# Ashwood Advisors, LLC

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*Truth, Knowledge, Experience* *2nd Quarter 09*

*Hi Everyone,*

*The Dow is up 34% from its lows in March, and the S&P 500 is up 39%. The recession is certainly not over but there are many positive signs. Enjoy your vacations and the remainder of the summer.*

*Sincerely,*
*Steve Geremia*

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## The Ponzi Scheme: An Old Con That's Making News

*Presented by Stephen Geremia*

You've likely heard about some of the Ponzi schemes that have served to erode investors' trust in the financial industry. Heightened awareness of the issue—especially in light of the media storm generated by the Bernard Madoff scandal—may uncover more of these schemes in the future. But aside from knowing that these events aren't good news, many people don't really understand what a Ponzi scheme is and, more importantly, how to avoid becoming a victim of one.

**Ponzi—a name that lives in infamy**

In simplest terms, a Ponzi scheme is based on the idea of robbing Peter to pay Paul. It earned its name from Charles Ponzi, who, in the 1920s, stole millions from more than 40,000 people in New England in what is believed to be the first and most well-known of these crimes. The elements of Ponzi's original scam are markers for similar swindles today.

Ponzi told investors that he could take advantage of the differences in U.S. and foreign currencies used to buy and sell international mail coupons. He **claimed that he could provide a 40-percent return in only 90 days, which was dramatically greater return than the 5-percent return investors could earn in a bank savings account**. Investors jumped on the idea, inundating Ponzi with funds. He became a well-known Boston millionaire within six months.

Unfortunately, even the simplest financial analysis would have illustrated that his operation was running at a large loss. While new investors kept money coming in, that new money was the only source Ponzi had to pay off existing investors, as he **made no effort to generate legitimate profits.** Indeed, he only purchased $30 worth of the international mail coupons he said he was working with, and he paid off a handful of early investors to make his scheme appear legitimate.

Fortunately, there are steps you can take to ensure that the professionals you align with possess the integrity that was foreign to Mr. Ponzi.

**Spotting a fraud**

These tips are geared toward forming relationships with financial professionals, but they can be applied to any type of engagement in which you trust someone with your money. One safety measure alone may not be enough, however—so be sure to use a combination of precautions.

1. **Remember, if it sounds too good to be true, it probably is.** This is perhaps the most important reminder for all of us. Be wary of such words as *guarantee* or *risk-free*, as well as products that promise higher than average returns. Trust your gut and avoid being influenced by "easy" profits.

2. **Be wary of high-pressure tactics designed to make you act—not think—fast.** Phrases like *once-in-a-lifetime* or *can't-miss* opportunity, as well as anything else pushing you to *act now*, can be red flags. Legitimate investment opportunities are rarely that fleeting. Investors must be given time to carefully review and investigate any proposed investment vehicles and strategies.

   Ponzi did not need to use high-pressure tactics because he masked his scheme by paying other investors. Today, you're more likely to encounter would-be con artists who tout the need to act fast before opportunity passes you by.

3. **Avoid writing checks payable to an investment advisor or a small, unknown company.** Although it should go without saying, **never invest with cash or traveler's checks,** and steer clear of anyone who suggests that you do so.

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4. **Don't be afraid to ask questions and review legal documents**. Request a copy of the Form ADV Part II or the investment advisory agreement. Be sure to pay attention to the fine print and disclosures on these materials. This is where most of the investment assumptions and material representations can be found.

   Ponzi bought only $30 worth of the product he said he was using to make profits. Perhaps if investors had asked to see his inventory, they would have thought better of the supposedly great deal they were being offered. If someone claims that there is a product, make sure it's true!

5. **Research any affiliates.** If the advisor is associated with a broker/dealer, bank, or clearing firm, take the time to review the website and material of the affiliate organization. Most important, find out where the assets are custodied, and review the organization (bank or clearing firm) prior to investing.

6. **Check credentials.** Anyone can call himself or herself a financial planner or advisor—or claim any other designation he or she chooses—so it pays to check with national organizations that issue these credentials. AARP offers a resource that explains various financial designations; find it by going to ***www.aarp.org*** and typing "understanding financial credentials" into the Search field.

7. **Conduct a thorough background check**. Review the broker's or advisor's record on ***www.finra.org*** or ***www.sec.gov***, paying extra attention to any customer complaints, regulatory history, and employment history. A rule of thumb is to avoid anyone who has multiple prior customer complaints or regulatory problems and to avoid brokers or advisors who have switched firms repeatedly (at least three changes in a five-year period).

   Charles Ponzi was an ex-convict with a charming personality. A little digging into his background may have dissuaded investors.

8. **Check to see if the firm has a website, and review as much of it as possible.** This is a basic step you can take to ensure that you are partnering with an advisor who's put some resources into his or her online appearance. While there are plenty of scam artists who work to make their cons look legitimate, this is an easy check to combine with several, if not all, of the other steps.

9. **Rely on recommendations from friends, neighbors, and professionals,** especially when they have long-standing relationships with the individual you are considering. Feel free to bring a trusted friend or professional to the initial interview meetings. Seeking multiple opinions will give you a clearer picture of the advisor and what he or she can offer you.

   Remember, some of the initial investors in Ponzi's scheme were paid off; it would have been enormously valuable for the other investors to have checked with some who did not receive funds.

10. **Get it in writing.** Be skeptical of any investment opportunity, strategy, or statements that are not backed up in writing. If an advisor has something real to offer, he or she will always put it in writing.

Your financial future is in your control—you decide who gains access to your hard-earned dollars—so be sure to choose wisely. You'll find that most financial professionals not only want to assist you with your needs, but they also want to educate you so you can make the right decisions for your situation. The time you put into vetting potential professional partners is one investment that can legitimately promise a great return.

*The real measure of your wealth is how much you'd be worth if you lost all your money*

*- Author Unknown*

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## Being Proactive in Challenging Financial Times

*Presented by Stephen Geremia*

Confused, stressed, afraid? These are just a few of the emotions people across our country are experiencing in light of the current market situation. Whether you are starting to build a nest egg, or are close to retirement, the reality is that negative market performance has likely impacted your investments. That's not going to make you feel good, and you shouldn't pretend otherwise. We are humans, not machines, and humans react emotionally to circumstances beyond (and even within) our control.

The tricky thing with emotional responses, though, is that they may result in ill-advised action—or worse, inaction. It's nearly impossible to make a sound decision when you are responding out of fear or anxiety. On the other hand, it's easy to do nothing at all when we are overwhelmed. Neither of these approaches is productive or beneficial over the long term. Once you've acknowledged your own emotions, the next step is to take action and take back control of your financial life. Being proactive will empower you. The following suggestions can get you started.

**Consider what's important to you and why**

You already know what's important to you, but you may not spend a lot of time thinking about *why* certain items are on that list. For example, you may think having money is important to you. Who doesn't feel that way? But the reason why money is important is likely different from one person to another. You may want to retire early, buy a second home (or a first home), send a child to college, or purchase a new car.

When you explore the reason why things matter to you, what you're really doing is thinking in terms of concrete goals rather than broad concepts. This is a great way to start taking charge of your finances because you can then generate an inventory of specific goals you want to accomplish.

**Develop a financial plan**

It's a bit difficult to create a complex financial plan on your own, but what you can do is take action by finding a professional to assist you. The goals that you have identified are too important to leave up to chance, emotional decisions, or inertia. Once you come to that realization, the decision to craft a plan using the services of a financial professional is easy.

> They deem me mad because I will not sell my days for gold;
> and I deem them mad because they think my days have a price.
> ~ Kahlil Gibran

**Dispelling myths about financial planning**

There are numerous reasons why people choose not to take action during challenging financial situations, especially when it comes to developing a financial plan. There are myriad myths surrounding financial planning, but the following are probably the most common. Don't let them stop you from taking smart action.

**Myth #1: Financial planning is for the wealthy.** No. Financial planning is for anyone who wants to take control of his or her financial goals. Consider instead that a lot of wealthy individuals may have become wealthy because they did financially intelligent things like create plans and act on them.

And what does *wealthy* mean, anyway? The fact is, even millionaires often don't define themselves as wealthy and may think that they belong to the middle-class or upper middle-class. We've come up with so many different terms for people's economic standing that it's hard to say where you fall. Why not find out by talking to a professional?

**Myth #2: I don't need insurance until I'm old. Or, I have enough insurance.** The amount of insurance you need is based on several factors; age is only one of them. Additionally, we often purchase some form of insurance and then forget about it, thinking we've attained what we need. As life circumstances change, your need for insurance may change, too.

Insurance can be a safeguard for your personal income, your standard of living, and your legacy. Surely this type of protection is important enough to warrant closer examination—whether you are 35, 55, 65, or older.

**Myth #3: I can't afford professional advice.** It's true that many people have seen their assets decrease; some may even be suffering from other economic distress. The short-term cost of professional advice, however, may be minimal compared with the long-term cost of not attaining the assistance you need to take action and stay on track. Consider the cost of your sanity—and the idea that you could gain some peace of mind by tackling these issues. Is it greater than the cost of advice?

It's reasonable to assume that people who already had financial plans in place before the markets started to fall are feeling more comfortable during these tough times because they know that they've taken action. You can feel that same way. The choice is yours.

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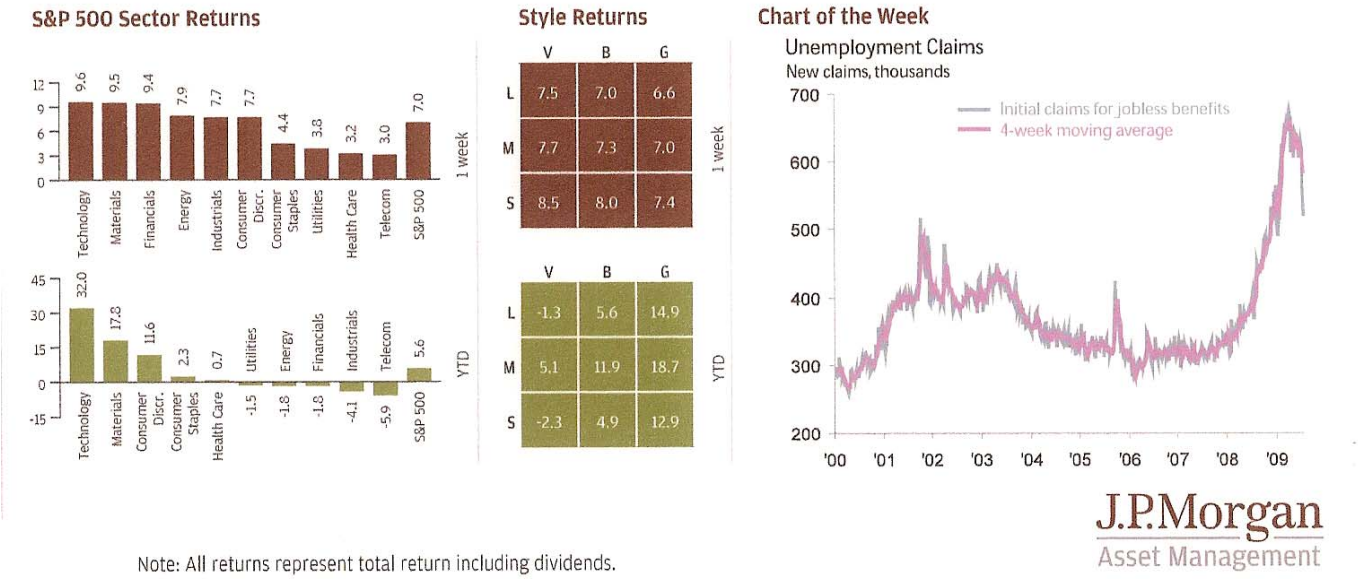
**Being Proactive in Challenging Financial Times — *continued***

At a minimum, you may want to check out the following websites:

***www.finance.cch.com***
***www.mint.com*** – budgeting information
***www.dinkytown.com*** – financial calculators
***www.bankrate.com*** – bank lending rates
***www.annualcreditreport.com*** – credit reporting information
***www.AARP.com*** – consumer information

There is a wealth of professional guidance available to you. You can counter the challenges ahead with solid planning and positive, proactive action.

Weekly Market Recap
July 20, 2009




*The turnaround in the Chinese economy is impressive, with second-quarter gross domestic product rising 7.9%*
*- WSJ 7/20/09*

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