

The Jackson "Firewall"

Dear Friends,

Firewall definition: The primary method for keeping a computer secure from intruders. A firewall allows or blocks traffic into and out of a private network or the user's computer.

(Source: www.pcmag.com)

A lot of what I do for you – you never will know or see.

I am your firewall – keeping intruders away from your money.

As a top financial advisor in the nation, I am constantly bombarded by sales pitches from very bright financial engineers who create new financial products. They want me to invest client money into their latest, greatest products.

I was trained well as an auditor by PriceWaterhouseCoopers, CPAs – I have benefited from that training by retaining that skeptical, analytical way of looking at investments.

Let me give you some recent examples:

1. I attended a conference -- my colleagues were telling me of a great product. **Equity-Linked Notes (ELN)**. You basically could invest in the S&P 500 index, but with guarantees, you had 100% principal protection. I came back to the office, did my research – and I concluded ELNs were not prudent for my clients, since the guarantee was often backed by an investment bank like Lehman Brothers (way before the bad news on Lehman). “Altogether, Lehman had \$72.8 billion of structured notes and privately placed securities outstanding at the time it filed for bankruptcy.” (Source www.wealth-bulletin.com) It is estimated that these notes sold to “conservative equity investors” will net about 8.5 cents on the dollar.
2. **Hedge Funds** – these are all the rage. Estimates are that there is \$1.5 trillion in hedge fund equity, but with leverage its \$6 trillion invested. There are about 10,000 of them, but I believe there are only about 500 good ones, and 400 of those are closed to new investors. Estimates are that 30% of hedge funds will disappear. I have looked at plenty of them. They make absolutely no sense to me. Fees are high – typically “2 and 20”, which means 2% of the value of the fund plus 20% of the fund's profits. Transparency is totally lacking – an opaque investment. Client liquidity is very limited, typically only quarterly withdrawals after one-year, but lately hedge funds have limited or restricted client withdrawals. Isn't that great! The hedge fund is imploding and you cannot sell or withdraw your funds! I never invested a \$1 of client's money in a hedge fund.
3. **Asset-backed Security (ABS)**. These are asset pools that hold mortgages (mortgage-backed securities), home equity loans, credit card payments, auto loans, aircraft leases, etc. ABS are categorized into prime (best quality borrowers), nonprime or Alt-A (lesser quality), and subprime (worst quality

borrowers). I have avoided these instruments like the plague, but unfortunately, I am seeing many new people who have boatloads of this stuff in their portfolios. I recently reviewed a new prospect's portfolio and their \$1,000,000 of ABS has a current market value of \$500,000 – and these are ultra conservative, safety of principal type investors! They were sold ABSs by their financial advisor.

4. **Alternative Investments.** This has been a big rage for individuals, endowments and institutions. When we had the stock declines of 2000-2002, investors were looking for alternatives to stocks and bonds, ergo the name “Alternative” (to stocks and bonds) Investments. Alternative Investments usually mean: hedge funds, private equity, managed futures, distressed securities, real estate, and commodities. Most of the alternative investments I have seen have high costs and illiquidity – two things I don't care for at all. I don't like the illiquid nature of many of these investments – if an investment is turning sour on me, I want out now – I don't want to be told that I can't have my money back right now. There are some alternative investments that make sense – the liquid kind – but, the bulk offered for sale that I have seen are illiquid and high fees.

How to avoid a Ponzi Scheme – like Bernie Madoff:

1. **Don't invest in a hedge fund** – (Madoff's hedge fund was named Fairfield Sentry Limited fund).
2. **If it is too good to be true – it is** – Madoff had only five down months since 1996 – nobody is that good!
3. **Always use separate entities for your custodian and your investment manager.** Madoff's hedge fund held accounts at Madoff securities. Frauds almost always occur when the custodian and investment manager are the same entity.
 - o Use a reputable custodian like TD Ameritrade Institutional, Fidelity, Schwab or Pershing who will hold your securities, give you monthly statements, timely trade confirmations, and 24/7 access to your account online. The investment manager should be an independent firm of the custodian.

Hope you are enjoying your family over the Holidays.

May 2009 bring you health, wealth and happiness.

Warmest regards,

George P. Jackson, MBA, CPA, CFA, CFP®, CLU, ChFC