THE H GROUP, INC.
INDEPENDENT WEALTH MANAGEMENT SOLUTIONS™

Ron Kelemen, CFP® *Mary Way, CPA, CFP®* *Alex Sheppard, MBA, CFP®*

Unlike Bernard Madoff's Clients, You Have Seven Safeguards

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By now you have heard of the spectacular Bernard Madoff scandal, in which high-rolling investors, speculators, and hedge funds have lost about $50 billion. He cooked the books and used new investors to help fund his lavish lifestyle and the cash withdrawals of earlier investors. He duped the rich and famous, people who should have know better, and even regulators. So it's natural to wonder if the same thing could happen to you. ***We can unequivocally assure you that such a thing <u>cannot</u> and <u>will not</u> happen when you are our client.*** Here's why.

1. Independence and Separation of Duties

We use an independent custodian—either Fidelity or TD Ameritrade (formerly FiServ). They hold the assets. We can only direct them to make buys and sells and to send you money. And when they do send you money, it can <u>only</u> go to your address or to your bank account, not ours. Unlike Madoff's brokerage firm, with his advisory firm as the main client, both of those firms are huge with millions of clients and firms like ours. They have absolutely no incentive to cook the books for us. Trust us; we have to deal with their bureaucracy every day!

Both firms—and all the other major brokerage firms and brokerage units within banks and insurance companies—are required to be members of SIPC, the Securities Investor Protection Corporation. SIPC covers accounts up to $500,000 for fraud. Beyond that Fidelity and TD Ameritrade pay for unlimited supplemental insurance as a back up.

2. Transparency

Madoff's clients received irregular and fictitious statements. He claims he went to cash every quarter so that his competitors couldn't learn his investment strategy. By contrast, you receive a detailed <u>independent</u> statement every month. (Annuity statements may be quarterly from the insurance company.) It lists all transactions, holdings, and the values of each. The data we use for our quarterly performance account summaries or for your update meetings come from a computer download from the custodian, using canned (but very expensive) software from an independent company also used by pension funds, mutual funds, and other institutional advisors. Ythese files must be retained for seven years for inspection by auditors. And speaking of transparency we have detailed disclosures with the SEC on their form ADV-II. You received a copy of this when you opened your account and we offer an updated version to our clients every year.

3. Due Diligence

The big endowment funds, like those of Duke, Harvard, or Yale, or the state and large company pension funds avoided this disaster. Like us, they employ and follow a very strict investment selection process. ***We all use broad diversification. But we go one step further—we invest only in publicly traded stocks, bonds, and mutual funds. We don't do hedge funds or private equity deals. And we don't use leverage or sell short.*** While it's more boring and the returns may not be as spectacular, it is far safer. (It's always easier to keep clients than to find new ones, too!)

4. Regulatory Oversight

It appears that the Madoff case involves massive failures on the part of auditors and regulators. Given the extensive, detailed, and time-consuming audits our firm has had over the years, we wonder how that can happen. Maybe we aren't big enough to intimidate the auditors. In between audits, we hire a private compliance firm to conduct audits and spot potential problems. Regulations also require us to disclose our security purchases each quarter.

5. Code of Ethics

Employees of brokerage firms, banks and insurance companies have a fiduciary duty to their <u>employers</u>. We're different. As fee-only Certified Financial Planners™ and members of the National Association of Personal Financial Advisors (NAPFA), we owe a fiduciary duty to our <u>clients</u>. As Rotarians, we try to follow the Four Way Test in all of our dealings.

6. Our Common Sense

Beyond all of this, we're not in this just for the money. We derive great personal satisfaction from the relationships we have with our clients, especially at times like this. We view them as our extended family, and many of them think that way of us. We enjoy helping them solve problems and watching them achieve their goals. It is so gratifying to advise their children and grandchildren. We live in a relatively small community where we have roots, countless connections, and modest lifestyles. We continue to receive unsolicited referrals. Yes, things are a little rough now, but overall, we have it made.

7. Your Common Sense

All of Madoff's victims have one thing in common: greed blinded their common sense. Madoff's promises really were too good to be true. High double-digit returns year in, year out simply are neither possible nor sustainable. As we have said many times before, nothing goes up forever, nor stays down forever. Like most of our clients, you probably engaged our services for our risk management and financial planning approach to investment management, not to get rich quick.

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The Silver Lining: This event and the turmoil in the economy virtually insure stronger and smarter regulation of the financial markets. Investors in real estate, stocks, and bonds will be more prudent. It is also one more nail in the unregulated hedge fund coffin, as more and more of them are shutting down. The few that survive will have to play by the same rules as we do.

Thank you! We hope this sets your mind at ease. Once again, thank you for your business, referrals, friendship, and continued confidence. We wish you all the best for the holidays, and we are cautiously optimistic for a better 2009.