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Stanford: Signs That Should Have Worried Investors

The Stanford scandal also raises questions as to whether the SEC, which had been investigating the firm for three years, should have acted sooner

By [Matthew Goldstein](#)

R. Allen Stanford can blame Bernard Madoff for bringing down his financial empire.

Regulators had been looking at Stanford's firm and its suspiciously high-yielding certificates of deposit on and off for at least three years. But it wasn't until late December—the week after authorities learned about Madoff's alleged \$50 billion Ponzi scheme—that the Securities & Exchange Commission bore down on Stanford Financial Group. The timing isn't coincidental, say people close to the probes. After the Madoff scandal erupted, the SEC quickly assigned a seasoned attorney to Stanford's case. That investigator worked around the clock. Less than two months later, the SEC charged Stanford with running an \$8 billion scam. A spokesperson for Stanford Financial directed inquires to the SEC.

With each new scandal, regulators are taking heat for not moving fast enough to protect investors. Madoff's operation first raised red flags more than a decade before the SEC brought charges.

There were warning signs about Stanford as far back as the early 1990s. In the course of the SEC's three-year investigation, a number of former employees at Stanford Financial voiced concerns about the firm in lawsuits and public arbitration cases. In a 2006 lawsuit, one accused Stanford of running a "Ponzi scheme, or pyramid scheme." The suit was settled for an undisclosed sum. Says New York securities lawyer Ross Intelisano: "A speedier complaint would have saved a lot of investors."

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That's almost certainly true. Stanford Financial posted strong growth during that three-year period. Investors poured at least \$2.5 billion into the affiliated offshore bank that issued the CDs from 2006 to 2008. "They eventually found [problems]," says Houston securities lawyer Thomas Ajame, who is fielding calls from Stanford