

The Blue Summit Report

How do you know your money is safe? Our response to the Madoff Ponzi Scheme

By now you've probably heard about the \$50 billion Ponzi scheme perpetrated by Bernard Madoff, a New York City broker, former head of the NASDAQ stock exchange.

What did he do? He allegedly collected money to invest from clients, made up false statements to show that they were doing well, and used new clients' money to pay interest and withdrawals to existing clients. This is known as a Ponzi scheme and is estimated to involve more than a \$50 billion loss for his investors.

This is one of several recent high-profile cases of advisors and/or managers absconding with funds entrusted to them by their clients. I recognize that some of you, and your friends and neighbors, may reasonably ask themselves: "I trust you, I trust my advisor, but what if I'm wrong?"

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 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.

Madoff held his clients' 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.

So how are our clients protected from their advisor (i.e. us) 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, Fidelity, Pershing, and mutual funds directly as our primary custodians. It is the custodian's responsibility to keep client funds safe. The only power we have over those accounts is as follows:

- To make trades in the account
- To receive copies of monthly statements, tax documents and trade confirmations
- To deduct our fees directly from the accounts, if applicable

Each client receives statements directly from the custodian, confirming the location and safety of the assets.

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 have worked for over 15 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. One of the ways that we can demonstrate this is to structure the relationship so that your assets are protected from theft. We are confident that we have taken the necessary steps to assure this.

Don't hesitate to let us 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.

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