

COVID-19 RESPONSE

AlixPartners insights and advice: Economic Crisis 2020 / Uncovering Fraud

March 2020

Corporate Scandals. Ponzi Schemes. Insider Trading. Investment Fraud. Exposure of fraud can often be an outcome of erratic stock market behavior.

Situation

Covid-19 is first and foremost a humanitarian crisis. In a crisis, the foremost concerns must be personal health and safety—of our families, our employees, and ourselves. Taking care of those who contract the virus and joining the global community in taking sensible steps to slow its spread is of the utmost importance. Once you have addressed the critical efforts to safeguard your family and your people, you must turn to the health and safety of your business. Looking at precedent downturns, fraudulent activity was exposed shortly after the stock market's low points.

In the early 2000's, the burst of the internet bubble, followed by the terrorist attacks of September 11, initiated a stock market downturn. From March 2000 to October 2002, the Dow Jones Industrial Average (DJIA) was down 27% and the S&P 500 down 43%.

Five years later the financial crisis of 2008 ignited, and the stock market fell approximately 777 points on its worst day. From October 2007 to March 2009, the DJIA lost 54% of its value, and the S&P 500 lost 57%.

Fast-forward 12 years to the global spread of the novel coronavirus, and the stock market has dropped approximately 30% below its February 2020 all-time high. This global pandemic has hastened the end of an 11-year bull market.

Taking a deeper look at Ponzi schemes, approximately 157 collapsed during the financial crisis of 2008-2009 when investor redemptions soared, revealing that none of their money had been in the stock market, and there was nothing to draw upon. Sixty alleged Ponzi schemes were uncovered by state and federal authorities in 2019, representing \$3.25 billion — the largest amount since 2010¹. Now with COVID-19 wreaking havoc on the stock market, combined with several years of a soft regulatory environment, it seems inevitable that the current state of the stock market will potentially expose new fraud schemes as investors seek liquidity.

¹ Maglich, Jordan, Ponzitracker.com, accessed March 20, 2020, <https://www.ponzitracker.com/>

FIGURE 1: UNCOVERING FRAUD AMIDST STOCK MARKET DROPS

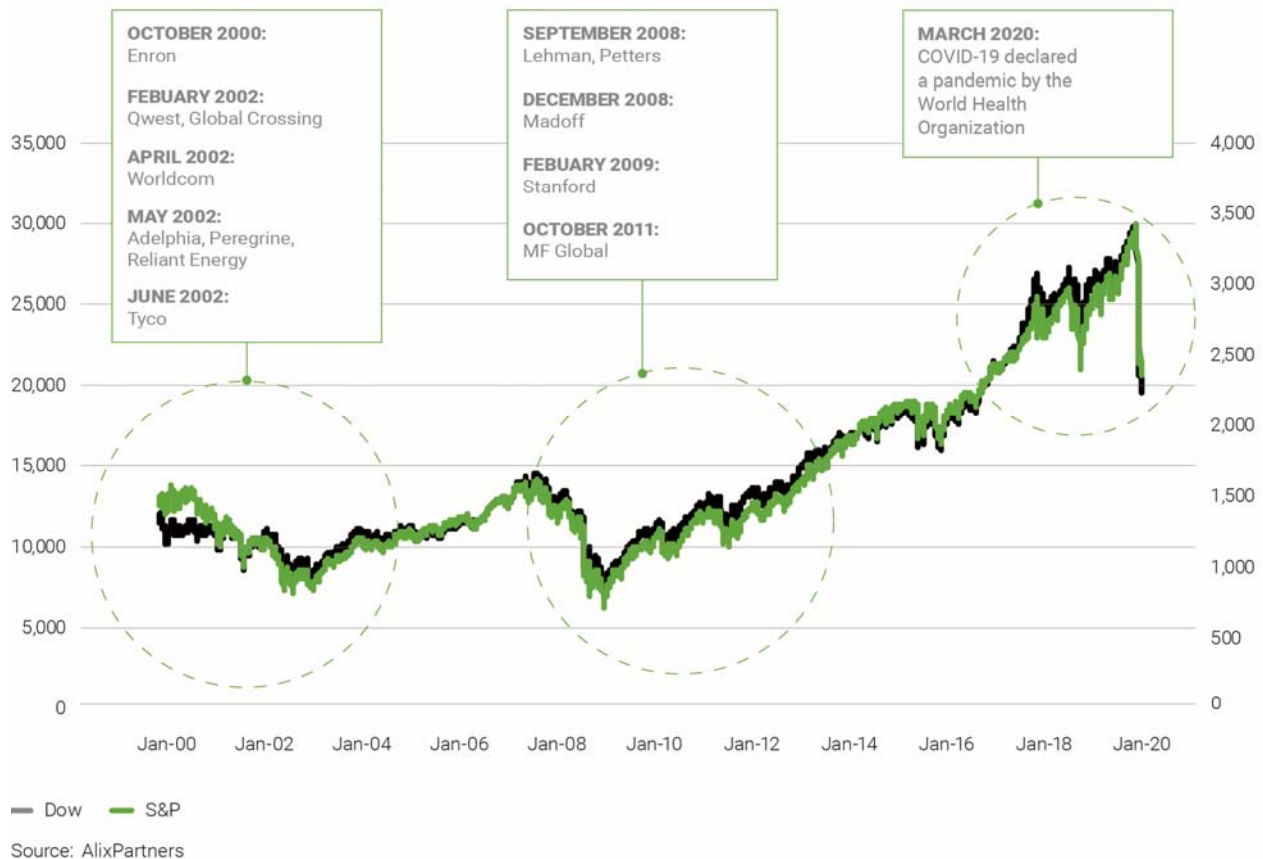


Fig 1: 2002 was dubbed "The Year of the Scandal," by *CMW*, and 2009 was named "The Year of the Ponzi Scheme," by *The Associated Press*. It's too early to tell what 2020 will reveal, but businesses should be on the lookout for warning signs.

Approach

Regardless of the time period or situation, our key learnings remain the same:

Move quickly: Take immediate action to understand the financial impact, the source, and details of the fraud.

Preserve value: Safeguard assets. Secure IT systems. Obtain documents. Information is key to investigations and disputes. Preserved assets help compensate victims.

Understand dynamics: Financial fraud and Ponzi schemes have far-reaching implications. We utilize our suite of services to seamlessly and efficiently analyze financial data, develop complex analyses, institute claims processes, and support litigation and asset recovery.

Communicate: Investors are looking for information. Develop channels to quickly share details as information is learned and understood.

Investigations, Disputes & Risk

AlixPartners regularly helps corporations, legal counsel, financial institutions, and boards of directors navigate forensic accounting, asset recovery, litigation strategy, and compliance programs in connection with fraud investigations. Our consultants' notable engagements include Madoff, Enron, HealthSouth, Global Crossing, and Worldcom, among others.

Contacts

Our teams of qualified investigators, technologists, and experts have the experience and insight to support clients in crisis-related investigations and litigation.



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