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*Rewald: An alleged Ponzi scheme—and claims of CIA involvement*

# A Front or a Fraud?

As authorities closed in on his high-flying investment firm last July, Ronald Rewald took desperate measures. He checked into a Waikiki hotel room and slit his wrists. He lived to make an even more bizarre attempt to escape his troubles, however: last summer Rewald claimed he was a covert agent for the Central Intelligence Agency and that his firm was a CIA front. What sounded like a preposterous defense gained credence when CIA lawyers persuaded a federal judge to seal some 200 of the firm's papers in the interests of national security.

As details of the tangled case emerge, Rewald's operation seems increasingly suspect and the CIA increasingly foolish. A bankrupt sporting-goods salesman from Wisconsin, Rewald founded Bishop, Baldwin, Rewald, Dillingham & Wong in Honolulu in 1978, brazenly borrowing the names of three old-monied island families. A slick brochure boasted of the firm's 40-year history, an average annual return on deposits of 26 percent and clients ranging from a former U.S. president to House and Senate committees. By 1983 more than 400 investors—including retired high-ranking military officers, the former CIA representative in Honolulu and his successor—had deposited $20.4 million, and Rewald was enjoying a lavish estate, a fleet of luxury cars and a string of polo ponies. In fact, according to court-appointed bankruptcy administrator Thomas Hayes, Bishop, Baldwin was a "classic Ponzi scheme"—later deposits paid back earlier investors, shored up the firm's façade and bankrolled Rewald's lifestyle. When suspicious investors forced the bankruptcy, Hayes found the firm had only about $1 million in cash and recoverable assets. More than $10 million had vanished.

According to court documents NEWSWEEK obtained, Rewald claims the CIA directed him to set up Bishop, Baldwin as a conduit for financing overseas operations. He writes that on agency instructions the firm made covert arms sales, including tanks, helmets, bulletproof vests and laser sighting devices to Taiwan—and that he personally stole secret blueprints for Japan's high-speed surface transport. CIA funds were mingled with investors' deposits, Rewald contends. "We had ample resources to call on to meet any financial need," he told NEWSWEEK—including more than $60 million in secret offshore CIA assets. According to Rewald, several operations stood to net Bishop, Baldwin big profits, but the deals dried up when the CIA link was revealed. He has filed a $671 million claim against the agency, alleging breach of contract.

CIA officials deny that the agency created or "at any time owned, operated, controlled or invested" in Bishop, Baldwin, though they concede a "slight involvement" with the firm. ("It did provide some cover for agents," says one official familiar with the case; court records show the agency paid Bishop, Baldwin $2,700 for phone bills.) As for Rewald's grander claims, officials refuse comment, but none seems the stuff of cloak-and-dagger missions. Japan's high-speed train has never been secret; and the United States sells more sophisticated military equipment to Taiwan overtly. On balance, U.S. District Judge Martin Pence concluded that "Rewald, through contacts with members and former members of the CIA, considered himself a more important undisclosed private associate of the CIA than he was in fact." Officials say the agency was forced to have the documents sealed to protect the identities of a handful of agents. Says one, "This has got nothing to do with the CIA ripping off retired officers and old ladies. CIA was not involved in that, period."

**'Commies':** Still, some angry investors have filed claims against the agency. "The CIA was set up to deal with commies and things like that, not to take money from Americans," says Ted Frigard, a retired chiropractor who invested $300,000. "We're not questioning their activities," says Paul Monzione, a lawyer for Rewald and some of the complaining investors. "What we're questioning is why they allowed this to happen to investors." The claims could be bolstered if yet another possible twist in the case proves true. The IRS was investigating the firm as early as 1982, but Rewald contends that his CIA contacts stalled the probe.

Charged with two state counts of fraud, Rewald spent 5½ months in prison until Hawaiian officials reduced his record $10 million bond. Before that case goes to trial in September, the state may bring more charges, a federal grand jury is still investigating and bankruptcy attorneys are chasing Bishop, Baldwin assets. Hayes is considering his own suit against the CIA on behalf of investors. Rewald, in turn, is suing Hayes for defamation. In the tangled world of claims and counterclaims, just who was fronting for whom may never be completely clear.

MELINDA BECK with RICHARD SANDZA in Honolulu
and KIM WILLENSON in Washington