

STEWARDS

A Quarterly Publication of Allodium Investment Consultants

“If something sounds too good to be true, it probably is.”

The recent exposure of Bernie Madoff’s massive financial fraud - which may result in more than \$50 billion in investor losses - has left many wondering how it was not detected much earlier and how investors can protect themselves from similar scams in the future. I’d like to address these questions.

Bernie Madoff plead guilty to operating what is commonly referred to as a Ponzi scheme which is named after Charles Ponzi (1882-1949), an Italian immigrant who became one of the greatest swindlers in American history. A Ponzi scheme presents itself as a lucrative investment opportunity that relies on a pyramid of "investors" who invest money that is used to pay returns to earlier investors, giving the illusion that the scam is working as advertised. However, since investor money is being used to pay off earlier investors rather than being invested, a steady stream of new investors is needed to keep the scam going. If anything disrupts the flow of new investor money, the scam collapses, as did the schemes run by Charles Ponzi and Bernie Madoff.

So, given that these Ponzi scams continue to emerge, how can investors protect themselves? The answer is by following a couple of the investment best practices included in the Prudent Practices for Investment Stewards Handbook published by FI360 (www.fi360.com):

- 1) Separation of duties
- 2) Due diligence.

1) Separation of duties:

One helpful way to avoid conflicts of interest and minimize the risk of becoming a Ponzi victim is to ensure that there is a separation of duties among the following three investment service providers:

- Investment consultants who provide comprehensive investment advice (e.g., Allodium).
- Investment managers who select and manage individual securities (e.g., mutual fund managers).
- Custodians who safeguard investment assets and execute securities transactions (e.g., Charles Schwab).

Bernie Madoff required that his firm perform all three of these functions. This lack of duty separation contributed to a lack of checks and balances and transparency that enabled

Madoff’s scam to go undetected for decades. In particular, the lack of reputable, independent custodians was probably the largest red flag for Madoff’s investors, since custodians are responsible for safeguarding investors’ assets and providing periodic reporting to investors on their specific security holdings and transactions. Madoff could not have pulled off his fraud if reputable, independent custodians held his clients’ assets and performed the periodic investment reporting duties.

2) Due diligence & healthy skepticism:

There is much wisdom in the old adage that appears near the top of this page. Investment opportunities that sound too good to be true usually are. For example, Charles Ponzi promised a 50% profit within 45 days or 100% profit within 90 days for investors in his scheme. Bernie Madoff apparently provided consistently high investment returns year after year, even in years when the financial markets were down, making some wonder how he could do so. To the despair of many, we now know.

Before investing in any opportunities that seem too good to be true, investors should carefully scrutinize them to clearly understand how the attractive returns are being produced. If you don’t receive straight, clear, understandable answers to your questions, you’re probably wise to invest elsewhere or get expert help in assessing the opportunity further. Additionally, investors or their hired advisors should do some basic due diligence before hiring or investing with the three investment service providers listed above to ensure they are experienced, trustworthy, appropriately credentialed, financially stable, etc.

Following the above best practices should greatly reduce or eliminate the risk of becoming a Ponzi victim which is why these practices are standard operating procedure here at Allodium. If you’d like to learn more about these or other investment and fiduciary best practices contained in the Prudent Practices for Investment Stewards Handbook, please call me. I’d enjoy the opportunity to discuss them with you.

David Bromelkamp
President and CEO

HEADLINES

- Allodium was pleased to welcome two new clients during the first quarter of 2009.
- We're proud to announce that Allodium was selected among the nine finalists for the 2009 Minnesota Business Ethics Award which honors Minnesota businesses that exemplify the highest standards of ethical conduct.
- On Thursday, March 19 Allodium and AIP Mutual Funds co-sponsored a free educational event for Allodium clients featuring Lee Schultheis - CEO, Chief Investment Strategist and Founder of the AIP Mutual Funds.
- Our President & CEO Dave Bromelkamp spoke at the following recent events:
 - Tuesday, April 21 > 21st Annual Minnesota Treasury Management Association Conference.
 - Thursday, May 7 > St. John's University Alumni event.
 - Monday, June 1 > Investment Forum Group event.

As a community service, Dave enjoys and welcomes all opportunities to help educate individual investors and foundation and endowment leaders about investment management and fiduciary best practices.

- Our office will be closed Friday, July 3 in observance of Independence Day.

UPCOMING EVENTS:

Allodium is sponsoring the following free educational lunch workshops for foundation & endowment leaders:

- ◇ Wednesday, June 10, 2009 - How to Adopt Socially Responsible Investment Policies
- ◇ Wednesday, September 16, 2009 - How to Select Investment Advisors

Please contact Cristy Leaf at 612-230-3706 or cleaf@aicria.com to RSVP or to be added to our invitation list for future workshops.

ALLODIUM TEAM PROFILE: KELSI RAHM

Role At Allodium: Investment Consultant



Joined Firm In: 2005

Hometown:
Elk River, MN

Favorite TV Show:
NewsHour with Jim Lehrer

Favorite Movie:
Any James Bond movie

Favorite Vacation Spot:
Caneel Bay, Virgin Islands

Favorite Hobby:
Running with my daughter

If I won the lottery I'd... hire Allodium.

Click [here](#) to see more about Kelsi on our website.

We Appreciate Your Introductions:

We launched Allodium to provide unbiased, objective investment advice and personal service to a limited number of individual and institutional investors. We embrace our responsibility to always act in our clients' best interests. To avoid any hint of real or perceived conflicts of interest, we are a fee-only registered investment advisor that is completely independent from banks and brokerage firms, and we do not receive commissions for the investment options that we recommend. If you know of a friend or associate who may be looking for this type of objective investment advice, please contact David Bromelkamp at 612-230-3702 or dbromelkamp@aicria.com to arrange a no-pressure, no-obligation introduction.

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Please contact Cristy Leaf at 612-230-3706 or cleaf@aicria.com if you have any comments about this publication or would like to be added to or removed from our mailing list.
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