

Dirty, Rotten Scoundrels

...From the pages of South Jersey Magazine...

South Jersey has its own Bernie Madoffs, conning area residents out of their hard-earned money for investments that are too good to be true.

Many people knew Glyn Richards. He was a friend, a fellow parent, a business partner and much more.

He was also a conman operating a lucrative Ponzi scheme that bilked South Jersey residents out of nearly \$6 million.



What seems so obvious now—the lies behind the Haddon Heights' man astonishing claims, promising a 44-percent return in four months on an initial \$25,000 investment—wasn't so obvious back then. Richards was a recognized member of the community, even sponsoring the local little league. "He's someone I would have been friends with," says one victim we'll call Ray, a 41-year-old resident of Voorhees who asked that his identity remain anonymous (as did the other victims interviewed for this article). "He was a great guy, to be honest with you. It seemed like he would give you the shirt off his back, but when it came to it, he didn't have a shirt to give."

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Instead, he wore prison detention clothes on July 1 when he was sentenced to 30 years in jail after pleading guilty to charges of mail fraud and money laundering. While he shed tears and uttered, "I have so much remorse," it provided no solace to his detractors, who were not only defrauded out of tens and hundreds of thousands of dollars, but who also had their sense of trust shattered irrevocably. "He would look right in your eye," says another investor, Sean, who gave Richards \$250,000 and counted the con as a close friend. "He's a professional, tremendously skilled criminal. He would take the time and the effort to sit with you and really earn your trust. He would do whatever it took."

The fraud perpetuated by the 45-year-old Richards, from late 2005 to the time of his arrest in July 2007, is just one of a flurry that has captured the public's attention. Powerful ripples are still being felt from December's Bernie Madoff scandal—a \$50-billion Ponzi scheme so monumental that it sent shockwaves through the financial world. "Madoff was such a spectacular fraud, such a jaw-dropping event, that it's really captured the public's attention and focused it on what is really a perennial problem," says Bob Webster, director of communications for the North American Securities Administrators Association (NASAA), an organization of state securities regulators.

It's a problem that affects South Jersey even if local schemers don't get international notoriety like R. Allen Stanford, who was arrested in June for perpetuating a \$7-billion scheme, or Madoff. Locally, there are people like Jeffrey Joseph Southard, a Salem County investment broker who was arrested in December for stealing \$1.8 million by selling a fictitious bond to his mostly elderly victims. And Michael R. Scian, an Evesham resident who pled guilty in March of divesting investors of \$200,000 by selling unregistered securities. And, of course, Richards, who promised tremendous returns through his All Freight Logistics company, which he claimed had a contract with the U.S. Department of Defense that required him to raise money quickly to cover upfront costs.

What quality unites these conmen? It's not their pasts. Some, like Richards, are career fraudsters with multiple arrests, while others are first-timers with nary a tell-tale sign. "There is no blueprint for [a Ponzi schemer]," says Deputy U.S. Attorney Marc Ferzan, who prosecutes criminals in southern New Jersey. But like Madoff and Stanford, these local criminals used the money invested to subsidize their lifestyle—though it wasn't all spent on fancy cars and exotic vacations. Southard spent more than \$200,000 on private school tuition for his children, while Scian paid off his American Express bill with the money he scammed. "The one word that comes to mind is greed," Ferzan says.

Even as Ponzis reach the height of public awareness, the fight is far from over. The same economic conditions that are bringing countless Ponzi schemes down are also creating "an opportunity for a perfect storm of additional fraud," in the words of Richard Barry, the former chief investigator for the New Jersey Bureau of Securities.

Ponzi Schemes 101

Ponzi schemes are nothing new. The name comes from Charles Ponzi, the pioneering scammer who collected nearly \$10 million in 1920. The scam at its core is a simple one, starting with the criminal soliciting initial investors with the promise of tremendous returns—and then handsomely paying those early adopters with newer investors' money. (Of course, no investment actually occurs.) Early adopters crow about their gains to others, and more victims buy into the scam. Those early investors are encouraged to roll over their profits and reinvest, so their gains are often only on paper.

The scheme works as long as the criminal continues to bring in new investors. In a pre-Madoff world, that wasn't a problem. Scams thrived because many investors simply weren't aware of the con. "I was not experienced with Ponzi," says Sean, Richards' victim. "I never heard that word until after Glyn was arrested."

Then the economy went into the tank, and Madoff was exposed.

Ponzi schemes thrive on new investors, but they also need enough old ones to stay around and keep their money in play. When skittish investors take a beating on Wall Street, they seek to cash out their other investments—Ponzi schemes included. With funding dried up, other investors in the scheme stop getting paid. When they stop getting paid, they get angry. And when they get angry, they turn to someone who can help—like the New Jersey Bureau of Securities, which regulates brokers and investment advisors that do business in the state.

The news about Madoff was so big that scammers are becoming more desperate in their attempts to generate revenue as investors pull out their money. "As opportunities for investment have dried up in other areas, people who are engaged in [fraud] are becoming more aggressive in their efforts," says Marc Minor, the chief of New Jersey's Bureau of Securities. "So we've certainly seen an increase in people calling to complain and having concerns about questionable fundraising efforts."

As a result, Ponzi schemes are being exposed at a rate that Barry says hasn't been matched since the 1930s. "I was in the business as the chief enforcement officer for pretty much 30 years in New Jersey, and it is beyond anything I have seen," he says.

Everyday Citizens Victimized

Madoff, now serving a 150-year prison sentence, showed that the country's financial elite could be duped by one of the greatest scams of all time. Glyn Richards revealed that the everyday citizens—"hard-working people, South Jersey people," in the words of one victim—are equally at risk.

Richards' scam was fed by investors bringing in their closest friends and family. "Who knew it was a Ponzi scheme?" says a Gloucester County victim who invested \$25,000 shortly before Richards' arrest. "You don't know anything other than people are making money—the people that you trust. You trust them more than you trust him. If they're making money, why shouldn't you make money?"

To all involved, it appeared Richards was making money hand over fist. "He lived very well," says Assistant U.S. Attorney Diana Carrig, who prosecuted Richards. "He owned seven houses and he would travel extensively with his family. Every house was extraordinarily well-furnished." According to Carrig, Richards would throw investment parties at his home to impress investors and earn their trust.

That trust didn't last forever. When Richards' spending couldn't keep up with the flow of investors, the payments stopped coming, and investors turned to the authorities. It's a common occurrence in the unraveling of Ponzi schemes. "What we have seen historically in these cases is what we saw in Richards' case, where the folks running the scheme ... will divert proceeds for their personal benefit. That very often is what leads to the shortfall," says Ferzan.

Richards wasn't caught sooner, however, because he befriended many in the midst of devising his scheme, and levied that trust at every turn—in securing the money, in encouraging the people to reinvest, in placating angry investors with logical answers when the payments stopped coming. Victims recall how he would swear on the lives of his wife and kids that everything was fine, that payment would come soon.

Sadly, the victims weren't millionaires with money to burn. "People think you're being greedy," says Ray, who invested with Richards in July 2006 and lost \$60,000. "It wasn't being greedy. I was helping a friend build a business, and in the long run looking out for my family, too." Now he wakes up every day wracked by regret for bringing his siblings and co-worker into Richards' scheme. "For somebody to do that, you lose trust in everybody from here on," he says. "I don't really trust many people."

A Troubling Future

Despite the greater public awareness of Ponzi schemes thanks to the Madoff case, experts believe the scams won't slow down any time soon. One reason is that there aren't enough resources available to monitor New Jersey's 5,000-plus registered financial firms and nearly 200,000 brokers and investment advisors. "It's probably making it far more difficult for the state to give the level of attention that should be given to that area," Barry says.

The pre-recession run up of the stock market also created a new investing class. "If anything, there is an increasing percentage of residents who are becoming more comfortable with the idea of investing," says Minor. "When that happens, the pool of people who might be potential victims of these schemes becomes greater."

Ira Spotzner, an ethics professor at Rider University, wants to see a greater emphasis put on education for investors and ethics training for brokers and firms. For his part, Spotzner is updating his curriculum for the upcoming academic year to include more about business ethics and corporate responsibility. "Also, increased penalties are a good thing," he says. "Maybe people will think twice about illegal behavior if they are faced with 150 years in prison."

Ultimately, investors need to do their own research and not rely on the word of a family member or close friend—whether it's an investor or the scammer himself. "Do as much research as you can," says a Richards' victim. "And when you're done doing that research, do some more."

Avoid Becoming a Victim

You know Ponzi schemes are out there. But do you know what to look for? Here's some information to help you avoid becoming a victim.

Know the Telltale Signs

Red flags for all Ponzi schemes include:

- Promises or guarantees of high returns
- Lack of detail about the investment
- Unwillingness to provide more information when asked
- Encouragement to roll over profits back into investment
- Emphasis placed on secrecy and urgency

Registration, Please

Is your investment advisor and the security he or she is selling registered with the state of New Jersey? By law, they have to be. Contact the New Jersey Bureau of Securities (www.state.nj.us/lps/ca/bos) and independent securities regulator FINRA (www.finra.org) to find out.

Alert the Authorities "If anybody making an investment or about to make an investment believes there is anything remiss, I would encourage them to contact their regulator immediately," says Marc Minor, chief of the state's Bureau of Securities, which allows you to file complaints on its Web site. Also, contact the Securities and Exchange Commission (SEC) at www.sec.gov/complaint.shtml.

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