WealthBuilder

Roback, Kumlander & Pehl, CPAs, LLP

Luther Forest Wealth Advisors, LLC

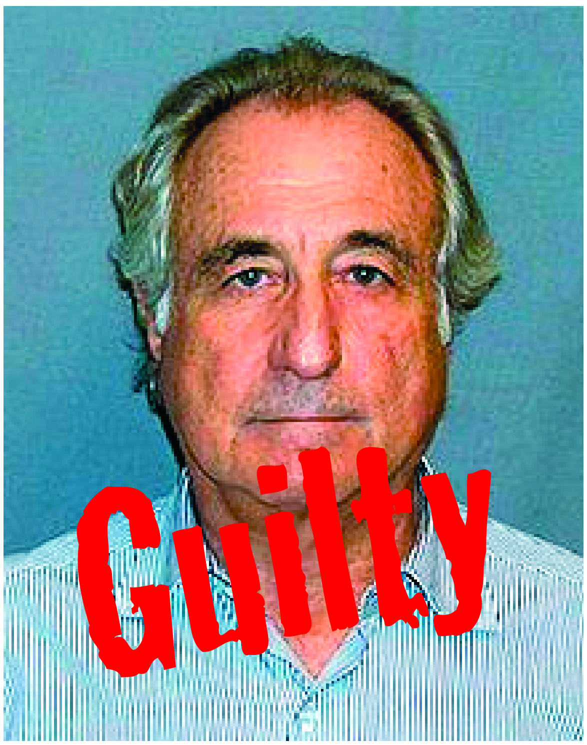
Objective Advice On The Road Of Life

April 2009

BYE-BYE BERNIE

Bernie Madoff, who pulled off the biggest Ponzi scheme in history, is going to jail for the **rest of his life.**

This scandal has been extraordinary in the amount of money lost, the number of years that the scam went on undetected and the global extent of the fraud. This case shows that even sophisticated investors can be fooled.



So how can the average investor avoid getting taken by an unscrupulous advisor?

Here's how:

First off let's review what a Ponzi scheme is. In the case of Madoff, it involved taking money from unsuspecting investors, telling them that their returns would be above average and steady; all the while paying them out of newer money coming into his web. These schemes can go on for years, especially when the supply of money streaming in exceeds the money flowing out. Down markets have a way of uncovering these scandals. That is when inflows slow down, withdrawals are requested and are unable to be satisfied. **We'll likely never know what happened to all of the $65 billion he pled guilty to stealing in this scam.**

There were apparent red flags aplenty that were ignored over his twenty year charade.

(Continued on page 2)

A word of thanks...

We want to take this opportunity to thank our clients who have made recent referrals to us.

Nearly 100% of our new business comes to us by referral. We often are asked whether we are taking on new business and our answer is a qualified ***yes***! We say "qualified" because although we are poised for growth, we are interested in growing at a reasonable pace without compromising the trust and confidence you have placed in us. We will value others like you, who seek to maximize their net worth (and that of their business) and provide financial security for themselves and their families. A referral from you and your continued business with us are the highest compliments we could ever receive.

Thank you! ●

(Continued from page 1)

The Following is a list of some of the flags that should have been detected long ago and some steps that all investors should take to avoid being scammed in the future:

1. Legitimate investment advisors are registered.

Anyone who gives investment advice on more than an occasional basis must be registered with at least one state regulator as an investment advisor, or the SEC if managing over $25 million. Madoff wasn't registered with the SEC until 2006; and that was years after he had supposedly been managing billions of dollars. Investors can find out about whether an advisor is registered by going to the SEC's web site at www.adviserinfo.sec.gov. This site also includes state-registered advisors. In addition, you can always view a copy of the advisor's SEC Form ADV – which contains all of the SEC-required disclosures.
Luther Forest Wealth Advisors (LFWA) is registered with the SEC since we manage over $25 million.
A copy of our current ADV can be obtained from the SEC web site or by contacting our office.

2. Check the credentials of your advisor with their issuing authority to be sure there have been no complaints lodged against him or her.

We're not saying that the mere existence of a complaint should disqualify an advisor – as we all know there are two sides to every story – but if there are a series of recurring complaints that should be a red flag. And speaking of credentials, it's a good idea to check out the actual credentials of your advisor. Do they have recognizable credentials? Do they have multiple credentials? Ask what is involved in attaining each of their credentials.When you contact the issuing authority of their credentials to determine if they have any complaints filed against them you should also inquire as to whether they have any continuing education requirements; if so, are they being satisfied, and do they require adherence to a Code of Ethics.

3. It is standard practice for reputable investment advisors not to have custody over the funds they manage.

Rather, they normally use an outside custodian that provides statements and make the trades directed by the advisor. In Madoff's case he was the advisor and the custodian. Investors should always make sure their advisor has an independent entity as the custodian of their investments. Checks to be deposited in their accounts should be made payable to that independent custodian. You should be able to contact the independent custodian directly anytime you want to confirm your holdings and activity in your account, make trades, request withdrawals, or the like. LFWA uses Charles Schwab & Co. as our independent custodians. You can access them by telephone at (800) 515-2157 or through their web site at www.schwab.com anytime.

4. Beware of exclusivity!

The Madoff scam was so elite that you had to be invited to participate in it. This exclusivity garnered much attention from many well-to-do investors who were lured in by it. There is nothing wrong with exclusivity, just don't let it blind you to the other flags that may be present – such as those contained in this article.

5. Many of Madoff's investors understood nothing about how he was generating profits for them.

It was like magic to them. Madoff was claiming to get his returns using markets that had trading volumes that were much too small to provide a 10% return to a multi-billion dollar investor. While you don't need to become an expert in the investment vehicles your advisor uses or recommends, you should have a basic understanding of how returns will be generated, where returns come from and what could go wrong. Most investors, including those with LFWA, will experience a downturn from time-to-time in their portfolio due to changing market conditions and economic environment. If your portfolio never experiences a down period, that could be a red flag.

6. According to Madoff's clients, he paid out profits like clockwork, year in and year out.

That should have tipped off at least some of the professionals that invested with Madoff. There is no such thing as a guaranteed return in the stock market and investors should run away as fast as they can from any advisor who promises any such thing. A reputable advisor will make you aware of all of the risks associated with the investments he or she recommends.

7. Does your advisor provide you with their Fiduciary Oath

– stating that they place the financial interests of their clients above their own, and that they will disclose any potential conflicts of interest to you? We doubt Bernie provided that!

At LFWA, we welcome any inquires into our registration, our credentials, our investment approach, the risks of our investment recommendations and the like. We're also happy to provide you with a copy of our most recent SEC Form ADV at your request. You can also go the SEC's web site and verify our registration at anytime. You can also view our disclosure documents through our website - www.lutherforestwealthadvisors.com. We also encourage our clients to go online to Schwab.com and look at their portfolios anytime they wish. We believe the key to avoiding such scams as that perpetrated by Madoff is to have operations that are transparent. And lastly, we include our signed Fiduciary Oath within the Portfolio Management Agreement that we and our clients sign.

Bye…bye…Bernie!

STOCK MARKET UPDATE

Everyone knows the market has been very volatile for the last 15 – 18 months or so. Much of this volatility, in our view, is caused by uncertainty - the markets hate uncertainty. **The big questions is - have we turned the corner?** We can answer that question with great confidence by saying we are certain we don't know.

We do know that trillions of dollars are being thrown at the problems. Unlike back in the 1930s when the Federal Reserve tightened the supply of money with disastrous consequences, today's Federal Reserve has pumped huge liquidity into the markets. This liquidity will eventually make its way to the marketplace; though unfortunately much of it still sits in the Fed vaults waiting for banks to access it in order to make loans. Banks are still trying to firm up their balance sheets, primarily those involved with so called "toxic assets." As a result, many of the bigger banks are not loaning money as they had. Further compounding the problem is low demand by businesses and consumers for loans. Worries about potential job losses and weakened consumer demand for many goods and services is also contributing to a reduction in loan activity.

So, in our view, once this liquidity makes it's way into the markets – that is, demand picks up and consumers begin spending again - we will see a

(Continued on page 4)

(Continued from page 3)

recovery in the stock market. The question is – when? We are beginning to see some glimmers of increased consumer demand and a very slight up tick in consumer confidence. Incentives such as the new $8,000 tax credit available for first time home buyers (really anyone who has not owned a home in the last two years) and the new sales tax deduction for purchases of new cars, light trucks, motor homes and motorcycles (after February 19, 2009) are intended to spur consumption. With so much uncertainty however we are likely to see a gradual increase in confidence; which may be tested with the emergence of any more "bad" economic news.

For these reasons we are taking a rather cautious approach to the markets. Unfortunately, cash accounts, including money markets, are earning a pittance. We have added, and will continue to add, some alternative investments intended to enhance yields for any cash not invested in the markets. We will do this by using relatively short-term bonds – both taxable corporate bonds as well as municipal bonds, where appropriate, to portfolios we manage. These bonds provide the chance for better yields, provide a fixed return and are given higher priority for repayment than stockholders receive. Like stocks, bonds can and sometimes do lose money. If sold before their maturity date a seller receives whatever the market will pay at that moment. If held to maturity, they are repaid in full. The biggest risk is the default of the bond issuer – the corporation or municipality as the case may be. To minimize that risk we will look to higher quality bonds.

We will continue to monitor the economy, the stock markets, and the nation's capitol to identify opportunities to put more money into the markets, and in the meantime we'll look to improve returns as detailed here. As always, we welcome any questions or comments that you may have about this issue or anything else related to your money.