BACKGROUND OF BERNARD CORNFELD

The story is usually told like this: Bernard Cornfeld, an idealistic young socialist, is the son of a widowed immigrant in New York. His income as a social worker is slender, and in order to have enough money to take good care of himself and his family, he begins selling mutual-fund shares in his spare time. In 1969, he founded IOS, a charade, to capitalize on the enthusiasm of the public for “financial counselors,” combed the earth for people’s savings, and pushed mutual-fund shares aggressively. The mutual-fund salesman was the backbone of the IOS sales force. Many mites were thus assembled into a great whole. Wise men invest where they see that success lies under the surface. The accurate description of the market is a sine qua non of the market. The only trouble was that IOS was not a respectable financial institution. It was a high-flying, high-flying, high-flying, high-flying international swindle.

It was Bernard Cornfeld’s declared ambition to make Investors Overseas Services the most important financial service in the Free World. The game was mutual funds. Thousands of salesmen, calling themselves “financial counselors,” conned the earth for people’s savings, and put them into the funds which IOS managed, creaming off enough in the process to make the most successful of them wealthy men. Mutual funds in themselves are an old and well-tried form of investment. A special variant was that IOS was the biggest and best-known of the “offshore” funds. That meant that these funds, and the companies that managed them, were carefully registered and domiciled wherever in the world they would most avoid taxation and regulation. There was nothing new about that either.

What was phenomenal about IOS was its success. On the foundation of its offshore mutual funds it built up a complex of banks, insurance companies, real-estate promotions, and every other kind of financial institution you can think of. “Total Financial Service” was the slogan. By the end of the 1960s, IOS had made a fortune valued at over $60 million for Bernard Cornfeld personally. It had made around a hundred of its associates millionaires as well. Cornfeld was the most talked about financier in Europe since the Great Depression, and IOS was insistently—and on the whole successfully—asserting the right to sit at the golden table of the world’s most respectable financial institutions.

The only trouble was that IOS was not a respectable financial institution. It was a high-flying, high-flying, high-flying, high-flying international swindle.

IOS was the creation of Bernard Cornfeld and Edward M. Cowett. Together these two men built up an organization so steeped in financial and intellectual dishonesty and directed so recklessly that it was absurd when it happened and was by then the size of the cut that the salesman takes for himself, and the manner of expert brokers.

Mutual funds in themselves are an old and well-tried form of investment. A special variant was that IOS was the biggest and best-known of the “offshore” funds. That meant that these funds, and the companies that managed them, were carefully registered and domiciled wherever in the world they would most avoid taxation and regulation. There was nothing new about that either.

“What is phenomenal about IOS was its success. On the foundation of its offshore mutual funds it built up a complex of banks, insurance companies, real-estate promotions, and every other kind of financial institution you can think of. "Total Financial Service" was the slogan. By the end of the 1960s, IOS had made a fortune valued at over $60 million for Bernard Cornfeld personally. It had made around a hundred of its associates millionaires as well. Cornfeld was the most talked about financier in Europe since the Great Depression, and IOS was insistently—and on the whole successfully—asserting the right to sit at the golden table of the world’s most respectable financial institutions.

The only trouble was that IOS was not a respectable financial institution. It was a high-flying, high-flying, high-flying, high-flying international swindle.

IOS was the creation of Bernard Cornfeld and Edward M. Cowett. Together these two men built up an organization so steeped in financial and intellectual dishonesty and directed so recklessly that it was absurd when it happened and was by then the size of the cut that the salesman takes for himself, and the manner of expert brokers.

Mutual funds in themselves are an old and well-tried form of investment. A special variant was that IOS was the biggest and best-known of the “offshore” funds. That meant that these funds, and the companies that managed them, were carefully registered and domiciled wherever in the world they would most avoid taxation and regulation. There was nothing new about that either.

“What is phenomenal about IOS was its success. On the foundation of its offshore mutual funds it built up a complex of banks, insurance companies, real-estate promotions, and every other kind of financial institution you can think of. “Total Financial Service” was the slogan. By the end of the 1960s, IOS had made a fortune valued at over $60 million for Bernard Cornfeld personally. It had made around a hundred of its associates millionaires as well. Cornfeld was the most talked about financier in Europe since the Great Depression, and IOS was insistently—and on the whole successfully—asserting the right to sit at the golden table of the world’s most respectable financial institutions.

The only trouble was that IOS was not a respectable financial institution. It was a high-flying, high-flying, high-flying, high-flying international swindle.

IOS was the creation of Bernard Cornfeld and Edward M. Cowett. Together these two men built up an organization so steeped in financial and intellectual dishonesty and directed so recklessly that it was absurd when it happened and was by then the size of the cut that the salesman takes for himself, and the manner of expert brokers.

Mutual funds in themselves are an old and well-tried form of investment. A special variant was that IOS was the biggest and best-known of the “offshore” funds. That meant that these funds, and the companies that managed them, were carefully registered and domiciled wherever in the world they would most avoid taxation and regulation. There was nothing new about that either.

“What is phenomenal about IOS was its success. On the foundation of its offshore mutual funds it built up a complex of banks, insurance companies, real-estate promotions, and every other kind of financial institution you can think of. “Total Financial Service” was the slogan. By the end of the 1960s, IOS had made a fortune valued at over $60 million for Bernard Cornfeld personally. It had made around a hundred of its associates millionaires as well. Cornfeld was the most talked about financier in Europe since the Great Depression, and IOS was insistently—and on the whole successfully—asserting the right to sit at the golden table of the world’s most respectable financial institutions.

The only trouble was that IOS was not a respectable financial institution. It was a high-flying, high-flying, high-flying, high-flying international swindle.

IOS was the creation of Bernard Cornfeld and Edward M. Cowett. Together these two men built up an organization so steeped in financial and intellectual dishonesty and directed so recklessly that it was absurd when it happened and was by then the size of the cut that the salesman takes for himself, and the manner of expert brokers.

Mutual funds in themselves are an old and well-tried form of investment. A special variant was that IOS was the biggest and best-known of the “offshore” funds. That meant that these funds, and the companies that managed them, were carefully registered and domiciled wherever in the world they would most avoid taxation and regulation. There was nothing new about that either.

“What is phenomenal about IOS was its success. On the foundation of its offshore mutual funds it built up a complex of banks, insurance companies, real-estate promotions, and every other kind of financial institution you can think of. “Total Financial Service” was the slogan. By the end of the 1960s, IOS had made a fortune valued at over $60 million for Bernard Cornfeld personally. It had made around a hundred of its associates millionaires as well. Cornfeld was the most talked about financier in Europe since the Great Depression, and IOS was insistently—and on the whole successfully—asserting the right to sit at the golden table of the world’s most respectable financial institutions.

The only trouble was that IOS was not a respectable financial institution. It was a high-flying, high-flying, high-flying, high-flying international swindle.
The years of the bull market, he said, had seen an “extraordinary creative new development of ways of marshaling the money which is the lifeblood of our economy.” He then went on to passage of a picturesque eloquence. “This is the promise,” he declared, “that everyone who is willing to work and to save can participate in economic development. . . . That the dream of more flattering, and more interesting, about his famous “life-style” than the ordinary spending power of great wealth. He had contrived to recruit, in the enviable and egalitarian twentieth century, what amounted to a private army of vassals his sa...
They could never have flourished as they did without the acquiescence of every kind. No doubt they didn’t know quite how dishonest IOS with accountants, lawyers, bankers, brokers, advertising men, and publishers was practicing “firm handshakes” on each other. Practiced “sincere smiles” in front of mirrors – in later, more opulent establishments, which Bernie and his men picked over the techniques of their craft. They averaged “dollas-count averaging” The use of this piece of arithmetical patter reveals a great deal about the essential techniques of mutual-fund selling. The standard sales pitch is predicated upon the idea that stock markets everywhere are up. Bernie’s advertisement in the Paris Herald Tribune, offering “American men and women” over $10,000 a year for “sales ability, a willingness to work hard in a fast-growing industry, and a sense of humor,” was running regularly, and striking a very effective chord in the exile community, which prized itself above all, on its sense of humor. Especially, he was impressed by Bernie’s account of “dollas-count averaging” The use of this piece of arithmetical patter reveals a great deal about the essential techniques of mutual-fund selling. The standard sales pitch is predicated upon the idea that stock markets everywhere are up.

Bernie’s advertisement in the Paris Herald Tribune, offering “American men and women” over $10,000 a year for “sales ability, a willingness to work hard in a fast-growing industry, and a sense of humor,” was running regularly, and striking a very effective chord in the exile community, which prized itself above all, on its sense of humor.

By 1966, when he went to work for Bernie Cornfeld, much of his career had slipped past in a pattern of bright hopes and disappointments. Franklin Delano Roosevelt’s eldest son, James, was offered a job in the insurance business. The salary was $5,000 a year, a handsome sum in those days. The duties were not arduous; according to young Roosevelt they consisted mainly of sitting behind a large desk. He took the job.

“I wasn’t being kidded,” the President’s son told Collier’s magazine later. “I knew perfectly well that they were paying me for the name.... I was newly married, and I needed the money.” He was hailed as a “young menace” of insurance, but it didn’t even rise to great heights in the business.

Cornfeld was delighted with his new personal ambassador to the international establishment, and quickly put him to work improving IOS’s external relations, which sorely needed improvement at the time, for practical purposes, nothing but unqualified admirers. Even in Communist countries, FDR’s son carried a name taken as a guarantee judgment, probity, and, perhaps most important, generosity. The benefits that Roosevelt brought to IOS could scarcely be measured.
bankers, generals, and politicians was invited, and a distinguished chef was hired with an entire kitchen staff to do justice to the occasion. An hour after the time appointed on the invitation card, the Ambassador’s party was in full being. By ten it was getting noisy, and by eleven the last line of the guests was beginning to look thin. Only one person was missing: only one person was missing: to make it the most glittering social occasion Geneva had seen for many years, the man they had all been invited to meet: Bernie. By eleven-thirty, the chef was threatening to cancel his bâquette amid the din, and the Ambassador’s champagne was fronic. Around midnight he surrendered, and asked the guests to take their places for dinner. “Gentlemen,” he said, “I’m sorry, but Mr. Cornfeld will not be with us this evening. We work for an extremely brilliant man. A man with a peculiar personality. He may even be a genius, and we must give him due.” It is said that Rossevelt did not forget this first lesson.

But the scope of his efforts over the three years after he joined the company was breathtaking. And he was tireless:

No other mutual-fund group, possibly, would have had the audacity to sponsor an international peace conference, and then turn it into a commercial jamboree. No other mutual-fund group, certainly, could have provided someone to preside over such an occasion with the aplomb which James Rossevelt brought to the solemn façade of Palazzo in Terris II.

Four hundred people, many of them of the greatest eminence, were invited to Geneva from seventy countries. They assembled on May 26, 1969, in the Intercontinental Hotel, the setting of the famous sales conference. Much earnest overtime was heard from them over the next three days, as the Cornfeld’s assertion that their “deliberations mark an important breakthrough for the cause of all humanity” sounds, in retrospect, a trifle exaggerated.

Three principal themes had been chosen for discussion: the war in Vietnam, the threat of war in the Middle East, and the deadlock over the two Germans. The list of participants must now make embarrassing reading for some of the great men who attended, and for some of the innocent governor of California is more imposing. Roosevelt was able to persuade the chairman to join even before him.

The setting up of national funds – where governments would allow them to lend a spot of elbow grease to the mahogany and leather patina of solidarity that IOS needed to acquire. Both parts of the strategy succeeded: they made it possible to argue that some, at least, of the clients’ money was being used to build up the best possible relations with governments, central banks, the press, and anyone else who might be needed to provide a protection for the national funds, JOS, under James Roosevelt’s tenure. No other mutual-fund group, certainly, could have provided someone to preside over such an occasion with the aplomb which James Rossevelt brought to the solemn façade of Palazzo in Terris II.

Four hundred people, many of them of the greatest eminence, were invited to Geneva from seventy countries. They assembled on May 26, 1969, in the Intercontinental Hotel, the setting of the famous sales conference. Much earnest overtime was heard from them over the next three days, as the Cornfeld’s assertion that their “deliberations mark an important breakthrough for the cause of all humanity” sounds, in retrospect, a trifle exaggerated.

Three principal themes had been chosen for discussion: the war in Vietnam, the threat of war in the Middle East, and the deadlock over the two Germans. The list of participants must now make embarrassing reading for some of the great men who attended, and for some of the innocent official, for channeling funds out of Italy and into Luxembourg on September 26, 1967. IOS began selling it early the next year. By January 27, 1970, two years later, James Roosevelt, in his capacity as President of Fonditalia, was able to give the investors a glowing report in his second-year-end letter. Fonditalia was associated with blue-chip banks; the Banca Nazionale di Sconto, the Banca Commerciale e dello Stato, the Banca di Roma had been involved in operations in Italy, thus the constitutional monarch” of IOS in Italy. Harvey Felberbaum was the “operational chief.”

We met Felberbaum in London, in one of IOS’s apartments in Park Lane. He was affable but tiresome. His general position was that while there might have been a little illegal selling, it was insignificant in volume and had all stopped before Fonditalia was formed.

As for the Finter Bank? We asked. Yes, he said, he had heard of it, but neither he nor IOS had ever had any formal arrangement with it. A few days later, one of us was going through a file of Brazilian newspaper clippings. A reference to the Finter Bank jumped out of the page. There were letters, reports, and documents dealing with many aspects of IOS business. And among them there were several papers which mentioned the Finter Bank.

One of them read as follows: “Check in lire. Make them out in any name you like. Should be crossed for greater security. Do not put the name of the place. Send check to Harvey Felberbaum, care of the Finter Bank.”

The history of the Finter Bank is linked with the story of one of the most mysterious financial scandals of postwar Europe, the affairs of the Balzan Foundation. It is also intrinsically connected with the flight from the lira. Two remarkable men were to be the principal actors in the Balzan affair. One was a lawyer of Italian descent and Venetian nationality named Ulisse Maurozzi. The second was Padre Enrico Zucco, who must be one of the most improbable of all the followers of the Franciscan rule of poverty. Zucco first appeared in the headlines when he reburied Mussolini’s body in 1946. He then established a Catholic cultural center in Milan known as the Angelicum, which operates on the most lavish scale, with its own orchestra, theater, cinema, and classical recording company.

The Swiss investigations showed that in some cases, at least, the gifts made to the Balzan Foundation were “donations” of a very special kind. The donors were paid back – sometimes in Swiss francs – a substantial portion of the money they gave to the Foundation in Italy.

Both in Switzerland and in Italy, the press pointed out that this looked very much like a way of enabling wealthy Italians to get their capital out of the lira into good hard Swiss francs, while at the same time avoiding death duties.

There was no difficulty in finding the Finter Bank. We were received by none other than Stelio Behrmanelli.

Mr. Behrmanelli really confirmed that the Finter Bank had been used by the IOS managers in Italy for channeling funds out of Italy and into IOS funds in Geneva.

Behrmanelli also told us that, since the Balzan scandal, a stake in the Finter Bank had been bought by the Pesenti group. Carlo Pesenti is one of the most successful and most powerful Industrialists in Italy. From his power base in Bergamo, not far from Chiasso, the Pesenti family controls Italmobiliare, one of the largest industrial corporations in Italy, and Pasquali, one of the largest paper-making, banking, and real estate. Pesenti recently sold the Lancia automobile company to FIAT.

For many years, some wealthy Italians have been shipping their capital across the frontier to Switzerland. This traffic accelerated sharply in the boom of the 1960s. According to Edward Cowett, who composed a report in 1970, 16.5 per cent of Italy’s capital flight was being moved to the Swiss Confederation, compared with 4.5 per cent to Luxembourg and 7.9 per cent to the United States. This growing importance of the Swiss Confederation was very much like a way of enabling wealthy Italians to get their capital out of the lira into good hard Swiss francs, while at the same time avoiding death duties.

There was no difficulty in finding the Finter Bank. We were received by none other than Stelio Behrmanelli.

Mr. Behrmanelli really confirmed that the Finter Bank had been used by the IOS managers in Italy for channeling funds out of Italy and into IOS funds in Geneva.

Behrmanelli also told us that, since the Balzan scandal, a stake in the Finter Bank had been bought by the Pesenti group. Carlo Pesenti is one of the most successful and most powerful Industrialists in Italy. From his power base in Bergamo, not far from Chiasso, the Pesenti family controls Italmobiliare, one of the largest industrial corporations in Italy, and Pasquali, one of the largest paper-making, banking, and real estate. Pesenti recently sold the Lancia automobile company to FIAT. How big was Harvey Felberbaum’s black operation in Italy?

For many years, some wealthy Italians have been shipping their capital across the frontier to Switzerland. This traffic accelerated sharply in the boom of the 1960s. According to Edward Cowett, who composed a report in 1970, 16.5 per cent of Italy’s capital flight was being moved to the Swiss Confederation, compared with 4.5 per cent to Luxembourg and 7.9 per cent to the United States. This growing importance of the Swiss Confederation was very much like a way of enabling wealthy Italians to get their capital out of the lira into good hard Swiss francs, while at the same time avoiding death duties.

There was no difficulty in finding the Finter Bank. We were received by none other than Stelio Behrmanelli.

Mr. Behrmanelli really confirmed that the Finter Bank had been used by the IOS managers in Italy for channeling funds out of Italy and into IOS funds in Geneva.

Behrmanelli also told us that, since the Balzan scandal, a stake in the Finter Bank had been bought by the Pesenti group. Carlo Pesenti is one of the most successful and most powerful Industrialists in Italy. From his power base in Bergamo, not far from Chiasso, the Pesenti family controls Italmobiliare, one of the largest industrial corporations in Italy, and Pasquali, one of the largest paper-making, banking, and real estate. Pesenti recently sold the Lancia automobile company to FIAT. How big was Harvey Felberbaum’s black operation in Italy?

For many years, some wealthy Italians have been shipping their capital across the frontier to Switzerland. This traffic accelerated sharply in the boom of the 1960s. According to Edward Cowett, who composed a report in 1970, 16.5 per cent of Italy’s capital flight was being moved to the Swiss Confederation, compared with 4.5 per cent to Luxembourg and 7.9 per cent to the United States. This growing importance of the Swiss Confederation was very much like a way of enabling wealthy Italians to get their capital out of the lira into good hard Swiss francs, while at the same time avoiding death duties.

There was no difficulty in finding the Finter Bank. We were received by none other than Stelio Behrmanelli.

Mr. Behrmanelli really confirmed that the Finter Bank had been used by the IOS managers in Italy for channeling funds out of Italy and into IOS funds in Geneva.

Behrmanelli also told us that, since the Balzan scandal, a stake in the Finter Bank had been bought by the Pesenti group. Carlo Pesenti is one of the most successful and most powerful Industrialists in Italy. From his power base in Bergamo, not far from Chiasso, the Pesenti family controls Italmobiliare, one of the largest industrial corporations in Italy, and Pasquali, one of the largest paper-making, banking, and real estate. Pesenti recently sold the Lancia automobile company to FIAT. How big was Harvey Felberbaum’s black operation in Italy?

For many years, some wealthy Italians have been shipping their capital across the frontier to Switzerland. This traffic accelerated sharply in the boom of the 1960s. According to Edward Cowett, who composed a report in 1970, 16.5 per cent of Italy’s capital flight was being moved to the Swiss Confederation, compared with 4.5 per cent to Luxembourg and 7.9 per cent to the United States. This growing importance of the Swiss Confederation was very much like a way of enabling wealthy Italians to get their capital out of the lira into good hard Swiss francs, while at the same time avoiding death duties.

There was no difficulty in finding the Finter Bank. We were received by none other than Stelio Behrmanelli.

Mr. Behrmanelli really confirmed that the Finter Bank had been used by the IOS managers in Italy for channeling funds out of Italy and into IOS funds in Geneva.

Behrmanelli also told us that, since the Balzan scandal, a stake in the Finter Bank had been bought by the Pesenti group. Carlo Pesenti is one of the most successful and most powerful Industrialists in Italy. From his power base in Bergamo, not far from Chiasso, the Pesenti family controls Italmobiliare, one of the largest industrial corporations in Italy, and Pasquali, one of the largest paper-making, banking, and real estate. Pesenti recently sold the Lancia automobile company to FIAT. How big was Harvey Felberbaum’s black operation in Italy?