

CAPITAL INVESTMENT MANAGEMENT

Registered Investment Advisor

BOSTON • DENVER • SAN FRANCISCO

After the Storm – Special Notice regarding Madoff & CIMCO portfolios

In light of all of the news in 2008, now more than ever we treasure our role as your Financial Advisor. Our job is to tell you the truth, no matter what. That is the spirit in which we send you this letter.

You have, of course, heard the scandal in a sad spate of scurrilous headlines. We're talking about the collapse of Bernard L. Madoff Investment Securities LLC. Madoff is the New York financier who's Ponzi scheme recently came to light when he confessed to bilking investors of some \$50 billion.

Ponzi schemes are named after Charles Ponzi who bilked investors out of \$15 million in 1920 (that's about \$150 million in today's dollars). Ponzi sold investors a "too good to be true" investment scheme. He made it work by using new money to pay off earlier investors. This technique is at the heart of many financial scams and is typically called a "Ponzi".

Financial scams have a way of popping up when regulated markets for stocks and bonds offer investors little return, or less, hope. In Ponzi's case, the stock market was in a dive, and the country was going into a very sharp, but short depression. In the Madoff case, investors were lured in by his seemingly low risk and steady returns.

To avoid being caught in a "Ponzi" investors should watch for **common themes** that characterize these frauds.

First is the promise of earning returns that are better, or more certain than what regulated markets can provide. Keep in mind that in today's global financial market, capital flows freely to investments that provide the highest returns for the least amount of risk. It stands to reason that an investment that provides greater than market returns for less risk is going to attract capital from all over the world, which should drive up the price of the investment and push the return down to market levels.

Second, a good scam is not likely to use regulated market custodians to hold assets and provide periodic reports and independent confirmations of trades. Investors should be able, without going through a promoter, to call an independent custodian or insurance company to verify account balances, transactions, and to request, independent of the promoter and consistent with their contract, disbursements of funds to the address of record.

Third, scams make liberal use of third parties whose reputation and integrity can be used to lend credibility to the promoter. Madoff had a sterling reputation with big name personalities and the Jewish charitable community that his group used to help attract the new money necessary to keep his scam going.

Eric Stein, a scam artist who bilked 1,800 investors out of \$34 million in the 1990s was interviewed by the Wall Street Journal® in 2004 while in prison for his crimes. Mr. Stein left the interviewer with these tips. Never talk to a financial salesperson on the phone

that you don't know personally. Don't respond to unsolicited business promotions sent through the mail or by email. Never purchase unregistered securities and never purchase any financial product that is described as "low risk, high yield", or "safe" because a friend, relative, religious leader, or parishioner has recommended the opportunity to you.

To specifically address these issues from a CIMCO standpoint, we utilize multiple trading strategies that can hedge equity risk, but are not hedge funds – a critical distinction. We currently place your assets at third party custodians. You can, and should validate account balances directly with the custodian from time to time.

As your financial advisor, one of our responsibilities is to tell you the truth. We're duty bound to this promise. Yes, 2008 has been a difficult year and, as you are no doubt aware, 2009 will bring more difficult news. Regardless of what others do, we will never stoop to tampered statements or risky investments! Our responsibility is to educate you, to advise you, and to tell you the truth. To that end we're committed.

Another role we maintain is to help you reassess and make sense of your statements. One is sent to you each quarter documenting activity in your account(s). We want to help you understand how to read and interpret the data.

After reviewing your year-end statement, if you have any questions please contact us.

In closing, thank you again for your business and your trust. We recognize you have other choices out there, and we pledge ourselves to continue earning and maintaining your trust in 2009 and beyond.

Sincerely,
Chris, Chad & Ali