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# Billionaire Stanford’s Firm Said to Face U.S. Probe of CD Sales

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By Alison Fitzgerald


Feb. 12 (Bloomberg) -- Stanford Group Co., a Houston-based investment firm led by billionaire R. **Allen Stanford**, is under investigation by U.S. securities regulators over sales of certificates of deposit in its affiliated offshore bank and the consistent, above-average returns those investments pay.

Investigators from the **Financial Industry Regulatory Authority** visited six Stanford Group offices last month, downloaded information from computer hard drives and looked through files, people familiar with the events said. Two former Stanford financial advisers were questioned last month by the Securities and Exchange Commission, according to the people, who declined to be identified because they didn’t want to put their current jobs at risk.

The agencies are investigating Stanford’s sales of certificates of deposit issued by its Antigua-based affiliate, **Stanford International Bank Ltd.**, according to the former employees. The agency has asked former employees about the bank’s stated returns on investment, between 10.3 and 15.1 percent every year from 1995 until last year, according to documents and annual reports on the bank’s **Web site**. SIB has $8.5 billion in assets and 30,000 clients, according to the site.

“That type of return ignores the business cycle,” said L. Burke Files, principal of **Financial Examinations & Evaluations Inc.**, a Tempe, Arizona-based financial investigation firm. “His returns fall outside the bell curve of probability.”

‘Routine Exam’

The visits by Finra and the SEC were part of a “routine exam,” said **Brian Bertsch**, a spokesman for Stanford. Finra spokesman **Herb Perone** said the agency doesn’t confirm or deny investigations.

**Kevin Edmundson**, an SEC investigator in Ft. Worth, Texas, said, “I can’t even confirm the existence of the investigation.” The agency issued subpoenas last July to at least two former Stanford employees.

The SEC has stepped up probes after being accused of failing to heed warnings that **Bernard Madoff**’s investment returns were too good to be true. Madoff was arrested Dec. 11 after allegedly telling his sons that his business was a $50 billion Ponzi scheme. The SEC has since announced unrelated lawsuits against at least seven money managers for allegedly inflating profits or siphoning off client money.

Finra in November 2007 fined Stanford Group Co. $20,000 for failing to adequately state the risks involved in the CD investments and to disclose that an affiliation between the broker-dealer and the bank could pose a conflict of interest. Stanford consented to the sanctions without admitting or denying wrongdoing, according to a file on the **Finra web site**.

The Stanford Financial companies, including Stanford Group, Stanford International Bank and Stanford Trust, were founded by R. **Allen Stanford**, who is their chairman. The Texas native was listed by Forbes Magazine as the

605th-richest man in the world with an estimated net worth of $2 billion.

No Madoff Exposure

Allen Stanford is a citizen of the U.S. and of Antigua & Barbuda after being naturalized in that country 10 years ago, according to a biography on the company's Web site. He was knighted by the Antiguan government in 2006 and now uses the title "Sir." Stanford Group Co. has 19 offices in the U.S. and more than $43 billion under management or advisement, according to its **Web site**.

Stanford International Bank said in a Dec. 17 **letter** to clients, posted on its Web site, that it didn't have any exposure to Madoff's investment funds.

Stanford's one-year, $100,000 CD paid **4.5 percent annual** yield as of Nov. 28, according a posting the Web site yesterday. A one-year, $10,000 CD purchased at JPMorgan Chase & Co. would earn 1.5 percent, according to its consumer banking Web site.

Stanford International Bank describes the CDs in its disclosure statement as traditional bank deposits. The bank says it doesn't lend proceeds and instead invests in a mix of equities, metals, currencies and derivatives, according to its Web site and CD disclosures.

Returns 'Incredible'

"Those returns are just incredible, in the sense that I don't believe them," said **Alex Dalmady**, an independent financial analyst based in Weston, Florida, who has examined Stanford's investment strategy and published an article in VenEconomia Monthly, published by Caracas-based economic consulting firm VenEconomia.

The company "obviously disagrees with his conclusions," Stanford's Bertsch said.

"The most important opinion for us is that of our clients, some of whom have been with us for over 20 years and have maintained their confidence in Stanford International Bank through the years," he said in an e-mail response to questions.

Dalmady and Files say the financial information published by Stanford International Bank makes them doubt its authenticity.

'Subtle Clues'

"There are just a whole lot of subtle clues at Stanford that when you look at it tell you to run away," Files said in an interview. He cited the consistent investment returns and the use of an Antigua-based auditor.

Stanford International Bank lists **C.A.S. Hewlett & Co.**, based in St. John's, Antigua, as its auditor. The firm reports offices in Antigua and London on its web site. No one answered the telephone yesterday at either number.

"If you have $8 billion in assets, and you're taking deposits from all over the world, you would really like to have someone signing those balance sheets that someone has heard of," Dalmady said.

Four former investment advisers interviewed by Bloomberg said the Stanford Group offers incentives for those who steer their clients' money into the bank CDs. The company paid a 1 percent fee to the advisers, held contests and offered trips and bonuses of up to $125,000, based on how much money went into Stanford International Bank, according to the former employees and e-mails provided to Bloomberg News. Those incentives weren't paid for investments in other securities, they said.

'Carte Blanche'

The bank said in a December report that it has a loss of $110 million last year. The S&P 500 index fell 39 percent last year.

The bank discloses broad investment categories in marketing materials and on its web site. In 2006, it reported that 57.4 percent of its portfolio was in equities, 21.9 percent in Treasuries and corporate bonds, 13 percent in metals and 7 percent in alternatives, according to a disclosure statement related to the CD offering. The rest was in cash, mostly dollars.

"They have carte blanche to invest in anything they want," said **Scott MacKillop**, president and chief compliance officer at **Frontier Asset Management** in Denver, who reviewed the CD offering documents. "You don't really know what your risk is, and you're getting a limited return."

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