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 an active part in the game of mutual-fund selling, he begins selling mutual-fund shares in his spare time. But it is easier to become rich playing with the abstract nature of money than confronting the difficulties of concrete achievements. Madoff’s mistake of cheating the higher classes is costing him years of imprisonment.

Cornfeld started at Brooklyn College under a considerable disadvantage. He had a hammer that was bad enough for him to ask teachers not to put questions to him in public. This speech impediment, and the uncertainty of treatment which he received for it, may well have affected the whole course of Cornfeld’s life.

By the time he came back from the sea in 1947, his stammer was proving enough of a liability to make him seek treatment. He consulted a lay therapist, named Willard Brecher, and told him that he wanted to cure his stammer in order to become a salesman like his elder half-brother, Eugene. At a practical level, Brecher told Cornfeld that he must cease asking his teachers to exempt him from questions. On the contrary, he must seek out every opportunity for public speech and performance. Cornfeld acted upon this advice, and, within a very few months, his stammer came under control and virtually disappeared. The experience was the starting point in Cornfeld’s love affair with applied psychology.

Unfortunately, I conceived to be a best seller based on the upturn of the IOS scandal, its depth escapes both the casual reader and the academic. Nor is it an easy textbook, because its essential concepts lie under the surface. The accurate description of the fictions of our social system, and also its elusive economic laws, must be extracted by the sagacity of the reader from a narrative as intriguing as a literary fiction.

But it is all there; the ambiguous role of money in the market, the opacity of Wall Street and the banks, the contingency between the financial establishment and mainstream economists, the techniques of master financiers and the psychology of their naif victims, the reputation as a purchasable commodity, the self breeding power of money, the capitalistic debtor-creditor engine, the overpowering motivation of profit, the pervasive role of deceptive salesmanship and many other factors that pollute the integrity of theoretical thinking. This is not a book about capitalism, or its supposed deviations. It is a politically neutral textbook that, in analyzing the rise and fall of IOS with scientific diligence, describes the factual essence of finance – the characterizing element of the capitalistic system – against which any economic theory should be measured.

The book, the brainchild of Bernard Cornfeld, a penniless socialist-minded Jewish young man with initiative, a large ego and a stutter to vindicate, rose from the dull roots of Brooklyn to the status of a financial Holy Grail in the world.

It was Bernard Cornfeld’s declared ambition to make Investors Overseas Services the most important economic force in the Free World. The game was mutual funds. Thousands of salesmen, calling themselves “financial counselors,” turned 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.

“IOS pretended to be creating wealth for the many when it was really making money for the few”

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 a shade under two and a half billion dollars of other people’s money to manage, and Cornfeld was publicly boasting plans to push that sum to 25 billion which was the sum of money that IOS had been managed.

The Bernie Cornfield Story

Charles Raw, Bruce Page & Godfrey Hodgson

IOS funds, the brainchild of Bernard Cornfeld, a penniless socialist-minded Jewish young man with initiative, a large ego and a stutter to vindicate, rose from the dull roots of Brooklyn to the status of a financial Holy Grail in the world. The Bernie Cornfield Story - Bert Cantor Publisher: Card Pub Group (1970)

BACKGROUND OF BERNARD CORNFELD

The Institutional Investor (see the trailer), not to miss another opportunity of embarrassment, in 1986, wrote: “They (ICM) are in effect the best finance faculty you can think of. Total Financial Service” was the slogan. By the end of the 1960s, IOS had a shade under two and a half billion dollars of other people’s money to manage, and Cornfeld was publicly boasting plans to push that sum to 25 billion which was the sum of money that IOS had been managed.

By the end of the 1960s, IOS had also made a fortune valued at over 2 billion dollars. By the end of 1991, IOS had a large finance faculty, not to miss another opportunity of embarrassment. The Bernie Cornfield Story - Bert Cantor Publisher: Card Pub Group (1970)

It was Bernard Cornfeld’s declared ambition to make Investors Overseas Services the most important economic force in the Free World. The game was mutual funds. Thousands of salesmen, calling themselves “financial counselors,” turned 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.

IOS, 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 was in operation and even more so when it was busted. The Bernie Cornfield Story - Bert Cantor Publisher: Card Pub Group (1970)

Most people have a good deal of difficulty in accepting the idea that a large and well-publicized international business could have been run in such a manner: “It can’t be true,” is the natural reaction, “because if it was true, how did they get away with it?” There are many answers to that question.

But there are some important variations possible, such as the size of the cut that the salesman takes for himself, and the manner of insuring that the little people’s savings are deployed with suitable wisdom. The Bernie Cornfield Story - Bert Cantor Publisher: Card Pub Group (1970)

The Bernie Cornfield Story - Bert Cantor Publisher: Card Pub Group (1970)
The years of the bull market, he said, had seen “an extraordinary creative new development of ways of marshaling the money which is the bulwark of our civilization.” He then went on into a passage of prophetical eloquence. “This is the promise,” he declared, “that everyone who is willing to work and to save can participate in economic development... The dream of an equal and equitable distribution of wealth can be realized within the structur... It is also the prophecy that the dynamism of our economy will result in the knitting together of the shatter... society...”

In February 1970 Bernie Cornfeld seemed to stand on a high mountain. He owned more chateaux, town houses, villas, and apart... than any Rothschild or Es... in their high times a few days before he flew to New York he had just bought his second castle. He owned horses, wild animals, boats, airplanes, cars, fashion houses, and model agenc... He moved incessantly between these luxury possessions, surrounded by numerous and pleasure-loving an entourage as a prince of the Holy Roman Empire. And there was something 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 envious and egalitarian twentieth century, what amounted to a private army of valets his sales force. Many of them were fanatically loyal and he knew how to keep them that way with a compl... of lavish gifts, grants of profitable territory, and elaborately structured financial rewards. It was even rumored – and Cornfeld himself did little to squash such rumors – that he lived in the middle of an adolescent’s fantasy of a harem. But what impressed the hostesses and journalists of New York was not so much the picturesque surface of Cornfeld’s life. It was that it seemed to be solidly built on a golden foundation of money.

“The Institutional Investor is a plump journal, whose elegant pages are not available to the general public.”

With a salesman’s flair for divining what an audience wants to hear, Cornfeld plied his sales pitch two of themes. One was Messianic confidence about the potential glories of the market. And the other was denunciation of the agency which he blamed for the market’s immediate difficulties: none other than his old antagonist, the Securities and Exchange Commission.

The SEC, he said, had “adopted the simple device of attacking virtually... issues of security and for impoverishing brokers by suggesting that commissions might be cut for the benefit of the customers. And he depicted its attitude to the enormous flood of brokerage commissions generated...”

The setting was New York, the true test and only stage for success in Bernard Cornfeld’s world. He had first come to the city as a child from Turkey in 1913. He was nearly thirty when he left to seek his fortune in Europe. It had been one of the proudest moments of his life when he came back to New York in 1962, as a rich man, and the New York pa... he had been banished from New York. Or rather, while he himself could go there as often as he liked and could cut a flamboyant figure in the East Side discotheques, his firm was banned from doing business there by order of the Securities and Exchange Commission, because of certain irregularities and deceptions. Now he was back in New York again, and with the financial community literally at his feet.

A WARNING TO INVESTORS FROM MR. BERNARD CORNFELD

But now it is time to take leave of generalities and to take a closer look at the remarkable figure of Bernard Cornfeld. There can be no better mo... to the realty bar kay, than the renown of Cornfeld’s power and reputation.

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The SEC, he said, had “adopted the simple device of attacking virtually every sector of the economy for the benefit of the customers. And a weak, unprofitable business means a weak, unprofitable market.” The point had been made, he said, when “the public interest seems to be the least of all considerations when the Commission moves into action.”

Insofar as he chose to support this sweeping allegation with specific charges, he accused the SEC of misusing its power – by blocking the prospectus of any firm that continued to do business with IOS. He attacked the Commission for not regulating the trade in unregistered securities, and for impoverishing brokers by suggesting that commissions might be cut for the benefit of the customers. And he depicted its attitude to the enormous flood of brokerage commissions generated by the market. The SEC wanted these diverted back to the customers: that, said Cornfeld, would impoverish Wall Street. It was an inspired performance, and the audience acclaimed it ap...
It is time to take a detailed look at what did go wrong. When we have done so, it will become plain that the really interesting question is not so much why Cornfeld and his friends failed. It is how they managed to succeed as long as they did.

For this is not only a story about Bernard Cornfeld and Edward Cowert. They could never have flourished as they did without the acquiescence and, sometimes, the active help of others. Victory, they say, has many faces, but in this case, it was a face that not only needed to be present, but also one that had to be willing to turn a blind eye. The help was not unsought; it was the result of a calculated and deliberate strategy.

Within weeks of Cornfeld's trade against the SEC, the stock market crashed and fell even more steeply.

“Physically, he was completely unprepossessing.”

It was Cornfeld's appearance that set him apart from the crowd. His clothes were baggy – there was never a suit off the rack which could fit Bernie. But then he started to speak. His voice is very soft and reassuring. His smile is very engaging. There was nothing elaborate about the operation. The firm's chief and only asset, a Chrysler Imperial convertible, has been firmly established as part of the IOS legacy. It was the headquarters of the firm, really, says Marx, a salesman. “Each weekend Bernie would load it up with advertising material, and drive it to a hotel in Orleans. Sometimes, we would sleep over Saturday night in the car before starting in again on Sunday.”

But by the time Marx joined, the firm was on its way to fame. Bernie's advertisement in the Paris Herald Tribune, offering “American mutual funds,” was the beginning of a new and puzzling phenomenon: the American mutual fund industry. To some, it seemed like it was a way to make money without actually doing anything. To others, it seemed like a way to avoid the strict regulations of American law. But to Bernie, it was a way to make a fortune.

As the market crashed, Cornfeld realized that he was on to something. He started to sell more and more mutual funds to the French. It was very clear that the time had come to move on. A police visit to the offices IOS was using.

It was Cornfeld's view that whenever a man was paid a salary, then someone was being exploited – either the employee or the employer. This meant, inevitably, that IOS was a personal syndicate, with only such control over individual salesmen as might derive from the sanction of a syndicate membership.

In their recollections, the veterans of the period make much of the point that Bernie himself showed energetic form as a doorstep salesman – but no overwhelming brilliance. In the early days, Cornfeld used to go out with groups of salesman on training expeditions. He didn't get a warm sale, says Robert Marx. “But he is a man of a fairly steady line of patern.” Cornfeld's interest in his own selling performance was probably about the same as Napoleon's interest in his own prowess with a musket. When the general joined in practice on the range, his purpose is to inspire the soldiers by showing them that he does not despise the duties he orders them to perform. If IOS had devoted himself to selling mutual funds in person, he could have no doubt built up an impressive commission income. Instead, what he sold was the idea – the concept, if you like – that there should be mutual funds for all.

Cornfeld was endlessly patient in overcoming the hesitations, errors, and reluctance of his recruits. Each salesman began his career by walking into Cornfeld's office and trying to sell to Cornfeld. After each such exercise, they would sit down together and go through the flaws in the new salesman's “presentation.” There were lengthy group sessions in which Bernie and his men picked over the techniques of their craft. They practiced “sincere smiles” in front of mirrors – in later, more opulent days, training films were made on the finer points of smiling – and they practiced “firm handshakes” on each other.

Bert Cantor had the job of teaching them how to sell. Bernie Cornfeld's job was to make them want to sell. They were asked numerous rhetorical questions. “Do you sincerely want to be rich?”

This was a brilliant reading by Cornfeld from Adler and the theory of goals. For most people, the answer is no – they would like to be rich, or would not mind being rich, but they sincerely want something else. Cornfeld's question was calculated to sort out the attitudes of his recruits. For those who said yes, they did sincerely want to be rich, there was a logical follow-through. If that was what they wanted, they must do what they wanted them to do. And then he would make them millionaires. Optimism, it was explained to the salesman, was the essence of the business. Don Juan, said the IOS salesmen's Bulletin, was not a handsome man. He was even unattractive. But he was an optimist. Good salesman, it was implied, should emulate the genial seducer.

“Eminent international citizens are brought into the company”

In 1951, shortly after he left Harvard, 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 onerous; 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 meteor” of insurance, but it later did not rise to great heights in the business.

By 1956, when he went to work for Bernie Cornfeld, much of his career had slipped past in a pattern of bright hopes and disappointments. Franklin Roosevelt may have had detractors as well as admirers within the United States outside the United States he had, 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.

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, as we have seen. But he also took good care that neither Roosevelt nor anyone else should get any wrong ideas about the true strength of Roosevelt's position inside IOS.

Soon after he joined, Roosevelt characteristically proposed to give a splendid party to celebrate his new functions. Cornfeld agreed, and put the company's lakeside villa, Bella Vista, at his disposal.

“We are all about to be known.”

In this respect, Cornfeld could hardly have been more right. When FDR's son died, IOS was barely a year old. And the result of the accident was to bring the world into IOS.
But Cornfeld was after bigger lions.

his old friend ex-Governor Edmund G. “Pat” Brown to join the Fund of

joined even before him.

shooter, and ambassador-at-large. He was also useful as a recruiting

a mob of Bernie’s cronies, some of whom may well have thought Pacem in

archbishops, and four Nobel peace laureates jostled shoulders there with

reading for some of the great men who attended, and for some of the

conference. Much earnest oratory was heard from them over the next

No other mutual-fund group, possibly, would have had the audacity

company was breath-taking. And he was tireless.

Evening. We work for an extremely brilliant man. A man with a peculiar

the ruins of his dinner. Roosevelt was frantic. Around midnight he

party was in full swing. By ten it was getting noisier, and by eleven the last

bankers, generals, and politicians was invited, and a distinguished chef

frontier in Switzerland, less than an hour’s drive on the autostrada north

This was done with the co-operation of one Swiss bank in particular,

Fonditalia had been set up with the Italian government’s blessing.

of Italy in this way into the IOS-dollar funds in Switzerland, long after

The Finter Bank’s Chiasso branch and the IOS managers in Italy helped

from Milan.

This was IOS’s opportunity in Italy, and it was equal to it. Once again,

For many years, some wealthy Italians have been shipping their capital

into the IOS-dollar funds in Switzerland, long after

IOS was to receive a mark of signal favor from an even higher power.

October 1968.

“To succeed in business in Italy,

even more than anywhere else, you

must fare bella figura”