

observations

INVESTMENT

Introducing Gene Diederich



Gene Diederich
CHIEF EXECUTIVE OFFICER

I hope I'm not like Admiral James Stockdale when, in 1992, he began the vice presidential debate by saying, "Who am I and why am I here?" But those are certainly fair questions, and this newsletter provides a good opportunity for me to answer them by introducing myself to clients and friends of Moneta Group. It's been an exciting few weeks for me as I begin my partnership with Joe Sheehan to grow Moneta Group and ensure that the culture and core values you rely on will remain staunchly in place as we move into what I believe is an exciting future.

Who am I? I am a 25-year veteran of the financial services industry and someone who,

today, is convinced that the model of the independent adviser is the way of the future. My career at A.G. Edwards began in 1984, and what I most enjoyed was the people-oriented culture that thrived under the leadership of Ben Edwards. When I decided to look for a new opportunity at this juncture of my career, I definitely was drawn to Moneta Group's core value of creating Raving Fan service. It's the centerpiece of this firm, so I was confident this would be the right fit for me.

My background is similar to many of my new colleagues. I graduated from the University of Kansas and, armed with my CPA, began my career at Peat Marwick Mitchell in Kansas City. I was the world's worst accountant; I needed to be with people. I joined A.G. Edwards in Salina, Kan., where I stayed for 15 years, later moving to Overland Park, Kan. In 2005 I was asked to be the branch division director of A.G. Edwards. The AGE retail brokerage division was the biggest part of the company, and it was a great opportunity.

My wife, Kim, and I and our four children were excited to come to St. Louis.

In my new role at A.G. Edwards, I set strategic objectives, hired new and experienced financial advisers, communicated company initiatives to the entire organization and worked to retain legacy A.G. Edwards Financial Advisors post-merger. My experience in those areas certainly will be vital to my role as chief executive officer at Moneta. When A.G. Edwards was sold to Wachovia in 2007, I began thinking about a different future.

I could see from the very beginning of the interview process that, above everything else, your principals valued Moneta's unique culture and, in particular, the firm's core value of acting only in your best interests. I had substantive and thought-provoking conversations with many Moneta principals and, as we talked, I became more interested and more excited about the possibility of partnering with Joe to help manage the firm.

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*This **Investment Observations** newsletter introduces Moneta Group CEO Gene Diederich, details a big Wall Street scandal, and includes an updated interview with Joel Prakken, chairman of Macroeconomic Advisors. Joel was a panelist at our Town Hall Meetings in October 2008.*

MA issues regular reports on the US economic outlook and prepares periodic policy analyses. A 2006 study by the Federal Reserve Bank of Atlanta found that over a 19 year period, MA was the most accurate forecaster of the US economy. Moreover, MA was the only team whose 'current year' forecasts beat the consensus over that period, a feat some have argued is virtually impossible. MA received the National Association for Business Economics Forecast Award for 2006.

Moneta Group continues to send bi-weekly 'Voice of Moneta' e-mails to clients and post 'blogs' in the "For Our Clients" section of our Web site, www.monetagroup.com

We welcome your feedback, opinions and suggestions for future newsletter articles and topics. Please send your comments to Nancy Powers, Communications Manager, npowers@monetagroup.com

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That brings me to the 'Why am I here?' question. As Moneta Group has grown, its board of directors determined there was a need for a full-time CEO. Over the past five years, Moneta's growth as a company and the complexities of our industry indicated that it made sense for Joe's increasingly demanding responsibilities to be shared by two people with diverse skills and expertise. Based on my background and industry contacts, it was decided that I was a better fit for what the board discerned would be the role of chief executive officer, while Joe's tenure at Moneta made the role of chief operating officer ideal for him. But Joe and I agree that we will truly act as partners in ensuring the success

of this company as one of the premier providers of Family CFO services. Peter Schick will continue to serve as chairman of the board.

Like any new challenge, there is a lot to learn and a lot to do. For now, one of my primary focuses will be to help find the right people to become part of the future of Moneta Group. We will be looking first for those who share Moneta Group's philosophy of acting only in our clients' best interests. My previous experience makes me confident that even in the model in which I spent the majority of my career, there are talented and dedicated professionals who are drawn to the RIA model. And the most dedicated advisers—those who

have built their practices with fewer clients who have complex financial lives—are looking for a home with a firm like Moneta Group.

I hope to take advantage of the flexibility and ability to maneuver that Moneta enjoys in a dramatically changing environment. In larger firms, it can be more difficult to attend to individual concerns. At Moneta, which operates without the bureaucratic hierarchy seen in many companies, we can listen to our clients, listen to our Client Advisory Board and, within days, make adjustments designed to respond to the needs of clients. I believe ultimately that clients will be attracted to firms where service

is delivered. Obviously, Moneta is a leader in client service.

This is an exciting transition for me, and I look forward to the future. In five years, I hope I'm right here helping to oversee an ever-thriving Moneta Group. I love what I do; love the business. What we do is very important. In my entire career I've never seen anyone with all their financial life in order. We're here to help, and I think our contributions to people's lives are very important. It's incredibly satisfying to be part of people's dreams and goals.

I look forward to getting to know you as the days and weeks go by. ❖

Interview With Economist Dr. Joel Prakken

In October 2008, Dr. Joel Prakken, chairman of Macroeconomic Advisers, provided insight and commentary at our Town Hall Meetings. Macroeconomic Advisers (MA) issues regular reports on the economic outlook and monetary policy prospects.

Dr. Prakken completed his undergraduate degree in economics at Princeton University, and he holds a Ph.D. in economics from Washington University in Saint Louis. We sat down with him recently to get an update.

Moneta: In October, you described the TARP (Troubled Assets Relief Program) as 'imperfect,' but better than nothing. How do you see the TARP and the stimulus legislation today?

Prakken: It's important to distinguish between the two policies. The TARP is a new vehicle established to finance the Treasury's efforts to help

banks reduce stress on their balance sheets. These efforts include both Treasury purchases of 'toxic' assets from the banks and the direct infusion of banks with taxpayers' funds in exchange for an equity stake in those institutions. This program is bold but novel, so it is too early to judge its potential effectiveness.

In contrast, the stimulus package was 'old-fashioned' legislation to cut taxes and increase spending. Economists understand better how this sort of policy works because the profession has been thinking about such issues since the Great Depression.

I see both as expensive, imperfect and messy, but necessary. The possible alternative—a lost economic

decade accompanied by deflation—is just too costly to chance. Both policies are intended to backstop the real economy, get credit flowing again and prevent future financial failures.

Moneta: Why did the cost of these programs go so high?

Prakken: The magnitude of the problem within financial institutions is incredibly large, and so is the amount of stimulus the economy needs.

Moneta: So the outrage, and why do people believe it isn't working?

Prakken: These policies have caused plenty of confusion and some anger. Regarding the TARP: The legislation was passed hurriedly and without

tactical detail. Originally, the \$700 billion was to be used to purchase from banks toxic assets that are primarily mortgage related. However, as the financial crisis worsened last fall, the Treasury's strategy shifted from buying toxic assets to infusing banks directly with cash in exchange for stock warrants—a very different proposition for the public to embrace. Then, more recently, the Treasury reverted to its original plan for purchasing toxic assets off the banks' balance sheets. These reversals eroded public confidence in the policymakers and, hence, the policies.

Regarding the stimulus package—which cost another \$800 billion or so—there's a political/economic saying: *Don't let a good crisis go to waste.*

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The Great Wall Street Scandal

It is the most monumental money swindle of modern times, a tale of personal fortunes made and lost involving millions of hijacked dollars, faked financial statements and bogus assets. One of its most remarkable aspects is the astonishing number of years it went undiscovered, somehow managing to fool investors, investment advisers, lawyers, accountants, auditors, the Securities and Exchange Commission and other regulators. It is a variation on a Ponzi scheme named for the 1920s fraudster.

This is another article about Bernard Madoff's hedge fund dealings, right? Wrong. It is a description of Equity Funding, the life insurance and mutual fund scandal. A nascent idea in 1959, it began illegal activity as early as 1965, finally ending in 1973 when a disgruntled former employee blew the whistle.

At one time, Equity Funding was one of the most heavily traded stocks on the New York Stock Exchange. The scandal is well documented in *The Equity Funding Papers*, *The Impossible Dream* and *The Great Wall Street Scandal*, and was made into a 1976 movie, *Billion Dollar Bubble*, starring James Woods.

There have been—and always will be—charlatans, fraudsters, crooks and swindlers. The financial services industry has more than its fair share because, as Willie Sutton (prolific early 20th-century bank robber) said, "That is where the money is." Monumental financial scams are nothing new. In addition to death and taxes, scams are one of life's certainties and, unfortunately, honest, trusting people will unknowingly fall prey to those scams.

Why? They will be too distracted, lack knowledge in

the field, will rely on the wrong people to advise them, or be otherwise vulnerable.

Our clients rely on us for our character, ability and strength—and we deliver, aware of our commitment to earn that trust every day. We encourage you to visit our Web site, www.monetagroup.com. The first thing you see is a quote: "To be trusted is a greater compliment than to be loved." We are proud that our clients love us, but what greater compliment is there than to earn and receive the trust of others?

We go to great lengths to ensure that the entities we do business with and recommend to our clients are worthy of the same trust. Whether it is Schwab, Fidelity, a mutual fund, separate account manager or any of our other investment managers, we check, double-check and vet them on an



David Breckenridge, MBA

ongoing basis to safeguard the trust our clients place in us. We understand that any weak link in the chain connecting us to our clients threatens the trust we cherish. In every detail of running our business, we are meticulous; even the company that shreds sensitive client information is a trusted business partner.

We shake our heads at some financial service titans who, like the Sirens of Greek mythology, lure the unsuspecting onto the rocks and cliffs of disaster with their false promises. At Moneta Group, we promise a relationship solidly built on trust. ❖

"It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you'll do things differently." — Warren Buffett

The Democratically controlled Congress did use the stimulus package as an opportunity to fund some long-standing priorities that arguably have little to do with effective short-run economic stimulus. It is natural for taxpayers to wonder if they will get their money's worth.

Moneta: Why is the public so outraged about the so-called 'bailout'?

Prakken: Because the amounts are large and, in some instances, they seem to reward culprits in the financial crisis. The public sees that some banks got 'bailout money' but didn't necessarily use that money to increase lending. Instead, some of it was quietly used to strengthen banks' balance sheets, to prevent a decline in lending, or to prevent significant counterparty losses that could have posed

important risks to the economy. The subtlety and importance of these decisions are something the public may not fully understand or appreciate.

Moneta: What is the biggest issue the new administration faces regarding the stimulus legislation and implementation of the TARP?

Prakken: The Obama administration has had difficulty filling positions at Treasury.

Some well-qualified candidates, many with experience on Wall Street, are viewed by Congress with suspicion. So, rather than face the dual gauntlet of the administration's vetting and a confirmation hearing, they have simply declined to be considered for a position. Consequently, there is only a skeletal staff at Treasury to design and implement these far-reaching policies.

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Moneta: What will happen regarding the TARP and stimulus package?

Prakken: Currently the TARP is in a state of confusion. Nevertheless, I believe that if properly implemented, the plan of purchasing these toxic assets from banks will help restart the flow of credit. And the stimulus package may have a beneficial impact on real economic growth as early as the second quarter of this year, but certainly by the second half of the year.

Moneta: Then why is everyone so angry?

Prakken: It's painful and frightening to see your job eliminated, or watch 40 percent of your wealth disappear within a year, and then have to face the possibility of reordering life's priorities.

Moneta: What about the anger over the bonuses being paid to some of those who were involved with companies that got money from these programs?

Prakken: That anger is natural, understandable and, in some instances, well-placed. Still, over the long haul, smart people must be appropriately compensated. I'm not confident that the federal government knows better than the marketplace the definition of appropriate. I hope the Obama administration does not lead a strong push toward the legislation of executive pay.

Moneta: But surely there have been some very unscrupulous people revealed during this upheaval.

Prakken: Those engaged in outright Ponzi schemes. That

is truly outrageous. I can't find words to describe my feelings about the people who have committed these offenses. But others unjustly judged guilty by association. For example, bonuses paid to executives in AIG's financial products division have focused public anger on that company's pay structure. But AIG has other well-run operations in life insurance and aircraft leasing where strong performers may well deserve large bonuses.

Moneta: So are the TARP and the stimulus package all that's necessary?

Prakken: No. In the current situation, the government—including the Federal Reserve—must do everything it can.

Moneta: You're a big fan of Bernanke, right?

Prakken: I said this at Moneta's Town Hall meetings last fall. We're fortunate to have Bernanke leading the Fed at this time in our financial history. His academic work focused on the causes and consequences of the Great Depression, so he's an expert on what not to do: fiddle while Rome burns.

Moneta: What is so unique about the Fed's approach in the current situation?

Prakken: Even as it applies the traditional remedy of low interest rates, the Fed is creating new 'balance sheet policies' to address financial stress and congestion in particular markets. These include efforts to backstop liquidity in the commercial paper market, the market for mortgage-backed securities, and even the markets

for business and consumer loans. Bernanke's plate is very full, and he's trying a lot of new recipes that he's made from scratch!

Moneta: Other policy challenges arising from our current predicament?

Prakken: Once the immediate crisis is contained, the government must turn its attention to devising a new, modern system to regulate and oversee the financial system. We apparently need a structure to protect us from our worst instincts. This will be a daunting challenge, in part because our major political parties view the issues quite differently. The Democrats see the free-market system, coupled with greed, as the source of our current problems and want to intervene aggressively in the future. Conservatives say, yes, there have been excesses, but let the offenders suffer the consequences of their decisions with as little government intervention as possible. Whatever the truth, there will be regulatory reform, but balancing the ideological differences while settling turf battles between the various regulatory agencies will test the president's leadership.

Moneta: Who is responsible for the mortgage mess?

Prakken: There is plenty of blame to go around. Our public policy of encouraging home ownership fostered the growth of Fannie Mae and Freddie Mac, even as those with oversight responsibilities argued—blindly it now seems—that these institutions did not enjoy an implicit government subsidy. Mortgage companies

found they could make money originating new loans and quickly selling them into a pipeline where the loans were 'securitized' by financial 'rocket scientists' who invented new instruments tied to risky mortgages and then convinced investors that those instruments were safe. In the end, the expansion of the entire system encouraged several million families to become homeowners when it would have been better for all involved had those families remained renters.

Moneta: What's the silver lining?

Prakken: In the most threatening economic climate since 1930, policy-makers have taken extreme measure rather than sit on their hands. The United States is ahead of the Europeans in our response. I think we learned from history... as historians say we should!

An important part of the recovery will be when the stock market comes off its bottom and begins rising. Last week's increase (March 9-13) looked fairly solid. There was a huge increase in the share price of bank stocks, and the potential upside is big if the TARP operates successfully and the stimulus works as advertised.

Moneta: What else is on your mind?

Prakken: Many forecasters are expecting a slow recovery. Yet it is a well-known empirical regularity that the deeper the contraction, the sharper the recovery. Given the severity of this contraction, the historical norm would be a strong recovery. Wouldn't that be nice? ❖