

*Sather Financial Group, Inc.*  
*Comprehensive Wealth Managers*

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**Madoff Ponzi Scheme Costs Investors \$50 Billion**  
**December 15, 2008 Commentary**

Beginning this past Friday we started to hear a tremendous amount about a hedge fund manager named Bernard Madoff.

Madoff paraded as a successful and consistent hedge fund manager who generated returns of 12% per year with little or no volatility for his clients. In this environment it certainly seemed like the man walked on water.

Only now are we finding out that Madoff was running nothing but a Ponzi scheme in which he skimmed investor money from the top to live off of. To facilitate this Ponzi scheme Madoff had to constantly get new clients to fund his crooked lifestyle and keep his older clients in the dark.

With the market downturn new clients became difficult to drum up, the cash flow stopped and the house of cards quickly began to unravel. Early estimates are that the Madoff operation had client assets of \$50 Billion at its peak and now only has about \$200 Million remaining. As such, nearly \$50 Billion has evaporated.

**How are your assets safeguarded from something like this?**

1. **Stock market returns are never stable.** When Madoff showed people that he generated consistent returns of 1% each month (12% or 13% per year) a red flag should have gone off and a lot of questions should have been asked. Given the volatility we have incurred recently, someone should have asked how he accomplished this feat.
2. **Pooled Assets.** Madoff pooled all of his client's assets together in one big fund. As such, it was difficult to know exactly what an individual investor had. *All of our clients have individual accounts at Schwab. As such, our clients are able to audit every dollar in or out of their account, as well as their positions.*
3. **In house trading.** Madoff not only ran a hedge fund, but he also owned the brokerage firm that placed all of the trades for his hedge fund. This allowed him to control the flow of information back to the client. In fact, his clients never saw any confirmation statements on trades. *We do not own a brokerage firm. Our clients are far better served doing their trading through the institutional arm of Charles Schwab. As such, the client receives an independent confirmation of what trades are being placed in their account directly from Schwab.*
4. **Statements.** Madoff created his own quarterly statements to mail to clients. Obviously, this gave him tremendous control over what the client thought was going on. This allowed Madoff to continue the illusion for several years. *All of our clients receive their statements directly from Schwab. We have no input in any manner to the information that Schwab provides. As such, our clients have their values, positions etc. all independently provided by a third party that has no incentive to tell anything but the truth.*
5. **Separation of Funds.** Madoff had complete control over all assets and could withdraw what he wanted. *We have very limited authority to place trades on behalf of our clients, move money into their account and move money out of their account—but only to the address of record. As such, our client's funds NEVER mix with our funds.*

We all know that the financial markets have been extremely difficult. Unfortunately, the criminality of Madoff just adds insult to injury and casts doubt over our financial system.

Knowing this, we want to assure our clients that they are well protected and are provided broad transparency regarding where their assets are each and every day.

Call with questions.

Sincerely,

Dave Sather, President  
CERTIFIED FINANCIAL PLANNER™

Warren Udd  
CERTIFIED FINANCIAL PLANNER™