

Integer Wealth Advisors Group, LLC

Advise, Guide, Protect

DOWN and DUPED

The best thing we can say about 2008 is “good riddance”. In January of 2008 the market had retreated from the October 2007 highs, and the brunt of the financial panic had not yet been revealed. Little did we know that 2008 would be the third worst market since the Great Depression. The major difference being that this market was created by an excess credit bubble, not the excesses of the stock market. Nevertheless, the results were just as devastating.

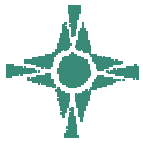
What financial historians will write about the year 2008 is that this was the year that the major investment houses ceased to exist. Bear Stearns and Lehman Brothers both went bankrupt, while Merrill Lynch was absorbed by Bank of America and Goldman Sachs converted to a bank holding company. The heady days of high finance came to a halt, perhaps for the foreseeable future, as the perceived “Masters of the Universe” were brought down to lowly mortal status.

The rapid descent of the markets; spurred by the collapse of the housing market and related “deleveraging” of portfolios by hedge funds led to a crisis of confidence by investors which cratered both the stock and bond markets. In a relatively short period of time this unwinding accelerated as never seen in modern times causing the U.S. Government to intervene as a “lender of last resort.”

If the first nine months of 2008 had not been enough to drive investors to question everything about the markets, the discovery of a prominent New York financier bilking thousands of investors out of billions of dollars in a simple Ponzi scheme, was the straw to break the camel’s back.

The unraveling of the Ponzi scheme perpetrated by Bernie Madoff serves to remind us that “what is too good to be true probably is”. Investors entrusted not only Mr. Madoff, but their own judgment about their friends, family members and colleagues who they assumed would not invest with someone without doing some amount of due diligence. Stories that Mr. Madoff would turn down investors, or turn out investors from his management firm, served to counter questions that *if* he was a con, why would he turn away business?

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Running a Ponzi scheme requires new cash to come in, not go out the door by asking it to leave or refusing to take it under management.

What, therefore, can we take away from the year that was, to the New Year and beyond as we confront rebuilding investor trust? More importantly what can investors do to protect themselves from the Bernie Madoff's of the world?

Lessons From 2008

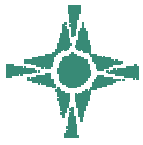
For us, the lessons are straight-forward: **Diversification of your assets, know with whom you are investing and know in what you are investing.** The events over the last year highlighted the importance of diversification among assets. While diversification did not create positive gains in 2008, it saved client portfolios from significant losses. Equity markets were devastated by events noted above. Even the fixed income markets were negatively impacted as investors fled to insured cash accounts and U.S. Treasuries.

Writing about one of the great swindles of the 1930s, J.K. Galbraith pointed to three traits of any financial community that he believed put it at risk of fraud. There was the tendency, he wrote in 1961, to confuse good manners and good tailoring with integrity and intelligence. There was the sometimes "disastrous interdependence" between the honest man and the crook. And there was the "dangerous cliché that in the financial world everything depends on confidence. One could better argue the importance of unremitting suspicion." – The Economist, 12/20/2008.

For investors stung by the deceit of Bernie Madoff, the question of who can be trusted to manage money is front and center of conversations for many investors as they seek advice more than ever.

When we started Integer Wealth Advisors Group, LLC the primary *disadvantage* of our firm was name recognition. People thought that being with a large firm meant safety and small firms were risky. It also provided a perceived advantage that the access to products and research provided investors with an edge. In the post-Madoff era the opposite is true. Our size and design is what sets us apart from the larger, well known firms on Wall Street. We designed our service as an "open-architecture" investment advisory firm that would be collaborative with our clients, transparent in our investment approach, provide

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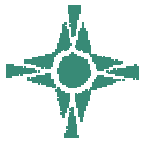
a wide range of investment vehicle access, portfolio flexibility (that may be constrained with a larger institution), independent from brokerage houses and fee-only for advice and counsel.

Investment Guidelines

The error by investors, and the advisors that allocated their assets to the Madoff company, was the failure to conduct reasonable due diligence that would have raised enough questions to steer clear of Mr. Madoff. In some cases the advisors allocated funds unknowingly through fund of funds as the larger institutions incent advisers to gather assets while relying on the due diligence of the “firms” that promoted them. The over-arching principle investors should operate under is what we might call “The Reagan Doctrine”: Trust but Verify. Using our years of experience in the business, we have put together some investor guidelines for investing which we hope you will share with friends, family and business colleagues.

1. **Is the manager registered with the SEC?** It’s important to understand that registration with the SEC does not confer any special blessing regarding the investment strategy of the money manager. It simply means the advisor you are considering has filled out the proper documents correctly, passed the licensing exam and can now hold themselves out as an “investment advisory firm”. Don’t assume that “registered” means “approved”, it does not. Mr. Madoff skirted the rules by claiming he was not an investment advisor and, therefore, was not subject to periodic examination of his so-called “practice.” As a result he did not have to disclose any information about his business (until he registered in 2006). Even then it’s hard to imagine that investors would know what disclosures to ask for, or even be given the proper documents to review as required by the Regulators.
2. **Can I speak with current or former clients?** Unfortunately many Madoff investors were drawn into the investments through a referral. Try to speak to both current and former clients of the firm to obtain their thoughts about the manager, their experience, concerns or doubts. “Restricted access”, “secrecy”, or “proprietary” are “buzz” words that should raise red flags for investors and prompt additional due diligence.

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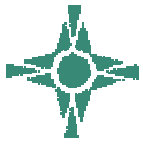


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3. **Why am I the lucky one?** When you are presented with an opportunity that is too good to be true, it usually is. The first question to ask is “why me”? Why am I the lucky one to get in on this? As professional poker players will tell you: “If in the first 30-seconds of the game you cannot determine who the “fish” is...you are the fish.”
4. **Can other managers duplicate the results?** Wall Street is famous for eliminating any “edge” someone purports to have. Sooner or later someone figures out the trade and the “edge” disappears. Check with other investment managers, or industry publications, for their perspective on the strategy. Mr. Madoff barely ever suffered a negative loss, something that should have been a sign that the investment strategy was suspect.
5. **Can I see my account on-line?** Mr. Madoff ran his firm with a secrecy that was an attraction to clients. Interestingly, clients and feeder fund managers were denied on-line access to their accounts. Clients should have their money in custody where they can have access to it and see it on-line, and the custody should be completely separate from the money manager.
6. **Should all my money be in a concentrated investment strategy?** As an investment advisory firm, clients place their assets in trust with our firm; we in turn design diversified investment strategies to meet their unique circumstances (growth, preservation of capital, income generation, and diversify it among several asset classes such as large, small, mid and international equities). Many Madoff investors failed to realize that their portfolio was invested as a single asset strategy investing completely in stocks and option securities with no bonds or other asset classes being represented.
7. **What about after-tax returns?** Consider what “net” ends up in your pocket. Consistent returns of 10-12% are nice, but paying ordinary income tax on those gains reduces the return.
8. **Do I understand the investment strategy?** Most people do not want to admit they don’t understand something. Always invoke the investment axiom: Invest in what you know and understand. Better yet, question your investment advisor until you are satisfied that you understand the approach. As the investor, you are the ultimate last line of defense of your hard earned money.

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9. **Trust your instincts:** As we read the tales of many Madoff investors we read that some just didn't have a good feeling in their "gut" about the strategy. One investor questioned her husband about their investments and was quoted as saying "she didn't have a good feeling". As humans we are wired with a "fight or flight" response that allowed our ancestors to survive perilous situations. It pays to listen to your gut instinct.

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