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The Madoff Affair

In the most recent bad news from Wall Street, Bernard Madoff, former NASDAQ Stock Market chairman and founder of Bernard L. Madoff Investment Securities LLC, was arrested and charged with securities fraud.

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 make payments for 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.

We have received a couple of calls from clients asking whether any of their money was managed by Madoff. The answer is “no”, or as the Raymond James Compliance people would say “highly unlikely”. We have no direct funds with Madoff and it is extremely unlikely any of the mutual fund managers we use would have contracted a portion of their money management to another firm such as Madoff. Strange things do happen: apparently Mass Mutual Life Insurance Company was surprised and got burnt.

We do have one client who had assets at Madoff. We are very uncomfortable when a client has assets that we are not managing because we can't do our routine due diligence on them. With this client we urged for several years that they move the assets away from Madoff. On the day the story broke our clients reported they had followed our advice and withdrawn their funds from Madoff approximately two months ago.

How do we protect clients from managers like Madoff? First of all we try very hard to make sure we understand how a manager makes money and we want to make sure it makes sense. By doing this, to date we have been fortunate to have stayed clear from the blowups that have occurred. Second, we strongly argue not to put too much with any one manager, no matter how good they look. This avoids one of the problems many Madoff investors face because they invested most of their funds with him and now are left with nothing.

Another line of protection is the fact that we use an independent custodian to hold client funds. We currently use Raymond James Financial as the primary custodian. We also provide advice on clients' assets held elsewhere such as TIAA-CREF and Vanguard. In each case the custodian is responsible to keep client funds safe and we can not touch them.

Each client receives statements directly from the custodian, confirming the location and safety of the assets. They are valued independently at least daily, if not minute-by-minute, while the exchange is open. If you can't look up the prices and performance of your individual investments in the newspaper or on the Internet - that's a red flag - ask a lot more questions.

These are challenging times, don't hesitate to let us know if you have any questions or concerns about this issue.