Press Release

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Madoff - EDHEC position paper sets out the red flags that should have served as warning signals

In a new position paper from the EDHEC Risk and Asset Management Research Centre, François-Serge Lhabitant and Greg Gregoriou, two of academia’s recognised worldwide authorities on hedge funds, have reviewed some of the red flags that any operational due diligence and quantitative analysis should have identified as a concern.

In the report, “Madoff: A Riot of Red Flags,” the authors highlight some of the salient operational features common to best-of-breed hedge funds, features that were clearly missing from Madoff’s operations. Indeed, according to Lhabitant and Gregoriou, the list of due diligence red flags was so long and unsettling that it should have deterred potential investors.

The EDHEC position paper looks at the events leading up to the fraud and considers how the alleged split-strike conversion strategy would have worked before exploring the due diligence aspects of the case in detail.

Among the areas which should have been seen as a concern were both operational red flags (lack of segregation amongst service providers, obscure auditors, an unusual fee structure, heavy family influence, lack of disclosure, insufficient staff, etc.) and investment red flags (black-box strategy, questionable style exposures, incoherent 13F filings, excessive market size).


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About EDHEC

EDHEC Business School, founded in 1906 and among the select few institutions to have garnered international recognition through the triple crown of EQUIS, AACSB and AMBA accreditations, offers management education designed to meet the needs of companies. Its large range of international graduate programmes draws students from the world over. With its three campuses in Lille, Nice, and Paris, its 4,700 students, more than 25% of whom are from abroad, and its 100 full-time faculty, EDHEC has been ranked among the top European business schools for several years.

For the last four years, as part of its strategy for international excellence, EDHEC Business School has espoused an innovative research policy that takes into account the needs of companies and the market. Research at EDHEC is organised into four centres built on the expertise of the faculty.

EDHEC Business School is recognised as a centre of excellence for asset management and alternative investment research and several of its professors are regarded as international experts in the fields of asset management, fixed income securities, alternative investments and risk management. The aim of the EDHEC Risk and Asset Management Research Centre is to produce research that meets the most stringent academic standards and to facilitate corporate use of this research.

In partnership with large financial institutions, the research centre brings together 46 researchers and implements six industry-sponsored programmes and ten research chairs focusing on asset allocation and risk management in the traditional and alternative investment universes. Adopted by managers and investors, the EDHEC Alternative Indexes are superior measures of performance of the various hedge fund styles.

The research centre maintains a website devoted to asset management research for the business community, [www.edhec-risk.com](http://www.edhec-risk.com), and has given rise to the offshoot EDHEC Asset Management Education. EDHEC Asset Management Education helps investment professionals to upgrade their skills with the PhD in Finance, asset management training and preparatory courses for the CAIA examinations.