Jeffrey Epstein And The Political Sex Cults Of Silicon Valley Money Laundering

By Michelle Celarier

Photo-Illustration: Intelligencer. Photos: Patrick McMullan via Getty Images

Long before Jeffrey Epstein pleaded guilty to prostitution charges in Florida more than a decade ago, his fellow Palm Beach resident and hedge-fund manager Douglas Kass was intrigued by the local gossip about his neighbor.

“I’m hearing about the parties, hearing about a guy who’s throwing money around,” says Kass, president of Seabreeze Partners Management. While stories about young girls swarming Epstein’s waterfront mansion and the sex parties he hosted for the rich and powerful were the talk of the town, Kass was more focused on how this obscure person, rumored to be managing billions of dollars, had become so wealthy without much of a track record.

Kass was well-connected on Wall Street, where he’d worked for decades, so he began to ask around. “I went to my institutional brokers, to their trading desks and asked if they ever traded with him. I did it a few times until the date when he was arrested,” he recalls. “Not one institutional trading desk, primary or secondary, had ever traded with Epstein’s firm.”

When a reporter came to interview Kass about Bernie Madoff shortly before that firm blew up in the biggest Ponzi scheme ever, Kass told her, “There’s another guy who reminds me of Madoff that no one trades with.” That man was Jeffrey Epstein.

“How did he get the money?” Kass kept asking.

For decades, Epstein has been credulously described as a big-time hedge-fund manager and a billionaire, even though there’s not a lot of evidence that he is either. There appears little chance the public is going to get definitive answers anytime soon. In a July 11 letter to the New York federal judge overseeing Epstein’s sex-trafficking case, Epstein’s attorney offered to provide “sealed disclosures” about Epstein’s finances to determine the size of the bond he would need to post to secure his release from jail pending trial. His brother, Mark, and a friend even offered to chip in if necessary.

Naturally, this air of mystery has especially piqued the interest of real-life, non-pretend hedge-funders. If this guy wasn’t playing their game — and they seem pretty sure he was not — what game was he playing? Intelligencer spoke to several prominent hedge-fund managers to get a read on what their practiced eyes are detecting in all the new information that is coming to light about Epstein in the wake of his indictment by federal prosecutors in New York. Most saw signs of something unsavory at the heart of his business model.

To begin with, there is much skepticism among the hedgies Intelligencer spoke with that Epstein made the money he has — and he appears to have a lot, given a lavish portfolio of homes and private aircraft — as a traditional money manager. A fund manager who knows well how that kind of fortune is acquired notes, “It’s hard to make a billion dollars quietly.” Epstein never made a peep in the financial world.

Epstein was also missing another key element of a typical thriving hedge fund: investors. Kass couldn’t find any beyond Epstein’s one well-publicized client, retail magnate Les Wexner — nor could other players in the hedge-fund world who undertook similar snooping. “I don’t know anyone who’s ever invested in him; he’s never talked about by any of the allocators,” says one billionaire hedge-fund manager, referring to firms that distribute large pools of money among various funds.

Epstein’s spotty professional history has also drawn a lot of attention in recent days, and Kass says it was one of the first things that raised his suspicions years ago. Now 66, Epstein didn’t come from money and never graduated from college, yet he landed a teaching job at a fancy private school (“unheard of,” says Kass) and rose through the ranks in the early 1980s at investment bank Bear Stearns. Within no time, Kass notes, Epstein was made a partner of the firm — and then was promptly and unceremoniously ousted. (Epstein reportedly left the firm following a minor securities violation.) Despite this “squishy work experience,” as Kass puts it, at some point after his quick exit, Epstein launched his own hedge fund, J. Epstein & Co., later renamed Financial Trust Co. Along the way, he began peddling the improbable narrative that he was so selective he would only work with billionaires.

Oddly, Epstein also claimed to do all the investing by himself while his 150 employees all worked in the back office — which Kass says reminds him of Madoff’s cover story. Though it now appears that Epstein had many fewer employees than he claimed, according to the New York *Times*:

> Thomas Volscho, a sociology professor at the College of Staten Island who has been researching for a book on Mr. Epstein, recently obtained [a 2002 disclosure] form, which shows [Epstein's] Financial Trust had $88 million in contributions from shareholders. In a court filing that year, Mr. Epstein said his firm had about 20 employees, far fewer than the 150 reported at the time by New York magazine.

Given this puzzling set of data points, the hedge-fund managers we spoke to leaned toward the theory that Epstein was running a blackmail scheme under the cover of a hedge fund.

How such a scheme could *hypothetically* work has been laid out in detail in a thread on the anonymous Twitter feed of @quantian1. It's worth reading in its entirety, but in summary it is a rough blueprint for how a devious aspiring hedge-fund manager could blackmail rich people into investing with him without raising too many flags.

Kass and former hedge-fund manager Whitney Tilson both emailed the thread around in investing circles and both quickly discovered that their colleagues found it quite convincing. "This actually sounds very plausible," Tilson wrote in an email forwarding the thread to others.

"He somehow cajoled these guys to invest," says Kass, speaking of hypothetical blackmailed investors who gave Epstein their money to invest, but managed to keep their names private.

The fact that Epstein's fund is offshore in a tax haven — it is based in the U.S. Virgin Islands — and has a secret client list both add credence to the blackmail theory.

So what did Epstein do with the money he did have under his management, setting aside the questions of how he got it and how much he had? One hedge-fund manager speculates that Epstein could have just put the client money in an S&P 500 index fund, perhaps with a tax dodge thrown in. "I put in $100 million, I get the S&P 500 minus some fees," he says, speaking of a theoretical client's experience. Over the past few decades, the client would have "made a shitload" — as would Epstein. A structure like that wouldn't have required trading desks or analysts or complex regulatory disclosures.

Kass has kicked around a similar idea: Maybe Epstein just put all the client money in U.S. treasuries — the simplest and safest investment there is, and the kind of thing one guy actually can do by himself.

If the blackmail theory sounds far-fetched, it's worth keeping in mind that it was also floated by one of Epstein's victims, Virginia Roberts Giuffre. "Epstein … also got girls for Epstein's friends and acquaintances. Epstein specifically told me that the reason for him doing this was so that they would 'owe him,' they would 'be in his pocket,' and he would 'have something on them,'" she said in a court affidavit, according to the investigative series in the Miami *Herald* that brought the case back to the public's attention late last year.

In the 2015 filing, Giuffre claimed that Epstein "debriefed her" after she was forced into sexual encounters so that he could possess "intimate and potentially embarrassing information" to blackmail friends into parking their money with him. She also said photographic and video evidence existed — an assertion that looms especially large now that federal investigators have found a trove of images in Epstein’s home safe.

How Jeffrey Epstein Made His Money: Four Wild Theories

By Matt Stieb

Jeffrey Epstein in 2005. Photo: Neil Rasmus/Patrick McMullan via Getty Image

Billionaire is a word that's often thrown around when discussing Jeffrey Epstein, but unlike some of his other common modifiers — convicted sex offender, pedophile — there's scant proof as to his financial bona fides. The bulk of Epstein's wealth is believed to come from his money-management firm for ten-figure investors, although his only known client is Victoria's Secret founder Les Wexner, who reportedly ditched Epstein over a decade ago.

After sex-trafficking charges were handed down on Monday, executive-suite financiers discussed how absent Epstein was from the field: "He's supposed to run an enormous FX [foreign-exchange] trading firm," said Enrique Diaz-Alvarez, chief risk officer at Ebury. "But I never once heard of him or his firm or anyone who worked or traded with him." And as *Forbes* wrote in a 2010 blog post with a very direct title — "Sex Offender Jeffrey Epstein Is Not a Billionaire" — his money-management firm based in the U.S. Virgin Islands "generates no public records, nor has his client list ever been released."

As we wait for more information to emerge in the investigation's coming months, speculation is pouring out on how Epstein made his wealth. To make up for the lack of public information on his revenue stream, people are turning to unverified theories on how Epstein maintained such a sterling financial reputation in addition to his millions. But first we'll start with the knowns.

Epstein’s mysterious career

According to a 2002 profile in *New York* — the one with the Trump quote — Epstein dropped out of Cooper Union and NYU’s Courant Institute of Mathematical Sciences before finding a job teaching calculus and physics at the Dalton School in the mid-1970s. Epstein was hired at the prestigious Manhattan college-prep institution by the father of Attorney General William Barr, and his students included the son of Bear Stearns chairman Alan Greenberg. In 1976, Epstein joined Bear as a floor trader’s assistant, making partner in a mere four years. By 1981, he was out, setting up the J. Epstein & Co. money-management business the next year. *New York* described his business strategy in 2002:

> He would take total control of the billion dollars, charge a flat fee, and assume power of attorney to do whatever he thought was necessary to advance his client’s financial cause. And he remained true to the $1 billion entry fee. According to people who know him, if you were worth $700 million and felt the need for the services of Epstein and Co., you would receive a not-so-polite no-thank-you from Epstein.

In Vicky Ward’s recent process piece on her reporting of an Epstein profile for *Vanity Fair* in 2003, she lays out some of her thoughts on the matter of a possible benefactor. In addition to a claim from a Ponzi schemer that Epstein was kicked out of Bear Stearns in 1981 for “getting into trouble,” Ward suggests that Wexner may have helped bankroll the financier. Ward writes: “While Epstein’s friends speculated that retailer Les Wexner was the real source of Epstein’s wealth, Wexner (who called him ‘my friend Jeffrey’) never commented on this, though he did send me an email praising Epstein’s ‘ability to see patterns in politics and financial markets.’”

No one knows how much he’s worth

According to his lawyers, around the time of his notorious plea deal in Florida in 2008, Epstein’s net worth was over nine figures. The figure was “a bone of contention with Epstein’s lawyers,” Spencer Kuvin, an attorney representing three of Epstein’s alleged victims, told the Palm Beach *Post* in 2008. “In the litigation itself we were never able to get him to produce verified financial information. The ‘nine figures’ came by negotiation. It kept going up and up and up. They started at zero — they wouldn’t tell us at all.”

As Bloomberg states, “Today, so little is known about Epstein’s current business or clients that the only things that can be valued with any certainty are his properties.” According to a document submitted in advance of Epstein’s bail hearing, his Manhattan townhouse is estimated to be worth around $77 million. Then there are the properties in New Mexico, Paris, the U.S. Virgin Islands, his private jet, a fleet of 15 cars, and a Palm Beach compound estimated at $12 million.

But even the real-estate holdings have an air of mystery to them. Epstein purchased, or received, the Manhattan townhouse from Wexner around 1998. But there were no property records on the mansion’s transfer until 2011, when the company Wexner used to buy the place transferred it to an Epstein-owned company for $0. Epstein signed the document for both sides.

Financial Conspiracy Theory #1: Ponzi scheme

A Ponzi scheme has been floated as a possible source of Epstein's wealth since as early as 2009, when Business Insider noted that multiple red flags pointed to a possible Madoff-like fraud. The secrecy of his client list; the "administrative" nature of all 150 of his employees in 2002; the absolute control over investors' money, and the $1 billion basement investment required — all signs could point to Ponzi, although there's no concrete evidence. In the story, finance writer John Carney raised a vital question, considering Epstein's (limited) time in jail during the 2008 financial crisis: "How could Epstein's one-man show not fall apart while he was in jail during one of the most volatile years in history?"

In addition, one of his early employers in finance, Steve Hoffenberg, was convicted of running one of the largest pre-Madoff Ponzi schemes in U.S. history. According to journalist Vicky Ward, Hoffenberg brought on Epstein in 1981 after he left Bear Stearns. "He has a way of getting under your skin," he told Ward. Hoffenberg paid Epstein $25,000 per month for his work as a consultant for Towers Financial, though Epstein had left well before Hoffenberg pleaded guilty in 1994 to defrauding investors to the tune of $450 million. For years, it appeared Epstein had no exposure in the Towers Financial case, until 2018, when shareholders filed a putative class action suit against him for his alleged role in the Ponzi scheme. In a separate New York state case in 2018, Hoffenberg reportedly detailed Epstein's alleged involvement in the scam.

Theory #2: Blackmail

As the Intercept D.C. bureau chief Ryan Grim noted, a piece of evidence detailed in the SDNY's detention memo could hold a great deal of blackmail potential:

> CD's in Epstein's safe labeled: "Young [Name] + [Name]"
>
> That looks an awful lot like they found the blackmail tapes https://t.co/4tR9Mya7lL
>
> — Ryan Grim (@ryangrim) July 8, 2019

And in a 2015 court filing, alleged Epstein victim Virginia Roberts Giuffre claims that U.S. authorities were in possession of footage of her having sex with members of Epstein's elite friend group. "Based on my knowledge of Epstein and his organization, as well as discussions with the FBI, it is my belief that federal prosecutors likely possess videotapes and photographic images of me as an underage girl having sex with Epstein and some of his powerful friends," she said. Giuffre claimed that Epstein "debriefed her" after she was forced into sexual encounters so that he could possess "intimate and potentially embarrassing information" to blackmail friends into parking their money with him.

Theory #3: Epstein “Belonged to Intelligence”

One of the more mysterious quotes of this whole conspiracy-adjacent mess comes from Alexander Acosta, the current Labor secretary, who arranged for Epstein to get off with just a wrist-slap in 2007, when he was a U.S. attorney. According to Vicky Ward, when Acosta was being interviewed for the Labor secretary job, he was asked if his involvement in the Epstein case would be a problem during his confirmation hearings.

> Acosta had explained, breezily, apparently, that back in the day he’d had just one meeting on the Epstein case. He’d cut the non-prosecution deal with one of Epstein’s attorneys because he had “been told” to back off, that Epstein was above his pay grade. “I was told Epstein ‘belonged to intelligence’ and to leave it alone,” he told his interviewers …

Whether that’s the American intelligence community, the greater point-one-percent brain trust, or just a garbage excuse, the answer was good enough for the Trump administration to go forward with Acosta’s nomination.

Theory #4: Offshore Tax Schemes / Money Laundering

Because Epstein’s wealth is held offshore and is shrouded in mystery, some speculate that he may have made his money in tax schemes or money laundering. According to a well-developed, if factually void, pan-conspiracist take from finance Twitter’s Quantian, Epstein could have blackmailed his social circle into investing with him, then dumped the cash in an offshore account to avoid taxes. Or, similar to the Ponzi scheme conspiracy — and, again, without basis in fact — there is so little paperwork on the funds that the whole thing could just be a rig for money laundering.

What could the coming investigation reveal?

Because so little is known about Epstein's wealth and his ambiguous-to-the-point-of-suspicious Financial Trust Company, pretty much any revelation would help shed light on the financial black hole. But because the Southern District of New York's Public Corruption Unit is handling the case, the likelihood of a financial or tax-related charge is much higher than if another arm of the mother court were in charge. Gene Rossi, a trial analyst for Law & Crime, suggested that the PCU could provide more flexibility on charges, including money laundering, corruption, or tax-related crimes: "The sky's the limit."

Stopping Elon Musk's money mirage

By Mona Salama

Declaring the company's first quarterly profit in over two years as a "historic quarter," Tesla CEO Elon Musk has promised that the future of Tesla will be brighter, expecting the fourth quarter and "all quarters going forward" to be profitable. But what reason do taxpayers and lawmakers have to believe him?

Tesla has had only three profitable quarters in the 15 years since its creation. The third-quarter results reported that Tesla made a $312-million profit due to a surge in production and sales of the Tesla Model 3 sedan. The earnings were thanks in part to the company's cost-cutting, spending less on future models, and delaying of payments to suppliers.

Despite the strong recent showing, doubts still linger over whether Tesla can consistently make a profit and meet its production targets. Much of the uncertainty comes because of statements coming from Musk himself, who recently told Axios that his company had been "within single digit weeks" of death. If the financial books at Tesla are really that bad, prospective Tesla buyers, investors, and government funders don't have much to cheer about, especially since the federal electric vehicle tax is slated to get cut in half by Jan. 1.

Musk has a history of embellishing the truth and making things up in a seeming attempt to artificially gain the confidence prospective investors. According to the Wall Street Journal, FBI agents recently contacted former Tesla employees to determine whether Musk willfully attempted to defraud investors for personal gain. Further, he prompted an SEC investigation by falsely claiming on Twitter that he had the "funding secured" to take his company private at $420 a share. They settled their lawsuit under the agreement that he step down as chairman of Tesla for three years and pay a total of $40 million in fines.

The criminal securities fraud investigation intensified when the Justice Department requested documents from Tesla focusing on Tesla's Model 3 production issues dating back to 2017. Musk in February 2017 laid out an aggressive Model 3 production plan to produce 5,000 vehicles a week. By the end of 2017, Tesla produced a total of only 2,700 Model 3s.

This culture of debt-taking and book-rigging appears to be a pattern across Musk's spread of businesses. Just this month, SpaceX, Musk's rocket company, sought to borrow a $750-million leveraged loan led by Bank of America Corp. However, SpaceX slashed the requested funds to $250 million after the bank balked at SpaceX's desire for "wide latitude to raise additional debt in the future."

The reason for this ask is obvious: SpaceX appears to be as cash-strapped as, if not worse off, then Tesla. Last month, Bloomberg found that SpaceX hid key details about its financial situation, "[including] amounts that customers had prepaid and [excluding] costs related to non-core research and development" in its earnings report to give off the illusion of profitability to investors. Corroborating evidence from the Wall Street Journal in 2017 shows SpaceX turning a small fraction of its revenue into operating profit. This should be alarming to investors, for investing in any of Musk companies or Musk himself should be seen as a high risk, with the reward of total failure.

One surprising quarter of supposed positive earnings after seven straight losses won't fool the American people. It shouldn't fool Washington, either. Musk has a long rap sheet of inflating his numbers and to-do lists to hide his problems, misleading investors and omitting information that affects his company's market value. This rampant dishonesty distorts the economy and interferes with the private decisions of government leaders and the citizenry at large. It can't be tolerated – not anymore. With the DOJ and FBI finally investigating the SpaceX and Tesla CEO, there finally appears to be a chance that he will, through a criminal case, be slapped with more than a fine.

It is time to stop Musk before more damage is done and more money is wasted.

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