

Madoff made his fund hard to get into. Exclusivity was his best sales pitch

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Maxim: *Exclusive is not the same as better.* — Dhirendra Kumar

A high minimum investment tells you who a product is sold to. It tells you nothing about whether it will do better than the funds open to everyone.

The velvet rope outside an investment product is a marketing device, not a measure of quality.

For decades, Bernard Madoff ran one of the most sought-after investment operations in New York. He cultivated wealthy and influential clients, and getting in was treated as a privilege; [Britannica](#) describes an “air of exclusivity” that made admission a mark of prestige. He promised steady returns of around 10% a year, in rising and falling markets alike. Feeder funds pooled other people’s money into his firm, often without those investors knowing where it finally went.

In December 2008 the operation collapsed. It had been a Ponzi scheme, with estimated losses of \$50 billion to \$65 billion. In June 2009 Madoff was sentenced to 150 years in prison.

Madoff is the extreme case. The premium products sold to Indian investors, such as portfolio management services and alternative investment funds, are regulated by Sebi and are nothing like a fraud. But his story shows something uncomfortable about human nature. Scarcity makes things feel valuable. A product that turns people away, or demands a large cheque, feels as if it must be better than one anyone can buy for ₹500 a month. That feeling is not evidence.

India’s tiers of exclusivity

Indian investors now face a ladder of products sorted largely by ticket size. Mutual funds are open to almost anyone. A new Sebi category, the Specialised Investment Fund, starts at ₹10 lakh. Portfolio management services ask for ₹50 lakh, and category III alternative investment funds start at ₹1 crore, Dhirendra Kumar of Value Research noted in a [July 2026 column](#).

Kumar’s verdict was that each step up the ladder buys access, not necessarily quality. Products for the wealthy can charge fees without the caps that apply to mutual funds, often with performance fees on top. In a PMS the investor usually pays tax each time the manager sells at a gain, rather than deferring it as a mutual fund unitholder can. Leverage, where used, magnifies losses as well as gains. And the claimed personalisation is often thin: he cites Sebi’s own training institute noting that a manager “cannot run a separate portfolio for every client”, so most PMS clients hold a copy of one model portfolio.

He was careful not to call this a scandal. What a few of these structures genuinely offer, such as the ability to hedge or go short under proper oversight, can be useful to some investors. The mistake is buying them for the exclusivity itself.

What the record shows

If exclusive products were reliably better, the numbers would say so year after year. They do not. When Business Standard [analysed PMS Bazaar data for 2022](#), 154 of 212 portfolio management schemes, roughly seven in ten, had trailed their benchmarks that year. Two years earlier, the same tracker had shown the opposite picture: 91 of 133 strategies [beat their benchmarks](#) over the previous year, a higher share than mutual funds managed.

The honest conclusion is that results swing widely, from year to year and from manager to manager, much as they do for ordinary funds. Exclusivity is not a reliable signal either way. That is also why Sebi has pushed portfolio managers, since a December 2022 circular, to disclose performance against benchmarks in a standard way. Mutual fund investors have long had that comparison in daily NAVs and monthly factsheets.

Questions to ask before you climb the ladder

Before committing a large sum to any product sold on its exclusivity, five questions cut through the gloss:

1. **What will it do that my existing funds cannot?** If the honest answer is “the same thing, run by a different person”, the extra cost needs a strong case.
2. **What is the full cost?** Add the management fee, any performance fee, and the tax you will pay as the manager trades. Compare that with a direct-plan mutual fund doing similar work.
3. **Who checks the record?** Ask whether returns are computed on a standard basis, against a stated benchmark, after fees, and over full market cycles.
4. **How easily can I get out?** Lock-ins, exit loads and the time taken to redeem matter most in a falling market.
5. **Would I want it if anyone could buy it?** If the appeal disappears once the minimum is removed, the appeal was the velvet rope.

A simple decision rule. Start from the cheapest, most transparent product that does the job, usually a direct-plan mutual fund or an index fund. Move up the ladder only for a specific need those products cannot meet, such as a genuinely hedged strategy, and only after you have compared total costs, tax and liquidity in writing. If the main reason you are considering a premium product is that you now qualify for it, wait.

Kumar's point is not that wealthy investors are being cheated. It is that a price of entry is easy to mistake for a promise of results. Madoff exploited that confusion in its most extreme form; ordinary marketing exploits it in milder ones every day. The returns that matter are the ones you keep after fees and taxes, measured against what you could have had for less. Judged that way, the most exclusive product in your portfolio has to earn its place like any other.

Sources

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