

**Zeitschrift:** The Swiss observer : the journal of the Federation of Swiss Societies in the UK  
**Band:** - (1979)  
**Heft:** 1760  
  
**Rubrik:** Money and finance

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# MONEY AND FINANCE

Many of you will have noticed recently that Bernard Cornfeld, the former head of the Investors Overseas Services financial organisation was cleared of fraud by a Swiss court. This was after a three-week trial in which the prosecutor announced that he would not demand a guilty verdict on any of the three charges.

The fraud accusation revolved around the selling of shares in Investors Overseas Services (IOS) when the group went public in 1969. By 1971 the once proud financial group had collapsed and a lot of people who invested in the shares had lost money. The question was whether this amounted to fraud and whether Cornfeld had prior knowledge that his empire was a pack of cards.

Paul Erdman, the author of a number of best selling financial thrillers such as the "The Billion Dollar Killing" and "The Crash of '79" once wrote that he was imprisoned in Switzerland for "the crime of losing money": and indeed it raises the English eyebrow to see that in Cornfeld's case he was held for 11 months before being released on bail while charges were being investigated.

The problem with accusing Cornfeld of fraud was always that there was a mad scramble for IOS shares when they were offered in 1969 and the offer was underwritten by some of the best names in world banking circles. These gave their support to the operation, and bear some of the guilt, if there is any. Indeed Investor Overseas Services always had a poor name in some financial circles but this was often interpreted as envy (true in many cases) and in the end the apparent success of its operations convinced almost everyone.

But not quite everyone. For example, Charles Raw, an investigating journalist on the *Sunday Times*, was implacably hostile from beginning to end. He finally wrote about his mammoth investigation in a book called "Do you sincerely want to be rich?" — a title which parodied the question Cornfeld used when recruiting new salesmen.

I cannot claim to have done anything like such a thorough job as Charles Raw but, when I was working for the *Financial Times* in the 1968/69 period, I did examine the share offer document and visit the IOS headquarters in Geneva. The visit was a complete waste of

time from the point of view of finding out anything useful. The organisation was run from top to bottom by and for the benefit of salesmen who lived the lives of mini-Cornfelds themselves. For example, I remember the leather-jacketed head of the Italian sales operation flying into London just for a casual lunch. Private jets abounded among the top tiers of the organisation.

But all this did not necessarily add up to fraud and my impression was that everyone who worked there from Cornfeld downwards believed implicitly that IOS would go from strength to strength because it was conducting a crusade to bring capitalism to the small man. But the secret of the success was the fact that during the '60s decade, stockmarkets were booming everywhere and people who had never before

contemplated buying stocks and shares wanted to jump on the bandwagon. Cornfeld provided the vehicles in terms of funds and insurance policies.

It was when the world's stockmarkets ran out of steam in 1970 that the cracks in the structure began to show, for in reality the profit the group was showing from its worldwide operations was not very large. Expenses on the other hand — commissions in particular — were enormous and financial control was very poor. Some of this was apparent in the offer document when IOS went public, but I do not remember anyone saying so at the time. Success tends to blind the onlooker and greed is a powerful motive for keeping eyes firmly shut.

Christopher Hill

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