

KFS Mid-December Update

Good Afternoon. We hope this update finds you doing well and getting into the holiday spirit. We recognize this has been a very difficult year and that the holiday spirit might be a little more elusive than usual. It's important to remember that friends, family, holiday traditions, and the spirit of goodwill endure regardless. We at Kiely Financial Services hope you have a wonderful holiday season and we look forward to a much less eventful year in 2009.

Office Hours over the Holidays

The first order of business is to update you about our holiday schedule. Over the upcoming holidays, each of our offices will be closed on the following:

1. December 25th (Thursday)
2. December 26th (Friday)
3. January 1st (Thursday)
4. January 2nd (Friday)

We will otherwise hold normal office hours through the end of the year. Please know that even on days when our offices are closed we are still checking e-mail and phone messages in case a client needs to reach us immediately.

Client Dinners 2009

The next item of business in this update is to remind you about our annual client appreciation dinners, which will be held in January as usual. These dinners are our way of showing our appreciation to you for the use of our services and they allow us to outline our portfolio strategies for the year ahead. Although it seems inevitable that the economy will continue to weaken over the next few months, this does not mean next year will be a poor one for the stock market. The stock market is a leading indicator of the economy and generally moves six months or more ahead of the economy.

As you know, we have always focused our efforts on investor education and at the annual dinners we will unveil a number of new "educational" projects we are working on. We look forward to your feedback on these as we believe it is vital that our message

stays focused on investor education and keeping you informed in the years ahead. In general, we are optimistic about the new economy over the long run and look forward to sharing our thoughts and views with you in January.

The Bernard Madoff Story

This leads to the final item of interest for this update, which is, “You don’t always know what you don’t know.”

There are many things we do behind the scenes that most of our clients are either unaware of or take for granted...until something scary hits the newswires. This has certainly been the case with the Bernie Madoff story, so let’s recap the recent news and how the scandal was brought to light. Over the past weeks, Bernie Madoff, the founder of Bernard L. Madoff Investment Securities LLC and the former chairman of the NASDAQ Stock Exchange was arrested and charged with securities fraud. For years he has allegedly engaged in a classic Ponzi scheme, creating thousands of falsified client account statements and using the money deposited by new clients to fund the withdrawals and distributions to his existing clients. It is estimated that his clients – who include wealthy individuals, hedge funds, charities, and even a few banks – have collectively lost more than \$50 billion. His clients obviously did not see this coming and many of you are probably wondering whether something similar could happen to you? To which the answer is ABSOLUTELY NOT! First, sources have stated that Madoff served as both the investment advisor and custodian for his client’s assets. In other words, he was both investing on behalf of his clients and providing the portfolio holdings and performance information to these clients, an arrangement that should raise numerous red flags about potential conflicts.

Three simple steps

The sad truth is this unscrupulous behavior in the financial markets has been going on for years. For those of you who have been to our educational seminars, you know we have covered this topic in the past. All of us can remember examples like Enron, WorldCom, and the savings and loan industry in the 1980s. When we invest, we assume (unfortunately) that many people will lie, cheat and steal if given the opportunity and that we cannot determine ahead of time who will and who won’t. As a result, we go to significant lengths to protect our clients and assure this type of behavior does not

impact any of the money we manage. In fact, had Mr. Madoff's clients simply used the following three basic rules we use they could have prevented their portfolios from disappearing.

Rule #1: Stick to Publicly Traded Securities

We recommend that investors always stick to stocks, bonds, exchange-traded funds, and mutual funds that are publicly listed and trade on the major exchanges. These securities are valued independently and their prices are available instantaneously over a vast number of internet sites and newspapers nationwide. This way, clients can independently check their reported portfolio values and returns using any third party information vendor they choose. If you can't find the prices or historical performance of what you own in the newspaper or on the internet that should be a big red flag – and you need to ask a lot of questions.

Rule #2: Use an Independent Custodian

As mentioned earlier, Madoff acted as the custodian of all of his client's assets, which allowed him to report the amounts and values of the securities held without oversight from an independent third party auditor. It's not difficult to see why this relationship can be problematic. With Madoff being the only one (apparently) who knew the true value of the assets in his portfolio, it was easy for him to falsify the holdings information in order to create whatever returns he wished. Allegedly, this is how Madoff garnered year after year of consistent, sizable returns regardless of market direction.

In contrast, KFS does not take custody of ANY client assets. Instead we use TD Ameritrade (or Schwab) as the custodian of our client accounts and they are responsible for providing asset valuations to the client via periodic account statements and instantaneous internet account access. KFS has zero input on asset pricing, which is as it should be, and clients get separate, independently generated statements from both the custodian (TD Ameritrade or Schwab) and from KFS. This way, clients always have two separate sets of information regarding their account holdings.

Rule #3: Check on Insurance

All of our clients benefit from insurance against fraud or insolvency at TD Ameritrade in two ways. First, TD Ameritrade is a member of SIPC (Securities Investor Protection

Corporation) which protects the customers of its members for up to \$500,000. In addition, TD Ameritrade carries something called “excess SIPC” insurance through London Insurers which protects clients up to an additional \$149.5 million per client. In other words, each TDA client has \$150 million in total coverage on their accounts. You can learn more from TD Ameritrade here at (<http://www.tdameritrade.com/forms/TDA8140.pdf>).

It should be noted that fraud insurance does not protect assets against market declines, rather against theft, fraud or the insolvency of the brokerage firm. When Madoff's clients go to reclaim their assets, which apparently no longer exist, it is likely there will be NO insurance available to them because Madoff was acting as the custodian. Things should never come to the point of needing to use the insurance, of course, but should the unthinkable occur our clients have one of the best coverage plans available anywhere.

A Final Thought

The old adage “if it sounds too good to be true, it usually is” has apparently never been more true than in the case of Bernie Madoff...to the tune of \$50 billion. Madoff claimed amazingly consistent annual returns of 10-12% regardless of market direction or economic conditions, but financial economists will tell you that generating returns of this magnitude with almost no volatility just isn't possible. And unfortunately for Mr. Madoff's clients, they're right.

As usual, if you have any questions about your portfolio, the stock market, the economy or our updates, you can contact us directly at the numbers and/or e-mail addresses below. Thank you for allowing us to manage your investments. We remain, as always, steadfastly committed to your financial wellbeing.

Wish you and yours a very Happy Holidays!

-Joe and the Gang at KFS