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Red Flags Raised Early on Arrested Fund Manager

A study six years ago raised numerous red flags about the hedge fund shop run by the Florida money manager Arthur G. Nadel, who was arrested Tuesday and charged with running a \$300 million investment fraud that authorities say could be a Ponzi scheme, Hedge Fund Alert reports.

The 16-page study, done by **CarbonBased Consulting** in 2003, highlighted numerous operational shortcomings that it said were so obvious that they should have been apparent to sophisticated investors conducting their own due diligence on Mr. Nadel's firm.

In a twist, the study was commissioned by Mr. Nadel's firm, **Scoop Management** of Sarasota, Fla. Hedge Fund Alert, which obtained a copy of the study, said it is unclear why Scoop ordered the report, whether it acted on the findings or disclosed them to investors.

CarbonBased found that Scoop's daily trading activity was reconciled only once a month. As a result, Scoop did not have a clear idea of the assets it held in each fund and neither the accounting nor the performance of the funds could be certified for accuracy. It recommended that Scoop hire a nationally recognized accounting firm and enter into a relationship with a prime broker.

The consultant found that Mr. Nadel's firm lumped unqualified investors, who do not have enough net worth to invest in hedge funds, into limited partnerships with qualified investors. CarbonBased warned that commingling investors could lead to penalties, including the possible closure of the firm. Scoop also failed to verify the identity of investors or conduct credit checks. The lack of security procedures meant the firm did not comply with provisions of the Patriot Act.

Mr. Nadel's firm also had virtually no policies controlling how it spent money. Checks needed only Mr. Nadel's signature to be cashed. Employees traded for themselves in separate accounts alongside the funds, the report said. Scoop did not have licenses for all of the software it used, and its practice of sharing computer programs with staff members opened it up to potential fines, the report said.

Mr. Nadel was charged with fraud earlier this month by the Securities and Exchange Commission, but then disappeared for two weeks while authorities searched for him. On Tuesday, Mr. Nadel surrendered to the F.B.I. in Tampa, Fla., where he was immediately arrested.

He appeared in court on Tuesday chained at the waist and wrists. Barry Cohen, a lawyer for Mr. Nadel, said he was not violent and asked that he be released on his own recognizance, but a federal judge ordered him held at least until Friday.

—Zachery Kouwe

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