

Setting up a web of offshore accounts undoubtedly helped Perusquia's fraud work. He found and created a network of new investors to steal from, and abused his tried-and-true personal relationships that he had developed over the course of his life.

Enrique Perusquia conned everyone he came in contact with, from the people he grew up with as a child to the disabled land lady in Colorado who rented him a winter ski lodge. I, coauthor Tom Ajamie, came to know Perusquia well.

As with many frauds, Perusquia used family connections to nab his marks. Born in Mexico City to wealthy influential parents, Perusquia grew up among Mexico's elite. Perusquia's long-time family and social relationships evolved easily into business relationships, which he kept when he moved to New York to work in the financial industry.

As with many investment schemes, familiar and comfortable connections were a key element of the fraud. (See Chapter Eleven about affinity fraud.) These wealthy Mexicans were looking to diversify some of their savings outside their native Mexico and into the United States. Mexico has experienced several devaluations of its currency, whereas the United States has always been known as a stable monetary environment. These clients were also looking for someone in the United States they could trust. They did not want to give their money to a stranger.

Having grown up with Perusquia, they flocked to him. He shared their language, their cultural background, their circle of friends, and (they thought) their values. Here was someone just like them, but who lived in the United States and in its financial capital, New York—a city where many of them were lacking financial contacts.

Financial serial killers are known to exploit such seemingly benign traits as sharing a culture and common tongue to their advantage. A common language helps build trust. Many of the Mexican customers spoke English, but naturally they felt much more comfortable speaking Spanish.

Financial serial killers and predators like Perusquia are incredibly compulsive. Taking someone else's wealth is part of a financial serial killer's nature, and it was part of Perusquia's. He was compelled to ask for his victims' money, saying he would invest it, and that he could grow it. This included a disabled lady from whom he rented a ski home in Colorado. She needed every dollar of savings she had squirreled away in the bank. In his charming way, he assured her that he could invest her money, protect it, and make it grow. He talked her out of all her savings, which was about $200,000. He stripped her bare.

Perusquia even stole from an ex-wife. He'd divorced his third wife, Donna Bloomfield, and she got about a $1 million settlement, but she didn't know how to best invest the money. She did know that Perusquia could handle money successfully, at least according to him. He offered to invest her money for her.

The financial serial killer does not need to employ sophisticated tricks like those from a George Clooney heist film. Although he's a thief in an expensive suit, his techniques can be quite rudimentary and lack sophistication. Perusquia siphoned off money into his own personal account. He forged the client's signature to authorize moving that money around.

He used offshore accounts to help mask the fraud. As Perusquia moved money from account to account, it became more difficult to follow the money trail, which is exactly what Perusquia wanted. A casual review of the account activity would not have uncovered his fraud. He had made the transaction record so complex and convoluted that the services of a forensic accountant or investigator would have been needed to detect it. To unravel his complex web would have required days or weeks of work. The task would have been too daunting for the average compliance officer at a brokerage firm.

After I was first approached by some of Perusquia's customers, I took the same step I had taken in the Bre-X fraud case: I decided to hop a plane and meet the man who was alleged to have smoothly lifted the savings out of the hands of his customers. Within days of hearing the customers' plights, I was on a flight to San Francisco to hunt down Perusquia and hear his side of this unbelievable story of greed.

One of Perusquia's customers who hired me showed me account statements that he had received from Paine Webber. These statements clearly showed that the customer had $130 million in his account. Several days earlier the customer had received a phone call from the Paine Webber margin department. They told the customer that he actually owed the bank $2 million.

Upon learning this, I thought that there must be a simple and explainable mistake. If a customer has an account statement showing $130 million in the account, how could the client possibly owe $2 million? I was skeptical that the money had just disappeared. Perhaps Perusquia had mismanaged it. Maybe he had moved the money into another account. Most likely there was just a misunderstanding here. I decided to find Perusquia and have him explain this to me. Maybe Paine Webber had just made an error, or couldn't locate certain offshore accounts. I was confident that Perusquia would be able to clarify all this and make it right.

Before heading to San Francisco, I called Paine Webber to ask for Perusquia's address. No one had it. I thought it was odd that a major brokerage firm had lost track of its former star, but I had an old address for him, on Green Street, so I started there. When I arrived I saw a beautiful, tall high-rise overlooking the bay. It's one of the most exclusive residences in the city. The doorman told me that Perusquia had moved out of the building about a year earlier. He was living somewhere east of the city, supposedly in a neighborhood called Blackhawk.

I rented a car and headed east. About an hour later I was in the exclusive master-planned community known as Blackhawk. How to go about finding him now? I asked around at several restaurants and coffee bars for him. Finally someone told me that he lived in a gated community. I drove to the gated area and tried to get by security. They wouldn't let me pass. I made small talk with the guard and was able to get Perusquia's street address. I used that address and eventually found a phone number. I called and a woman answered. I asked for Enrique. She passed the phone to Perusquia. I explained that I represented some Paine Webber customers who had been told by Paine Webber that their accounts were missing money. I thought this was just a misunderstanding. Would he meet me now for a cup of coffee? He agreed.

Within thirty minutes I was facing Perusquia. Here he was, the Paine Webber heavy hitter. I had been told that Perusquia had generated more commissions for Paine Webber than any other broker. It was impossible to verify this, but the guy was truly a legend.

He was so powerful at Paine Webber's New York office that he dictated the terms by which he would work. For example, at one point he had tired of living in Manhattan. Perusquia had decided that the quiet and exclusive community of Stowe, Vermont, was more to his liking. He'd just jet into Manhattan to work from Monday through Thursday and then jet back home to Vermont on Thursday afternoon. There was no need for an apartment in Manhattan, since that would involve too much work to keep it up. Instead Perusquia rented the Presidential Suite at the Peninsula Hotel, where the hotel staff would attend to his every whim.

A true financial serial killer, Perusquia immediately tried to charm me and win my trust. Perusquia arrived at the coffee bar in a black Porsche Carrera, but he was careful to park it several blocks away so as not to attract too much attention. He then walked up to meet me.

"Hi Tom, nice to meet you," he said with enthusiasm, his voice brimming with cordiality. He was thin, handsome, and charming. He wore a silk shirt that was neatly tucked into his black trousers. His black leather loafers were freshly polished. His hair was trim and his complexion was smooth. He offered to buy me a cup of coffee and told me that I "looked like a runner."

Immediately Perusquia was doing what he did well: making a human connection. Offer a man a cup of coffee and find a common interest. In fact, I was a runner. So Perusquia and I immediately began talking about favorite runs, where they were and so on. High quality chitchat.

Perusquia then moved to religious backgrounds, hoping to score another common hit. Bingo! We were both raised Catholic. It was apparent that if Perusquia was accomplished at anything, it was conversation. He knew how to engage the other person, find a common link, and create a rapport.

We met over a period of two days. I could tell that he wanted me to trust him. He wanted to show that he was indeed authentic and honest. After that first meeting at the coffee bar, he took me to a Fresh Choice restaurant. This was a company he said he had raised money for—and one of the companies in which he'd invested his customers' money. When we walked into the restaurant, it seemed like just another salad bar. According to Perusquia, this was not just any salad bar. This one was special.

"Look Tom," he said, his voice proud. "Look at how clean this counter is. And look at how fresh the vegetables are. We put a lot of effort into making this a unique salad experience for our customers."

"We?" I thought. Who is "We?" Perusquia was an investor in this salad bar, but he was using *his customers'* money to make the investment. This wasn't his restaurant. He was buying its stock, or making a private investment of his customers' money in the company. None of the staff at the restaurant knew who he was. No one greeted him by name. He didn't venture into the kitchen where the vegetables were being sliced and diced and thrown into square plastic containers.

Perusquia took on the air of an owner. He wanted to make me feel as though I was with the guy who had created the company himself. He was trying to make me feel like an insider, someone who was a part of a company that was growing into something big.

The next stop that day with Perusquia was a large law firm that had a nearby office. Perusquia told me that the senior partners at this law firm would meet with him at any time because he was such a large investor in some of the law firm's clients. By that, he meant that his customers were large investors, but clearly he controlled their money. So he could just show up unannounced at this law firm and the senior lawyers would drop their pencils to meet with him.

It turned out just like that. We arrived at the law firm. Perusquia strode into the reception room and asked for one of the senior partners. The guy showed up and embraced Perusquia. Perusquia introduced me to the lawyer, then the two of them ducked into a conference room to talk privately about a large investment that Perusquia (meaning his customers) was making in one of the law firm's clients. If Perusquia's goal here was to show me he wielded some power at large law firms, he accomplished that.

> The financial serial killer will tout his exclusive connections to executives, lawyers and other insiders to create an aura of prestige.

Part of Perusquia's pitch to investors, and me, was the exclusive, inside knowledge he possessed of certain companies. Financial serial killers like to flaunt such connections, real or not. He said that he knew the management of some of the companies personally. That he could talk to management, that he was very connected, that he had the inside connections, that he had very high-level contacts—all this gave him a lot of credibility.

One of these companies was Shaman Pharmaceuticals. Lisa Conte, Shaman's CEO, would meet with Perusquia regularly. Perusquia invested some of his customers' money with this company, enough that he had Conte's private phone number. This was another one of "his" companies. He spoke like an owner, ticking off all the wonders of the company's natural drugs derived from plants in the Amazon. He spoke of their miraculous properties, how the ingredients had been used for centuries by the natives and could cure any disease.

Perusquia talked a lot, but he could never explain what happened to my client's money. After spending two days with him in his make-believe world, I had a sense that something was wrong. His cloying charm, as well as his grandiose persona and stories, raised far more questions than answers.

My legal team and I unraveled Perusquia's fraud over the course of several years. We spent millions of dollars and thousands of hours of time to unearth Perusquia's complex web of disguised accounts that spanned several countries from Europe to the Caribbean. We traveled, investigated, and sent legal subpoenas for documents to a variety of locations as we worked to piece together the fraud: Geneva, Vancouver, New York, Mexico City, and the British Virgin Islands, to name a few. We then organized our investigation files and handed them over to the SEC, the United States Attorney, and the FBI.

The SEC took this work, combined it with its own, and zeroed in on Perusquia's handiwork. "While at Paine Webber, Perusquia used large portions of the Paine Webber Omnibus Clients' funds to buy stocks and convertible bonds in three gold mining companies," the SEC said. "Perusquia accomplished many of the purchases by submitting to the Swiss banks letters that contained unauthorized cut-and-paste, or trace-over, signatures purporting to be client authorizations to transfer funds to buy securities."

In the end Perusquia was just a phony. He didn't own the restaurants, nor did he create the drugs. He had simply found companies that needed money, and he had given them his customers' savings. He had taken no risks himself. He was all too eager to put at risk the hard-earned money that his customers had entrusted to him. He had purchased, with other people's money, all the trappings of prestige: access to a large law firm, the private phone number of a CEO, as well as a Porsche and a home in a gated community. At his center, Perusquia was nothing but a con man with an insatiable thirst for the good life.

It appears that the only thing that Perusquia really did well was forge the signatures of his customers. He also fabricated phony account statements. Perusquia's forgery was too perfect, and that's what got him caught. My legal team and I obtained more than forty different documents with the client's signature on them. Then we photocopied the signature from each document onto clear plastic film. We then stacked each signature, one on top of the next. The forty signatures matched perfectly. This is humanly impossible. The only way for your signature to match perfectly each time you write it is to trace it. That is just what Perusquia had done.

That was Perusquia's undoing. We found the actual original signature of the customer that he had cut out and used as a template to trace his forgeries. This signature template, which Perusquia could easily slip into his wallet and carry at all times, allowed him to trace the client's signature at his convenience, effectively "authorizing" transfers to his personal accounts.

The forgery was so convincing that even the client whose signature Perusquia had stolen was tricked. We showed the client the signature on wire transfer documents. The client said, "Yes, that is my signature." It was actually Perusquia's trace of his signature.

Later, we asked the client, “Did you authorize all these transfers of your money to Perusquia’s accounts?” The client responded, “Of course not. Why would I give away my money to my broker?”

That was the basis for the criminal charges against Perusquia—the theft of the money—and that’s why he went to prison. If he had simply been a crummy stock picker, and put his clients’ money into losing stocks, we probably wouldn’t have had a very good case against him. There’s no penalty for a broker choosing the wrong stock, but there are consequences to stealing money and forging signatures. The U.S. Attorney and the FBI took the results of our investigation into Perusquia’s dealings and prosecuted him for theft. He later pleaded guilty and served his time in federal prison. I think we made our point.

Lessons & Takeaways

- Con artists work to control the conversation, talking fast, using exciting statements and acting like the victim's friend.
- The fact that a broker works for a large, national firm, with thousands of brokers occupying expensive offices, is no insurance that your broker is not a financial serial killer. Because Perusquia had first worked for Lehman Brothers, and then for Paine Webber, he appeared to be reputable on the surface. Simply put, there is not as much protection as you would think.
- In the securities business, a screening or compliance process can break down, and sometimes it happens with the firm's biggest, most important advisers. Perusquia received kickback checks sent to the office and no one caught on to him. He transferred money to his own account from the customer's account at the brokerage firm, and no one caught on.
- Star brokers, or heavy hitters, often are left alone with little supervision. They get special treatment. This can lead to disaster, like in the case of Perusquia.