



DO YOU SINCERELY WANT TO BE RICH?

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IOS funds, the brainchild of Bernard Cornfeld, a penniless socialist-minded Jewish young man with initiative, a large ego and a stutter to vindicate, rose from the dull roots of Brooklyn to the status of a worldwide financial power in no time. Cornfeld, a forerunner of Berlusconi more than a ruthless Gordon Gekko of the sixties, is dissected here, with some sympathy, to reveal a seductive and complex Shakespearian character who condensed in himself most of the traits that lead to success in the financial and managerial arena and, to some extent, in the capitalistic economy in general. To understand both his talent and his duplicity is an essential exercise for anybody willing to venture into a substantive study of economic and political models.

When many years ago I read "Do you sincerely want to be rich?" in a hardback edition found on a second hand book stall, it was an intellectual epiphany. Finally, I had found a serious textbook (if disguised) which addressed real world capitalism and its ties to human nature, social evolution and the invention of money! No offence to the academic works on economics that, to some extent, I already knew and appreciated, but these scholarly texts dealt with a different subject; fascinating theoretical speculation on economics, based on abstract assumptions on rationality, market and choice, often enriched by mathematic prowess. Instead, my precious book, devoid of formulas and superficially just a chronicle of a financial default, tackled with the penetrating scrutiny of experimental science the reality of human behavior in a live socioeconomic context – not in the isolation of a laboratory or under the shelter of a thought experiment.

Unfortunately, conceived to be a best seller based on the uproar of the IOS scandal, its depth escapes both the casual reader and

the academia. Nor is it an easy textbook, because its essential concepts lie under the surface. The accurate description of the fictions of our social system, and also its elusive economic laws, must be extracted by the sagacity of the reader from a narrative as intriguing as a literary fiction.

But it is all there; the ambiguous role of money in the market, the opacity of Wall Street and the banks, the contiguity between the financial establishment and mainstream economists, the techniques of master financiers and the psychology of their naïve victims, the reputation as a purchasable commodity, the self breeding power of money, the capitalistic debtor-creditor engine, the overpowering motivation of profit, the pervasive role of deceptive salesmanship and many other factors that pollute the integrity of theoretical thinking. But this is not a book against capitalism, or its supposed deviations. It is a politically neutral textbook that, in analyzing the rise and fall of IOS with scientific diligence, describes the factual essence of finance – the characterizing element of the capitalistic system – against which any economic theory should be measured.

"Bernie" Cornfeld's empire collapsed in 1970: "Bernie" Madoff's in 2008, nearly half a century later. In between, rests a long series of financial Ponzi schemes and shameful defaults, Enron and LTCM*, to name just a few on the eve of 2000. But big finance is tainted by a history of swindles, not always committed with ruthless consciousness, that date from the time when somebody realized that it is easier to become rich playing with the abstract nature of money than confronting the difficulties of concrete achievements. Madoff's mistake of cheating the higher classes is costing him years of imprisonment.

Cornfeld's fate, the scam having hurt lesser men, has been more benign. He died aged 67, in 1995, having spent the last 25 years of his life between Beverly Hill and London. There, he had led a demure life far from the flamboyant heyday of Wall Street, but surrounded by the affection of old mates like Hugh Hefner and enlivened by actresses, prostitutes and the occasional madam. And such an (almost) happy ending is the most likely outcome of a disaster when your playing field is big finance, yesterday as today. Another phenomenon not predicted by classical economics.

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On Bernard Cornfeld see also:
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* The Institutional Investor (see the trailer), not to miss another opportunity of embarrassment, in 1996, wrote: "They (LTCM) are in effect the best finance faculty in the world."

BACKGROUND OF BERNARD CORNFELD

The story is usually told like this: Bernard Cornfeld, an idealistic young socialist, is the son of a widowed immigrant in New York. His income as a social worker is slender, and in order to have enough money to take girls out, he begins selling mutual-fund shares in his spare time. Now, the young socialist experiences a conversion; he perceives that the open-end investment fund can be made to resolve the cruel contradictions of capitalism.

Why is it that only the rich can invest in the wealth created by capitalism and thus increase their wealth? It is because the poor have few dollars left over from purchasing the necessities of life. They cannot afford to tie up this slender surplus in investment. To sell shares successfully, you need expert brokers.

But now the mutual-fund salesman goes among the people. Through him, they are enabled to turn their savings into shares in a Fund. Many mites are thus assembled into a great whole. Wise men invest this ample Fund in the shares of many industrial concerns. And if, as should normally be the case, most of these investments rise in value, then the rise increases the value of each of the shares of the Fund. Thus the savings of the poor are Multiplied, without risk. And the Fund undertakes that it will always redeem a customer's shares, immediately, for cash. The advantages of investment are combined with the blessings of its great opposite, liquidity.

In the legend, at least, Bernard Cornfeld accepted with religious fervor the excellence of this vision. He has himself recalled the birth of a conviction that "money possesses a strange kind of purity," and the further conviction that capitalism could now be employed to bring about that equitable distribution of wealth which was the aim of socialism.

This idealized portrait of the open-end fund mechanism is not totally at odds with reality. But there are some important variations possible, such as the size of the cut that the salesman takes for himself, and the manner of insuring that the little people's savings are deployed with suitable wisdom.

Cornfeld started at Brooklyn College under a considerable disadvantage. He had a stammer that was bad enough for him to ask teachers not to put questions to him in public. This speech impediment, and the successful treatment which he received for it, may well have affected the whole course of Cornfeld's life.

By the time he came back from the sea in 1947, his stammer was proving enough of a liability to make him seek treatment. He consulted a lay therapist, named Willard Beecher, and told him that he wanted to cure his stammer in order to become a salesman like his elder half-brother, Eugene. At a practical level, Beecher told Cornfeld that he must cease asking his teachers to exempt him from questions. On the contrary, he must seek out every opportunity for public speech and performance. Cornfeld acted upon this advice, and, within a very few months, his stammer came under control and virtually disappeared. The experience was the starting point in Cornfeld's love affair with applied psychology.

Human motivation, for Adler, was a process of "goal-seeking," and the most important goal for which people strive is "superiority." Adler does not make the nature of this "superiority" very plain: it could mean some kind of ethical nobility, but more frequently it seems to be little more than success, wealth, or dominion.

Adlerians believe that people who have suffered from "organ inferiority," such as a stammer, are apt to "overcompensate" by striving especially hard to achieve superiority. In the Adlerian world, you might expect an ex-stammerer to become a great orator.

It was Bernard Cornfeld's declared ambition to make Investors Overseas Services the most important economic force in the Free World.

The game was mutual funds. Thousands of salesmen, calling themselves "financial counselors," combed the earth for people's savings, and put them into the funds which IOS managed, creaming off enough in the process to make the most successful of them wealthy men.

Mutual funds in themselves are an old and well-tried form of investment. A special variant was that IOS was the biggest and best-known of the "offshore" funds. That meant that these funds, and the companies that managed them, were carefully registered and domiciled wherever in the world they would most avoid taxation and regulation. There was nothing new about that either.

“IOS pretended to be creating wealth for the many when it was really making money for the few”

What was phenomenal about IOS was its success. On the foundation of its offshore mutual funds it built up a complex of banks, insurance companies, real-estate promotions, and every other kind of financial institution you can think of. "Total Financial Service" was the slogan. By the end of the 1960s, Cornfeld's men had a shade under two and a half billion dollars of other people's money to manage, and Cornfeld was publicly announcing plans to push that to \$15 billion by the mid-1970s. By the end of the 1960s, IOS had also made a fortune valued at over \$100 million for Bernard Cornfeld personally. It had made around a hundred of his associates millionaires as well. Cornfeld was the most talked about financier in Europe since the Great Depression, and IOS was insistently—and on the whole successfully—asserting the right to sit at the golden table of the world's most respectable financial institutions.

The only trouble was that IOS was not a respectable financial institution. It was an international swindle.

IOS was the creation of Bernard Cornfeld and Edward M. Cowett. Together these two men built up an organization so steeped in financial and intellectual dishonesty and directed so recklessly that it was absurd that it should have been entrusted with so much of other people's money, let alone praised for the brilliance with which it was managed.

We have talked to many of the people who work for IOS, and there were a lot of decent, even idealistic, people among them. Few were aware of the essential dishonesty of the thing they worked for.

Most people have a good deal of difficulty in accepting the idea that a large and well-publicized international business could have been run in such a manner. "It can't be true," is the natural reaction, "because if it was true, how did they get away with it?" There are many answers to that question.

Below are just some of the kinds of misbehavior that IOS committed under Cornfeld and Cowett:

1. Money which they said was held on trust for the customers was used to finance maneuvers for the benefit of IOS itself, its directors and employees, and their friends.
2. At many times, and in many parts of the world, the IOS sales force engaged in illegal currency transactions on a massive scale. Attempts have



been made to pretend that this was somehow peripheral to the company's main activities – but as late as 1970 the IOS Board still acknowledged in their meetings that important sections of the IOS sales operations were illegal.

3. IOS consistently misrepresented the investment performance of its largest fund, and used the misrepresentation to sell hundreds of millions of dollars' worth of fund shares.

4. The basic nature of the best-known IOS fund, the Fund of Funds, was systematically disguised. It was supposed to offer the investors a diversity of investment advice. For most of the time, it did nothing of the kind – it merely charged its investors a double fee on the pretense of doing so.

5. The customers' money, in the funds, was frequently invested in unmarketable shares, and often in securities which IOS was floating for its own profit. There was a series of reckless speculations that culminated in a catastrophic venture into oil and gas exploration rights in the Canadian Arctic.

Bad as the particular items in this short summary of IOS's misdeeds are, they are only individual instances of a general proposition: IOS pretended to be creating wealth for the many when it was really making money for the few.

A WARNING TO INVESTORS FROM MR. BERNARD CORNFELD

But now it is time to take leave of generalities and to take a closer look at the remarkable figure of Bernard Cornfeld. There can be no better moment to savor the full absurdity of the contrast between the façade that IOS presented to the world, and the reality backstage, than the zenith of Cornfeld's power and reputation.

In the first week of February 1970, Cornfeld flew to New York to be the principal speaker at a conference organized by a periodical called the Institutional Investor. The invitation was a remarkable enough accolade in itself: the use Cornfeld chose to put it to was a breath-taking illustration of his nerve. It is important to understand the setting, the occasion, and the time.

The setting was New York, the true test and only stage for success in Bernard Cornfeld's world. He had first come to the city as a child from Turkey in 1931. He was nearly thirty when he left to seek his fortune in Europe. It had been one of the proudest moments of his life when he came back to New York in 1960, as a rich man, and the New York papers interviewed him as the latest verification of the American dream. Making it in New York, he told the reporters then, was what counted. But in 1967 he had been banished from New York. Or rather, while he himself could go there as often as he liked and could cut a flamboyant figure in the East Side discotheques, his firm was banned from doing business there by order of the Securities and Exchange Commission, because of certain irregularities and deceptions. Now he was back in New York again, and with the financial community literally at his feet.

The Institutional Investor is a plump journal, whose elegant pages are not available to the general public. You may subscribe to it if you belong to a firm that is a member of the New York Stock Exchange or if you are otherwise engaged full time in the investment business. It was a gathering of men, and some women, who were collectively responsible for managing tens of billions of dollars of other people's money entrusted to the 'insurance companies, pension funds, and mutual funds which they advised on investment. But where the word "institution" in New York, in a financial sense, had once carried connotations of staid conservatism, by 1970 many "Institutional" investment professionals were committed to "aggressivity," "performance," and the other slogans and catchwords of the peak market years. Risks which had seemed daunting ten years or even five years earlier now seemed commonplace.

For twenty years, share prices on Wall Street and indeed on most other exchanges in the world had risen with only brief interruptions, and there was a growing confidence that they would go on rising forever. "These guys," reflected one old Wall Street reporter, "really thought they had repealed the law of gravity."

“The Institutional Investor is a plump journal, whose elegant pages are not available to the general public.”

With a salesman's flair for divining what an audience wants to hear, Cornfeld plaited his speech out of two themes. One was Messianic confidence about the potential glories of the market. And the other was denunciation of the agency which he blamed for the market's immediate difficulties: none other than his old antagonist, the Securities and Exchange Commission.

Short, plump, with a wide mouth, Bernie Cornfeld speaks in private for the most part in an intense whisper. On the platform, his manner is evangelical and his language grandiloquent. "I am convinced," he told the Institutional Investor's conference, "that the American securities business is at the heart of what makes this country vital and dynamic."



The years of the bull market, he said, had seen “an extraordinary creative development of new ways of marshaling the money which is the lifeblood of enterprise.” He then swept on into a passage of prophetic eloquence. “This is the promise,” he declaimed, “that everyone who is willing to work and to save can participate in economic development.... That the dream of a more equitable distribution of wealth can be realized within the structure of the free-enterprise system. It is also the promise that the dynamism of our economy will result in the knitting together of the shattered bits and pieces of our society.... This is why I am convinced that what is good for the American securities industry is good for the country.”

But then he turned to his second, less optimistic theme.

The SEC, he said, had “adopted the simple device of attacking virtually every sector of earnings in the securities business. And a weak, unprofitable securities business means a weak, unprofitable market.” The point had been reached, he said, when “the public interest seems to be the least of all considerations when the Commission moves into action.”

Insofar as he chose to support this sweeping allegation with specific charges, he accused the SEC staff of misusing its power – by blocking the prospectus of any firm that continued to do business with IOS. He attacked the Commission for not regulating the trade in unregistered securities, and for impoverishing brokers by suggesting that commissions might be cut for the benefit of the customers. And he deplored its attitude to the enormous flood of brokerage commissions generated by the market. The SEC wanted these diverted back to the customers: that, said Cornfeld, would impoverish Wall Street.

It was an inspirational performance, and the audience acclaimed it rapturously. A few years earlier, most of them would have examined the entrails of a goat for economic pointers as readily as they would have listened seriously to Bernard Cornfeld. Some of them remained a little dubious about some of the things they had heard about his early days, a little shocked by some of the things the SEC had found out about him. Others were amused by his personal flamboyance – the tufty beard and the nippy-waisted French-tailored suit. But after all, they liked to think of themselves as a bit piratical too.

There seems often to be a moment, just before the climax of a great folly, when even the sturdiest skepticism surrenders. Wall Street is not mainly populated by fools, and there were plenty of clever men present to hear Cornfeld’s speech who knew what nonsense he was talking. Many of them knew, for example, that while he was denouncing the SEC for not having regulated unregistered securities, his own funds were stuffed with them. Some of them, come to that, had sold them to him. But when the old tin kettle is drummed hard enough, disbelief is often silent.

It was not only Wall Street that acclaimed Bernie Cornfeld that week. The night before his speech, he attended the annual cocktail party which the Washington Post gives in New York. The guest list reflects that well-informed newspaper’s judgment of who really matters in the city. It includes writers, bankers, politicians, political hostesses, and artists. In 1970 the unofficial but undisputed guest of honor in this company was the legendary Bernard Cornfeld, prophet of People’s Capitalism. He was, from all accounts, the success of the evening: warm, modest, amiable, and statesman-like – drinking, as always, nothing stronger than Coca-Cola, speaking softly, and retiring early.

A short while later, New York magazine published an article which rounds out this picture of Cornfeld at the height of his glory. It described an extraordinary meeting, a sort of Field of the Bed of Mink, between Cornfeld and that other merchant of fantasy, Hugh Hefner. Altogether, the article portrayed Cornfeld as frivolous in a way which would have been lethal, a few short years before, to a man who depended as he did on the approval of the financial community. No damage seems to have been done: the late Roman private life was taken as completing the enviable splendor of his

image.

In February 1970 Bernie Cornfeld seemed to stand on a high mountain. He owned more chateaux, town houses, villas, and apartments in the world’s capitals than any Rothschild or Esterhazy in their high times: a few days before he flew to New York he had just bought his second castle. He owned horses, wild animals, boats, airplanes, cars, fashion houses, and model agencies. He moved incessantly between these luxurious possessions, surrounded by

as numerous and pleasure-loving an entourage as a prince of the Holy Roman Empire. And there was something more flattering, and more interesting, about his famous “lifestyle” than the ordinary spending power of great wealth. He had contrived to recruit, in the envious and egalitarian twentieth century, what amounted to a private army of vassals: his sales force. Many of them were fanatically loyal; and he knew how to keep them that way with a complicated system of lavish gifts, grants of profitable territory, and elaborately structured financial rewards. It was even rumored – and Cornfeld himself did little to scotch such rumors – that he lived in the middle of an adolescent’s fantasy of a harem.

But what impressed the hostesses and journalists of New York was not so much the picturesque surface of Cornfeld’s life; it was that it seemed to be solidly built on a golden foundation of money.

“That telephone call was the beginning of the end.”

As it turned out, that was almost the last moment when it would have been shrewd or even sensible to have said any such thing.

And nobody would have been saying it then, if they had realized the extent of the financial shambles the statesman of People’s Capitalism had left behind him in Geneva.

On February 11, just seven days after Cornfeld’s speech to the institutional investors, the financial controller of IOS, a young accountant named Melvin Lechner, finished the consolidation of the 1969 accounts for IOS’s many subsidiaries and arrived at a tentative total for the company’s profits.

When Lechner had reached and checked his alarming figure, he did not call Cornfeld. For more than a year, Cornfeld had delegated most of the day-to-day management of the business to Ed Cowett. Slim, cool, a trifle saturnine in appearance, Ed Cowett was now master of detail.

Cowett knew perfectly well how serious the situation was.

But the truth could not be hidden forever. That telephone call was the beginning of the end. Bit by bit, the real state of affairs began to leak out. The sales operation was running into a loss.... The profits from managing the funds had been propped up by the Arctic deal.... The money raised from the public issue of IOS Ltd. shares, little more than six months before,

had all been spent.

At the very moment when Cornfeld, parading himself to the world as a major prophet, was achieving his greatest public acceptance, the train of events was under way which was to expose the absurdity of his pretensions.

Less than a year later, he was back in Acapulco. His shares in IOS had been sold, and he had cut his last links with the business he had created. Hardly anyone wanted to hear his views on the future of society any more.

Within weeks of Cornfeld's tirade against the SEC, the stock market cracked and fell even more steeply.

“Physically, he was completely unprepossessing,”

It is time to take a detailed look at what did go wrong. When we have done so, it will become plain that the really interesting question is not so much why Cornfeld and his friends failed. It is how they managed to succeed as long as they did.

For this is not only a story about Bernard Cornfeld and Edward Cowett. They could never have flourished as they did without the acquiescence and, sometimes, the active help of others. Victory, they say, has many fathers, but defeat is always an orphan. It was the same at IOS. After the crash, it was surprising how many people gave us the same excuse, “We never knew!” It is hard to believe that they could not have found out if they had wanted to. This is a story largely populated by people who didn't want to know, and grew rich in ignorance.

Not all of them were inside IOS. Outside the company and its associates, there were concentric rings of others, less responsible for what happened, but still willing to profit in some degree from what was done. IOS worked with accountants, lawyers, bankers, brokers, advertising men, and publicists of every kind. No doubt they didn't know quite how dishonest IOS was capable of being. But again, in too many cases, they didn't want to know.

THE FIRST MISSIONARY JOURNEYS

Within weeks of arriving in Paris, Cornfeld had made an interesting discovery. He had found that there were at least two types of Americans in Europe. One was the serviceman, who had reasonable quantities of money in his pocket, but who more and more frequently was accompanied by a wife and – made him increasingly unanxious to blow all his pay on living it up.

And then there was the exile.

In 1955, in Paris, Cornfeld was among the vanguard of the invasion. The exiles he met were on the whole well educated. Many of them had come to Europe as students, on the GI Bill or on Fulbright grants. Theirs was a tolerant society: a mildly Bohemian life-style was expected, and some vague stirring of political radicalism was almost demanded. It was a world of frustrated intellectuals, mild neurotics, political nonconformists, and cultural misfits – with the occasional drunk or homosexual. Most American businessmen

would have written them off as being hopelessly deficient in acquisitive instincts.

It was the inspiration of Bernie Cornfeld, the psychologist and social worker, to see that these exiles could be remotivated and put to work selling mutual funds to the servicemen. His success in doing this was so

enormous that the originality of his perception has been forgotten. The fact that his recruits were people who had found that their careers were crumbling, or that they had overestimated their talents, did not dismay him, as it might have dismayed some IBM-trained personnel manager. Indeed, it may well have served some deep need of his own: for it carried the promise that his recruits would become devoted followers of the man who could perform an act of liberation for them. In the beginning, Investors Overseas Services sometimes seemed more like a therapeutic community than a money-making device.

In Paris, no less than New York, Bernie was the boy who always knew how to get hold of wheels, a girl, a pad, and a few bucks.

Cornfeld had brought with him to Paris a rather tenuous relationship with Investors Planning Corporation, and on the basis of this he started, experimentally, selling a few mutual-fund shares.

But Cornfeld, now that he had seen the large possibilities of the American expatriate market, decided to become an independent dealer – which would, of course, entitle him to a larger slice of the commission on any sales he could procure.

“Physically, he was completely unprepossessing,” one salesman remembers. “His clothes were baggy – there was never a suit off the rack which could fit Bernie. But then he started to speak. His voice is very soft and reassuring. His smile is very engaging.

There was nothing elaborate about the operation. The firm's chief and almost only asset, a Chrysler Imperial convertible, has become firmly established as part of the IOS legend. “It was the headquarters of the firm, really,” says Marx, a salesman. “Each weekend Bernie would load it up with salesmen and sales material, and drive out to Orleans. Sometimes, we would sleep over Saturday night in the car before starting in again on Sunday.” But by the time Marx joined, the firm was on its way to fame. Bernie's advertisement in the Paris Herald Tribune, offering “American men and women” over \$10,000 a year for “sales ability, a willingness to work hard in a fast-growing industry, and a sense of humor,” was running regularly, and striking a very effective chord in the exile community, which prided itself, above all, on its sense of humor.

Especially, he was impressed by Bernie's account of “dollar-cost averaging.” The use of this piece of arithmetical patter reveals a great deal about the essential techniques of mutual-fund selling. The standard sales pitch is predicated upon the idea that stock markets everywhere are set upon an upward course. Get your money in now, the customer is exhorted, before prices rise even higher.

From time to time, however, stock markets actually do fall. What to say then? Well, when stocks are going down, then it's an even better time to buy. Moreover, he proposed to make the salesmen rich along with himself. “He said he would make us all millionaires,” says Herbert, a by no means uncritical admirer in later years, “and he did.”

American mutual funds were a new and puzzling phenomenon: the French authorities entertained dark suspicions that IOS was selling fund shares to French citizens, and suddenly raided the mail at one of the post offices IOS was using.

It was very clear that the time had come to move on. A police visit to Boulevard Flandrin drove the message home.

Casting around for an alternative haven, Cornfeld hit upon the idea of Geneva. It seems to have been a genuinely casual decision, based upon little more than the fact that it was a city outside French regulation where

they spoke French, a language in which Cornfeld was now reasonably fluent.

The apartment became Bernie's headquarters when, in the autumn of 1958, he shifted the headquarters of his growing sales force from Paris to Geneva. The HQ all fitted into the one apartment-, it consisted of Cornfeld, Kleinmann, Bert Cantor, and two secretaries.

And by the time that Bernie arrived, the advantages of Swiss bank accounts were being discovered by spies, gamblers, and dictators, as well as by Middle Western dentists, New York stockbrokers, and other honest folk with no love for the taxman.

Bluntly, Geneva was the center of the international flight-capital business. Bernie Cornfeld arrived with a set of commercial techniques that were admirably suited to that business.

It was Cornfeld's view that whenever a man was paid a salary, then someone was being exploited – either the employee or the employer. This meant, inevitably, that IOS was a personal syndicate, with only such control over individual salesmen as might derive from the sanction of syndicate membership.

In their recollections, the veterans of the period make much of the point that Bernie himself showed energetic form as a doorstep salesman – but no overwhelming brilliance. In the early days, Cornfeld used to go out with groups of salesmen on training expeditions. “He wasn't a great salesman,” says Robert Marx. “He held to a fairly standard line of patter.” Cornfeld's interest in his own selling performance was probably about the same as Napoleon's interest in his own prowess with a musket. When the general joins in practice on the range, his purpose is to inspire the soldiery by showing them that he does not despise the duties he orders them to perform. If Cornfeld had devoted himself to selling mutual funds in person, he could no doubt have built up an impressive commission income. Instead, what he sold was the idea – the concept, if you like – that others should sell mutual funds for him.

Cornfeld was endlessly patient in overcoming the hesitations, errors, and reluctances of his recruits. Each salesman began his career by walking into Cornfeld's office and trying to sell to Cornfeld. After each such exercise, they would sit down together and go through the flaws in the new salesman's “presentation.” There were lengthy group sessions in which Bernie and his men picked over the techniques of their craft. They practiced “sincere smiles” in front of mirrors – in later, more opulent days, training films were made on the finer points of smiling – and they practiced “firm handshakes” on each other.

Bert Cantor had the job of teaching them how to sell. Bernie Cornfeld's job was to make them want to sell. They were asked numerous rhetorical



“Eminent international citizens are brought into the company”

questions. “Are you Wellington Winner or are you Louie the Loser? Do you want to be used by the capitalist system or do you want to use it?” It was a catechism in which the right answers were obvious.

The most important question was asked implicitly in many forms, and explicitly in the form we have used as the title of this book. It was:

“Do you sincerely want to be rich?”

This was a brilliant reading by Cornfeld from Adler and the theory of goals. For most people, the answer is no – they would like to be rich, or would not mind being rich, but they sincerely want something else. Cornfeld's question was calculated to sort out the attitudes of his recruits. For those who said yes, they did sincerely want to be rich, there was a logical follow-through. If that was what they wanted, they must do what Bernie wanted them to do. And then he would make them millionaires. Optimism, it was explained to the salesman, was the essence of the business. Don Juan, said the IOS salesmen's Bulletin, was not a handsome man. He was even unattractive. But he was an optimist. Good salesmen, it was implied, should emulate the great seducer.

PACEM IN TERRIS

In 1931, shortly after he left Harvard, Franklin Delano Roosevelt's eldest son, James, was offered a job in the insurance business. The salary was \$15,000 a year, a handsome sum in those days. The duties were not arduous; according to young Roosevelt they consisted mainly of sitting behind a large desk. He took the job.

“I wasn't being kidded,” the President's son told Collier's magazine later. “I knew perfectly well that they were paying me for the name.... I was newly married, and I needed the money.” He was hailed as a “young meteor” of insurance, but in the event he did not rise to great heights in the business.

By 1966, when he went to work for Bernie Cornfeld, much of his career had slipped past in a pattern of bright hopes and disappointments. Franklin Roosevelt may have had detractors as well as admirers within the United States: outside the United States he had, for practical purposes, nothing but unqualified admirers. Even in Communist countries, FDR's son carried a name taken as a guarantee judgment, probity, and, perhaps most important, generosity. The benefits that Roosevelt brought to IOS could scarcely be measured.

Cornfeld was delighted with his new personal ambassador to the international establishment, and quickly put him to work improving IOS's external relations, which sorely needed improvement at the time, as we have seen. But he also took good care that neither Roosevelt nor anyone else should get any wrong ideas about the true strength of Roosevelt's position inside IOS.

Soon after he joined, Roosevelt characteristically proposed to give a splendid party to celebrate his new functions. Cornfeld agreed, and put the company's lakeside villa, Bella Vista, at his disposal.

Roosevelt went ahead with the arrangements for a banquet in the grandest style. An impressive guest list of UN delegates, ambassadors,

bankers, generals, and politicians was invited, and a distinguished chef was hired with an entire kitchen staff to do justice to the occasion. An hour after the time appointed on the invitation card, the Ambassador's party was in full swing. By ten it was getting noisier, and by eleven the last limousine had disgorged the last general. Only one person was missing to make it the most glittering social occasion Geneva had seen for many years, the man they had all been invited to meet: Bernie.

By eleven-thirty, the chef was threatening to commit harakiri amid the ruins of his dinner. Roosevelt was frantic. Around midnight he surrendered, and asked the guests to take their places for dinner. "Gentlemen," he said, "I'm sorry, but Mr. Cornfeld will not be with us this evening. We work for an extremely brilliant man. A man with a peculiar personality. He may even be a genius, and we must give genius its due." It is said that Roosevelt did not forget this first lesson.

But the scope of his efforts over the three years after he joined the company was breath-taking. And he was tireless.

No other mutual-fund group, possibly, would have had the audacity to sponsor an international peace conference, and then turn it into a commercial jamboree. No other mutual-fund group, certainly, could have produced someone to preside over such an occasion with the aplomb which James Roosevelt brought to the solemn farce of *Pacem in Terris II*.

Four hundred people, many of them of the greatest eminence, were invited to Geneva from seventy countries. They assembled on May 28, 1967, in the Intercontinental Hotel, the setting of the famous sales conference. Much earnest oratory was heard from them over the next three days, though James Roosevelt's assertion that their "deliberations mark an important breakthrough for the cause of all humanity" sounds, in retrospect, a trifle exaggerated.

Three principal themes had been chosen for discussion: the war in Vietnam, the threat of war in the Middle East, and the deadlock over the two Germanies. The list of participants must now make embarrassing reading for some of the great men who attended, and for some of the innocent unknowns: for Senator Fulbright and John Kenneth Galbraith; the editor of *Le Monde* and the Swiss Cardinal; ambassadors, ministers, archbishops, and four Nobel peace laureates jostled shoulders there with a mob of Bernie's cronies, some of whom may well have thought *Pacem in Terris* was a stock traded over the counter.

The most exquisitely vulgar exploitation involved the octogenarian musician and pacifist, Pablo Casals.

James Roosevelt was not just Bernie Cornfeld's customer's man, trouble shooter, and ambassador-at-large. He was also useful as a recruiting sergeant. It was Cornfeld's own idea, of course, to adorn the IOS Board with some reassuring names. Roosevelt himself was not quite the first acquisition. Wilson W. Wyatt, the jovial Kentucky lawyer and politico, joined even before him.

But a lieutenant governor of Kentucky, even one who has managed a presidential campaign, carries relatively little weight in Europe. A governor of California is more imposing. Roosevelt was able to persuade his old friend ex-Governor Edmund G. "Pat" Brown to join the Fund of Funds Board. And Cornfeld had recruited a useful man in West Germany: Erich Mende, head of the small Free Democratic Party.

But Cornfeld was after bigger lions.

In mid-1968 IOS went shopping for some august names in Britain, and came back with the Earl of Lonsdale; a Conservative MP, Sir Harmer

Nicholls; and Anthony Montague-Browne, who had once been one of the late Sir Winston Churchill's secretaries. All three became directors of International Life Insurance (Luxembourg).

At about the same time, James Roosevelt also recruited an expatriate Englishman called Sir Eric Wyndham White, whom he knew socially. For some twenty years Sir Eric had played a leading role in administering the General Agreement on Trade and Tariffs, of which he became Secretary General, with his office in Geneva.

Early in 1969, IOS's first royal recruit was brought in – Count Carl Johan Bernadotte, of the Swedish royal family. That was IOS's last great success out lion hunting.

THE BELLA FIGURA

Nowhere in the world was the double strategy which IOS adopted to cope with the crisis of 1966/1967 apparently more successful than in Italy. That strategy was based on two principles: national funds, and respectability. The setting up of national funds – where governments would allow them – enabled IOS to counter the main objection to its sales operations. They made it possible to argue that some, at least, of the clients' money would not be lost to the national economy. And as a prerequisite and a protection for the national funds, IOS, under James Roosevelt's tenure, pulled out all the stops to build up the best possible relations with governments, central banks, the press, and anyone else who might be able to lend a spot of elbow grease to the mahogany and leather patina of solidity that IOS needed to acquire. Both parts of the strategy succeeded brilliantly in Italy.

The IOS national fund in Italy – called *Fonditalia* – was incorporated in Luxembourg on September 26, 1967. IOS began selling it early the next year. By January 27, 1970, two years later, James Roosevelt, in his capacity as President of *Fonditalia*, was able to give the investors a glowing report in his second year-end letter. *Fonditalia* was associated with blue-chip banks: the *Istituto Bancario San Paolo* of Turin, as its Depository for Cash in Italy, and the *Banque Rothschild* as Custodian and Banker. It now had 30,000 investors, and no less than \$183.5 million under management. The net asset value of their fund, over a period of time in which the Dow-Jones industrial average in New York had virtually stood still, had gone up by no less than 21.5 per cent. By June 1970, according to Edward Cowett Italy was providing no less than 45 per cent of the IOS' cash flow.

To succeed in business in Italy, even more than anywhere else, you must fare *bella figura*: put on an impressive front. IOS's front in Italy was not merely impressive, it was refulgent. Physically, *Fideuram*, the *Fonditalia* sales company, inhabited some of the most expensive-looking offices in Rome: marble-floored and air-conditioned, they had been modernized out of the Renaissance splendor of the *Palazzo Orsini*, itself carved in the sixteenth century from the ruins of the Theater of Marcellus, built by Julius Caesar himself in the very heart of the imperial city, between the Capitol and the River Tiber.

Fideuram moved into the *Palazzo Orsini* because its legal adviser and subsequent president had his law offices there. This was *Avvocato Pasquale Chiomenti*, who is not only one of the most successful and respected lawyers in Italy, but also a man who is plugged in to the sources of power in the country at half a dozen points. He is, for example, connected through some of his numerous directorships with both *FIAT* and *IRI*, the two great Powers of Italian economic life.

And it was undoubtedly to please his lifelong friend Chiomenti that Professor Guido Carli, Governor of the Bank of Italy, turned up to wish

Fonditalia well at a widely publicized reception at the Hotel Excelsior in October 1968.

IOS was to receive a mark of signal favor from an even higher power. On December 10, 1969, Bernie Cornfeld was received in audience for thirty-five minutes by the Pope. This crowning accolade for IOS's new respectability was granted in recognition of the IOS Foundation's role in running Pacem in Terris.

While Bernie Cornfeld, James Roosevelt, and Pasquale Chiomenti all did their bit to get Fonditalia under way and to make IOS known in the right places in Italy, the success of the Italian sales operation was almost wholly due to someone else: Harvey Felberbaum.

The real nature of the operation Felberbaum was running was very different from its Renaissance façade. Felberbaum himself operated clandestinely to the extent of using a false name over a prolonged period. Salesmen were listed in IOS records under pseudonyms, including such brazen ones as "Leonard Vinci" or "Ben Disralli" (sic).

Felberbaum explained to us that this was done to prevent rival fund-selling organizations from tempting the salesmen away. It is a little hard to see why he should have needed to protect himself from temptation in this way.

“To succeed in business in Italy, even more than anywhere else, you must fare bella figura”

For many years, some wealthy Italians have been shipping their capital across the frontier to Switzerland. This traffic accelerated sharply in the early 1960s after the so-called "opening to the Left" in Italian politics. This was IOS's opportunity in Italy, and it was equal to it. Once again, IOS's contribution was to make available to a broader share of the middle class the possibilities for capital flight that were the traditional prerogative of the rich. It is, we suppose, a kind of democracy.

This was done with the co-operation of one Swiss bank in particular, the Finter Bank, through its branch in Chiasso, which is just across the frontier in Switzerland, less than an hour's drive on the autostrada north from Milan.

The Finter Bank had been involved in similar business before. As we shall see, it had been implicated in one of the most celebrated of Italian financial scandals before IOS came in contact with it. But between them, the Finter Bank's Chiasso branch and the IOS managers in Italy helped to smuggle out millions of dollars' worth of currency by an ingenious method which we will describe in detail, on the basis of precise documents, below. And they went on illegally exporting currency out of Italy in this way into the IOS-dollar funds in Switzerland, long after Fonditalia had been set up with the Italian government's blessing.

We then visited Dr. Chiomenti in his sumptuous office in the Palazzo Orsini. He explained to us that he had resigned from the Board of IOS Ltd., the main company, "because I didn't know enough of what was going on." It seemed, however, that he knew less than everything about what was going on in Italy, where he remained President of Fideuram.

Had there been any illegal selling in Italy before Fonditalia was set up? Dr. Chiomenti said it had never occurred to him to inquire. Had he ever

heard of the Finter Bank? He professed complete ignorance. He was, he explained, "the constitutional monarch" of IOS in Italy. Harvey Felberbaum was the "operational chief."

We met Felberbaum in London, in one of IOS's apartments in Park Lane. He was affability itself. His general position was that while there might have been a little illegal selling, it was insignificant in volume and had all stopped before Fonditalia was formed.

What about Finter Bank? We asked. Yes, he said, he had heard of it, but neither he nor IOS had ever had any formal arrangement with it. A few days later, one of us was going through a file of Brazilian newspaper clippings. A reference to the Finter Bank jumped out of the page. There were letters, reports, and documents dealing with many aspects of IOS business. And among them there were several papers which mentioned the Finter Bank.

One of them read as follows: "Checks in lire. Make them out in any name you like. Should be crossed for greater security. Do not put the name of the place. Send check to Harvey Felberbaum, care of the Finter Bank."

The history of the Finter Bank is linked with the story of one of the most mysterious financial scandals of postwar Europe, the affairs of the Balzan Foundation. It is also inextricably connected with the flight from the lira. Two remarkable men were to be the principal actors in the Balzan affair. One was a lawyer of Italian descent and Venezuelan nationality named Ulisse Mazzolini. The second was Padre Enrico Zucca, who must be one of the most improbable of all the followers of the Franciscan rule of poverty. Zucca first appeared in the headlines when he reburied Mussolini's body in 1946. He then established a Catholic cultural center in Milan known as the Angelicum, which operates on the most lavish scale, with its own orchestra, theater, cinema, and classical recording company.

The Swiss investigations showed that in some cases, at least, the gifts made to the Balzan Foundation were "donations" of a very special kind. The donors were paid back – sometimes in Swiss francs – a substantial proportion of the land or money they gave to the Foundation in Italy. Both in Switzerland and in Italy, the press pointed out that this looked very much like a way of enabling wealthy Italians to get their capital out of the lire into good hard Swiss francs, while at the same time avoiding death duty and other taxes.

There was no difficulty in finding the Finter Bank. We were received by none other than Stelio Beltraminelli.

Mr. Beltraminelli readily confirmed that the Finter Bank had been used by the IOS managers in Italy for channeling funds out of Italy and into IOS funds in Geneva.

Beltraminelli also told us that, since the Balzan scandal, a stake in the Finter Bank had been bought by the Pesenti group. Carlo Pesenti is one of the wealthiest and most powerful industrialists in Italy. From his power base in Bergamo, not far from Chiasso, the Pesenti family controls Italcementi, one of the largest industrial corporations in Italy, and extensive interests in paper-making, banking, and real estate. Pesenti recently sold the Lancia automobile company to FIAT.

How big was Harvey Felberbaum's black operation in Italy?

One man stated with precision that the volume was \$20-30 million a month in illegal sales, of which half was in cash. He added that this made IOS the biggest single illegal exporter of currency out of Italy.