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EVEN WHERE SCANDALS NOTHING NEW

Madoff Scheme Shakes Affluent Palm Beach

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PALM BEACH | Not long after Bernard Madoff was arrested for reputedly bilking investors out of \$50 billion, this ad began running in the Palm Beach Daily News:



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THIS LIFEGUARD STATUE, stolen from the home of Bernard Madoff, was found Dec. 31 on Lake Trail behind the Palm Beach Country Club.

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Madoff problems? Ever consider selling your life insurance?"

In a monied enclave that has seen its share of sensational scandals - Roxanne Pulitzer, William Kennedy Smith - nothing has shocked people quite like the scheme that prosecutors call the largest fraud ever committed by one man.

A Palm Beach foundation that once supported medical research and children's programs has closed its doors. Several Palm Beach residents have put their homes on the market. And dozens of people, some of them friends of Madoff, have suffered catastrophic personal losses.

It's devastating," says Susan Markin, a Palm Beach Town Council member who lost a "small" part of her own investment portfolio when Madoff's firm collapsed. "When you get a phone call that your money is probably gone, it's the same pit-in-the-stomach feeling as when someone tells you that your husband is having an affair."

On the surface, this island town of 30,000 still has a palpable air of exclusivity. Stores on Worth Avenue sell \$45,000 alligator totes and \$1,000 table linens. Cab drivers wear white shirts and black ties. The oceanfront estates are shielded from view by towering box hedges, meticulously pruned by an army of landscapers.

But the "Madoff mess," as it is known here, is just one more sign that not even Palm Beach has escaped the economic chaos roiling the outside world. It shows, too, that even sophisticated investors can fall for those with a charming mien and attractive pitch.

"Palm Beach," says art dealer Irving Luntz, "is a sunny town with a lot of shady characters."

Bomb ticking quietly

A product of Long Island's Hofstra University, Bernie Madoff never made it into the Palm Beach "Social Index Directory" with its roster of Ivy Leaguers. His \$9.3 million Palm Beach home is modest by local standards. He was the former chairman of Nasdaq, but some of the town's bluest blue bloods didn't know his name before his Dec. 11 arrest.

"We never knew he existed," says Edward Kassatly, who with his brother Robert owns the oldest shop on Worth Avenue.

But the 70-year-old Madoff was a familiar figure at the Palm Beach Country Club, founded in the 1950s by wealthy Jews denied access to older, WASP-ish clubs. It was there, over cocktails, that Madoff enticed other club members with promises of steady returns on blue-chip investments.

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"The Palm Beach Country Club, which was his lair, so to speak, is somewhat insular," says Richard Greenfield, a securities lawyer who is representing or advising 30 investors. "The vast bulk of Palm Beach never heard of Bernie Madoff, but maybe half the men at the club were involved with him, some for small amounts, some for stupendous amounts."

Markin, the council member, says she met Madoff at a party and found him "a little arrogant - not someone that you were inclined to sit and have a long conversation with." But encouraged by a trusted friend, she invested with Madoff's firm.

"This was not a get-rich-quick scheme," Markin says. "I'm a very, very conservative person, and he was a steady performer who, when people were making 18 percent on their money, he was only making 10 percent."

In reality, prosecutors say, Madoff ran a classic Ponzi scheme in which money from new investors was used to pay earlier ones. What began as an investment opportunity so coveted that people joined the Palm Beach Country Club just to meet Madoff eventually morphed into a venture so desperate for cash that people in China were being begged to invest.

When the scheme collapsed, "it was like a bomb went off," says Pat Thomas, editor of the Palm Beach Daily News. "This was ground zero."

Among the biggest losers was the Picower Foundation of Palm Beach, whose assets of \$955 million were managed by Madoff's firm. Along with grants to the New York Public Library, the Palm Beach school system and family programs across the country, the foundation had funded diabetes research at Harvard and brain research at the Massachusetts Institute of Technology. "This act of fraud has had a devastating impact on tens of thousands of lives," president Barbara Picower said in announcing the foundation's demise.

Greenfield, the lawyer, said the investors he knows lost between \$2 million and \$100 million. One woman, who did get returns for a time, worries that she could have to pay back the money she used for her daughter's law school education because the courts might rule it was fraudulently obtained.

The scandal hit Palm Beach's Jewish residents especially hard, with many feeling betrayed by a fellow Jew.

"It's not just a question of personal loss, but of honesty and integrity," says Rabbi Moshe Scheiner, who has heard from several congregation members who invested with Madoff. "The fact he apparently stole from charities really angers people."

Everything's relative

In the days right after Madoff's arrest, "there were people who came to town that thought the whole island was a fire sale," says Ava Van de Water, a Palm Beach real estate broker.

But fewer than 10 places are known to have gone on the market as a direct result of Madoff losses. And one of those - a condo on exclusive Breakers Row near the landmark hotel - quickly fetched a robust \$8.6 million.

Leslie Robert Evans, a lawyer who monitors the island's real estate scene, doubts the situation is as quite as dire as initially portrayed.

Most buyers in Palm Beach pay cash, meaning those who lost money to Madoff will probably walk away with substantial sums when they sell. And despite the slump in West Palm Beach, sales remain strong on the island.

"I've got people calling who want to invest in Palm Beach because historically prices here have never gone lower," Evans says. "The worst is, they've plateaued."

But everyone agrees that the Madoff scandal has aggravated an already sour economy.

The Dior boutique on Worth Avenue closed the day after Christmas, the latest of several shops that have gone out of business in recent months. A few stores are defying town codes by displaying "Sale" signs visible from the street, a violation of taste unheard-of before. Though the big charity balls will still go on, private parties are smaller and less lavish than before, as evidenced by hosts ordering fewer and cheaper party invitations, stationers say.

"I can't say Madoff alone is going to have a long-term effect, but unfortunately it happened at absolutely the worst time since the Depression," says Markin, who is running for mayor.

Some Palm Beach businesses see this as a good time to boost their inventory.

Gallery owner John Surovek has runs ads offering \$1 million and up for paintings by major artists, expecting to attract attention from collectors trying to recoup some of their Madoff losses. And while she can't attribute it directly to the scandal, Sally Kimball is thrilled that so many Chanel suits, Louis Vuitton purses and other high-end items have recently poured into her consignment shop.

Kimball splits the proceeds in half with the consigners, which can mean a nice chunk of change on both sides. The price tag for a vintage Hermes pocketbook: \$6,500.