

A letter to our clients:

December 2008

By now you've probably heard about the most recent bad news from Wall Street; the \$50 billion Ponzi scheme perpetrated by Bernard Madoff, a New York City broker, former head of the NASDAQ stock exchange. Details are still sketchy, but it appears that thousands of individuals and institutions are affected. It will be interesting to hear the details as they are uncovered. I'll especially be interested to see where the SEC and other regulators were all this time.

His clients didn't see this coming. Could they have? Let's look at three key safety tips that would have prevented this from happening. This is just one of several high-profile cases of advisors and/or managers absconding with funds entrusted to them by their clients. Due to the amount of publicity given to these stories, I recognize that some of you, and your friends and neighbors, may reasonably ask themselves: "I trust my advisor, but what if I'm wrong?"

I have seen investors get duped by crooks many times over the years, yet, this issue is rarely brought up by our clients. I imagine it is mostly because of the transparency with which we conduct our business. However, I also suspect it also has to do with the fact that clients are uncomfortable asking this question of us, as they think we might be defensive about it or interpret it as a sign of distrust. Quite the contrary; we are very comfortable addressing this issue head-on.

So how are our clients protected from their advisor stealing their funds? The primary line of protection is the fact that we use an independent custodian to hold client funds. We currently use Schwab and TD Ameritrade our primary custodians. It is the custodian's responsibility to keep client funds secure. The only power we have over those accounts is:

- 1) To make trades in the account
- 2) To receive copies of monthly statements, tax documents and trade confirmations
- 3) To deduct our fees directly from the account

You should also know what you own. Stick to stocks, bonds, ETFs, and mutual funds that are publicly traded and listed on major exchanges like the New York Stock Exchange. They are valued independently at least daily, if not minute-by-minute, while the exchange is open. You can check their reported returns against your own portfolio. If you can't look up the prices and performance in the newspaper or on the Internet - that's a red flag - ask a lot more questions.

Use an independent custodian. Madoff has custody of his client money and assets, managed them, and priced them, too. See the conflicts of interest? Investment performance can look better if the prices reported to clients are manipulated, which is allegedly how Madoff showed winning year after winning year despite market turmoil.

At our firm, our clients have their asset held by an independent third party, either Schwab Institutional or TD Ameritrade, pricing each investment they own. We have no input on investment pricing, and that separation is a very good thing. Clients also get an independent statement directly from Schwab or TD Ameritrade and can check their accounts 24/7 online or by phoning these custodians directly. Each client receives statements and confirmations directly from the custodian, ensuring the location and safety of the assets.

We have worked for over 25 years to build the trust and confidence of our clients. We have communicated time and again that this isn't something we take for granted.

Don't hesitate to let me know if you have any questions or concerns about this issue. We're talking about your hard-earned savings here...no question about the security of your assets is off-limits.

One final thought - if an investment sounds too good to be true, it probably is. Reportedly, Madoff claimed consistent annual returns of 10-12% with little volatility and no annual losses. Can you name any legitimate investor who can make that claim in recent years?

I hope this has helped you recognize the value of honest financial practitioners, like us at JJM Financial Strategies as we work in the trenches trying to protect our clients from what is clearly a consumer-unfriendly, predatory financial culture.

Merry Christmas, Happy Chanukah and Happy Holidays!

John Malzone, Mary Valenzano, Judy Coleman