

The Lipson Group INC.
tax and financial consultants

WHITE PAPER

ASSET PROTECTION

April, 2008

ASSET PROTECTION

THE LIPSON GROUP

The Lipson Group provides affluent, multi-generational families with a comprehensive approach to wealth management, growth and sustainability. As part of our effort to provide the most up-to-date guidance to our clients, we have prepared this White Paper to address one of today's most pressing issues – asset protection. Although this White Paper is not written with any specific client in mind, we believe that the issues addressed in this paper are of interest to all of our clients.

INTRODUCTION

In light of the failure of Bear Stearns and the problems that surfaced at National City Bank and other brokerage firms, banks and trust companies, a lot of questions have been raised concerning the safety of assets held in various types of accounts at different institutions. Many brokerage firms, banks, trust companies and money managers have sent information to their clients to try to assure them of the safety of their assets. However, much of the information is confusing and/or incomplete.

To help clients understand the safety or exposure of their assets, The Lipson Group has developed an unvarnished summary of asset safety protocols to help clients analyze what assets may be at risk based upon the type and location of the account. Clients should review their accounts, understand the protections they have and, if necessary, take action to better protect their assets.

BANK ACCOUNTS

FDIC Insurance

At banks, checking accounts, savings accounts, and Certificates of Deposit (CDs) are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000 per customer in the event that the bank fails. The best protection for bank assets is to maintain less than \$100,000 in checking, savings accounts and CDs at any one bank.

See www.fdic.gov for additional information

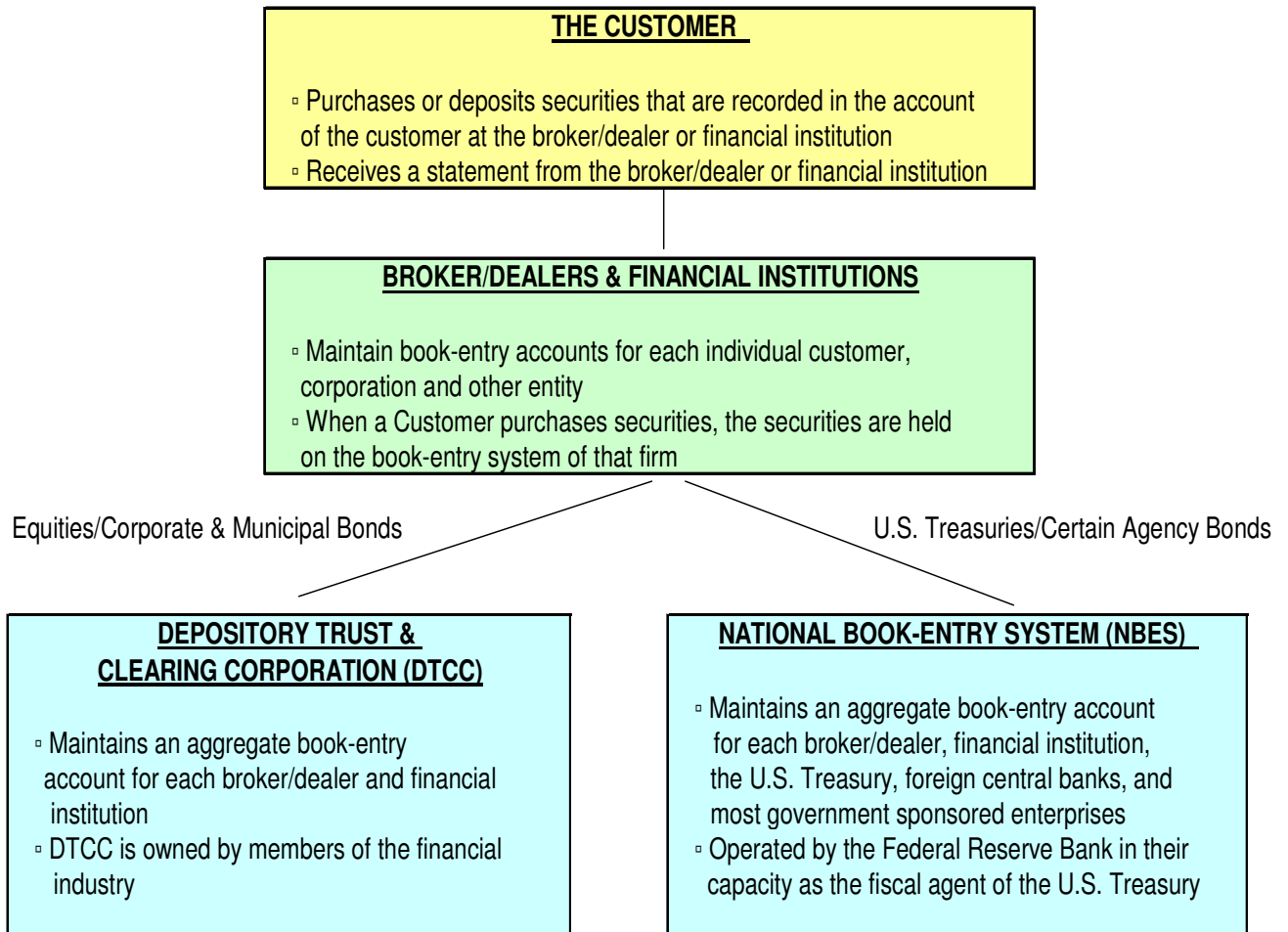
Sweep options

Most banks have a sweep option in which the cash in your checking account is swept into a savings instrument at the end of each day so that you earn interest on idle cash. When you write a check, funds are automatically swept from the interest bearing account back into your checking account to cover the check.

There are different kinds of sweep options with different types and levels of protection. For instance, at National City Bank the Insured Deposit Account sweep option (IDA) is subject to the claims of bank creditors and only protected up to the FDIC \$100,000 limit. The various Allegiant Money Market Funds options are not subject to the claims of NCB creditors and the entire amount of the account is protected even if it exceeds \$100,000. Money market funds (MMF) have other risks that are discussed under the MMF heading on page 11.

THE ELECTRONIC RECORD KEEPING SYSTEM

Electronic records have replaced paper securities. The electronic process works in the following way:



Securities maintained through DTCC and NBES remain the property of the customer. They do not become property of the broker/dealer or financial institution and are not subject to claims of creditors of the broker/dealer or financial institution.

While the securities held for a customer in their account are safe from the creditors of the broker or financial institution and the creditors of DTCC, an issue may arise as to the accuracy of the record keeping of the broker/dealer or financial institution.

The broker or financial institution must accurately record the assets that belong to each Customer and DTCC must accurately record the assets that belong to the broker/dealer or financial institution.

DTCC insurance

DTCC carries insurance for any errors they might make.

DTCC's coverage provides:

- **\$250 million** – Fidelity Bond all risk on premise coverage.
- **\$250 million** – Fidelity Bond all risk in-transit coverage
- **\$700 million** – in-transit coverage provided by the insurer of the armored car carrier service. All-risk policies provide secondary coverage for securities lost while in the custody of an armored carrier.
- **\$25 million** – Mail Policy for non-negotiable securities shipped via registered mail, express mail, or express courier.
- **\$1 million** – Mail Policy for non-negotiable securities shipped via first class mail.

DTCC is owned by members of the financial industry. It is a limited purpose trust company under New York Banking Law, a member of the Federal Reserve System, and a registered clearing agency with the Securities and Exchange Commission.

DTCC is responsible for keeping track of the securities held in aggregate for each financial institution.

DTCC is the world's largest depository, holding nearly \$20 trillion in assets for its participants and their customers. DTCC is a national clearinghouse for the settlement of trades in corporate, municipal and mortgage-backed securities and performs asset services for its participating banks and broker/dealers.

DTCC's network links more than 11,000 broker/dealers, custodian banks, and institutional investors, as well as transfer agents and exchange and redemption agents for securities issuers. In 2005, DTCC processed over 263 million book-entry deliveries valued at more than \$148 trillion.

See www.dtcc.com for additional information

TRUST OR CUSTODY ACCOUNTS

The securities held in a trust or custody account at the trust department of a bank or at a trust company are deposited into the trust company's aggregate omnibus account segregated for all the clients of the bank trust department or trust company at the federally regulated DTCC and remain the property of the client. As such the securities are not subject to the claims of creditors of the bank or trust company.

Bank and Trust company insurance

Every bank or trust company has different amounts of insurance. In response to inquiries from The Lipson Group, firms report the following coverage in addition to DTCC coverage:

- **National City Bank –**
 - **\$200 million – Fidelity Bond**
 - Insurer: Chubb, XL, HCC, Arch, Axis, Ace, Zurich, Travelers, AWAC and AIG
 - Deductible: \$50 million – per occurrence
 - Expiration: May 1, 2008 (renewal in process)
 - **\$155 million - Errors and Omissions**
 - Insurer: Chubb, XL, HCC, Arch, Axis, Ace, Zurich, Travelers, AWAC and AIG
 - Deductible: \$50 million – per occurrence
 - Expiration: May 1, 2008 (renewal in process)
- **Key Bank –** no response as of the release of this White paper
- **Northern Trust –**
 - **\$150 million - Fidelity Bond (Blanket Bond) coverage against dishonest acts**
 - Covers: robbery, theft, fidelity and mysterious disappearance
 - Insurers: Chubb, St. Paul, AIG, Zurich, Lloyds of London, Great American and CNA
 - Deductible: \$5 million
 - Expiration: June 1, 2008
 - **\$50 million – Fidelity Bond coverage against loss of securities**
 - Covers: loss of customer's securities while in Northern Trust's custody both on premises or in transit - excess coverage over the blanket bond (discussed above)
 - Insurer: Lloyd's of London
 - Deductible: \$3 million
 - Expiration: June 1, 2008

- **\$75 million** - Errors and Omissions coverage against negligence
 - Covers: acts, errors or omissions in the performance of any professional service for trust operations
 - Insurers: CNA Insurance Companies, St Paul, Chubb, Liberty, Houston Casualty, Axis, Arch and Zurich
 - Deductible: \$15 million
 - Expiration June 30, 2008

- **JPMorgan Chase & Company and all majority-owned subsidiaries-**
 - **\$300 million** – Financial Institution Bond & Computer Crime - Bankers Blanket Bond
 - Covers; employee dishonesty, robbery, burglary, or mysterious disappearance; loss of accepting forged or counterfeit checks and securities.
 - Insurers: Park Assurance Company, lead insurer
 - Deductible: \$25 million
 - Expiration: July 1, 2008

 - **\$750 million** – Excess Transit & Premises
 - Covers: Physical loss of securities worldwide on premises and while in transit by authorized employees, designated messenger, or recognized armored carrier
 - Insurer: Lloyd's of London
 - Deductible: \$300 million (excess over Blanket Bond)
 - Expiration: July 1, 2010

 - **\$50 million** – Bankers Professional Liability
 - Covers: loss arising for claims of alleged wrongful acts committed in the performance of professional services.
 - Insurer: Park Assurance Company, lead insurer
 - Deductible: \$25 million
 - Expiration: January 15, 2011

 - **\$50 million- Non-negotiable \$25 million- Negotiable** mail and transit insurance
 - Covers: physical loss of property sent by registered mail or overnight courier
 - Insurer: Federal Insurance Company
 - Deductible: None
 - Expiration: Continuous until cancelled

- **Glenmede Trust Co. –**
 - **\$30 million** - Fidelity Bond
 - Covers: employee dishonesty, on premises loss of property (including robbery, disappearance, etc.), in transit loss of property, and forgery or alteration.
 - Insurers: Chubb, AIG
 - Deductible: \$250,000
 - Expiration: April 20, 2008
 - **\$32 million** - Fidelity coverage for accounts governed by ERISA.
 - **\$50 million** - Errors and Omissions and Directors and Officers
 - Covers: errors in the execution of Glenmede clients business.
 - Insurers: Zurich, XL Specialty Insurance Co., AIG, Chubb St. Paul Mercury Insurance Co.
 - Deductible: \$250,000
 - Expiration: May 20, 2008
- **Mellon Bank –**
 - **\$150 million** – Fidelity Bond
 - Covers: employee dishonesty, forgery loss or destruction of cash or securities
 - Insurer: Lloyd's
 - Deductible: \$10 million
 - Expiration: December 1, 2008
 - **\$850 million** – All Risk Loss of Securities
 - Covers: Loss or destruction of cash or securities on or off premises
 - Insurer: Lloyd's of London
 - Deductible: None
 - Expiration: December 1, 2008
 - **\$100 million** non-negotiable, **\$10 million** negotiable mail insurance
 - Covers: physical loss of property sent by registered mail or overnight courier
 - Insurer: St. Paul Travelers
 - Deductible: None
 - Expiration: Continuous
 - **\$50 million**- Errors & Omissions
 - Covers: Losses due to errors or omissions
 - Insurer: BNY Trade Ins. Ltd (100% reinsured Lloyd's of London)
 - Deductible: \$20 million
 - Expiration: December 1, 2008

- **The Private Trust Company**

- Assets sub-custodied through Northern Trust (for insurance see above) & LPL Financial (a broker/dealer with SIPC and excess SIPC coverage)
- **\$15 million-** Errors & Omissions per occurrence in addition to insurance carried by Northern Trust and LPL Financial
 - Covers: Losses due to errors or omissions
 - Insurer: Zurich American
 - Deductible: \$250,000
 - Expiration: Spring 2009
- **\$5 million** – Financial Institution
 - Insurer: XL Capital and AIG
 - Deductible: \$250,000
 - Expiration: Spring 2009

BROKERAGE ACCOUNTS

The securities you own in your brokerage account remain your property. As such the securities are not subject to claims of the creditors of the broker with certain exceptions discussed below.

Securities held in your brokerage account are deposited into the brokerage firm's aggregate omnibus account in a vault or in a box position (a location within the stock record system) at the financially regulated DTCC in the name of the brokerage firm. However, the securities remain the property of the customer.

Federal rules require that customer securities that are fully paid for (not purchased on margin) be kept separate from firm capital and securities. The brokerage firm maintains the records segregating the securities in the name of each customer's account.

The securities cannot be used by the broker for any purpose whatsoever without authorization of the customer (see discussion below about the fine print in your account agreement).

Brokers are required to reconcile the shares they hold in every account daily and to account for and physically inspect or otherwise verify every security owned by a client or due from brokers, or owned by the broker at least once every calendar quarter.

Brokerage account insurance in the event of failure

In 1970, Congress enacted the Securities Investor Protection Act (SIPA) and created Securities Investors Protection Corporation (SIPC) as a nonprofit organization to protect clients of member securities firms that may fail or are liquidated.

Brokerage firms participate in SIPC, customer accounts are protected by SIPC in the event the brokerage firm fails. SIPC funds are available to make up for any shortfall in customer assets that the broker was required to maintain up to a maximum of:

- **\$500,000** per account for securities, and
- **\$100,000** per account for cash.

For a SIPC claim to occur, all of the following must happen:

- a broker/dealer must be deemed insolvent;
- client assets must be found to be missing, lost or stolen;
- customer property, SIPC advances, fidelity bond proceeds, if any, and distributions from the general estate of the failed brokerage house, if any, must be insufficient to satisfy customer account obligations.

Neither SIPC nor excess SIPC (extra coverage carried by most brokerage firms discussed below) cover a decline in the market value of a customer's investments.

Some investments such as commodity futures contracts, investment contracts (such as limited partnerships) and fixed annuity contracts that are not registered with the U.S. Securities and Exchange Commission under the Securities Act of 1933 are ineligible for SIPC protection.

See www.sipc.org for further information

Excess SIPC insurance

Many brokers carry excess insurance in the event that SIPC limits are exhausted. Firms contacted by The Lipson Group have provided the following information:

- **UBS Financial Services Inc. –**
 - **\$600 million** aggregate maximum for the entire firm
 - Insurer: London insurers
- **Merrill Lynch –**
 - **\$600 million** in securities and **\$1.9 million** of cash aggregate maximum for the entire firm.
 - Insurer: Lloyds of London

- **Sanford C. Bernstein & Co.(Custodian for Alliance Bernstein) –**
 - **\$24.5 million** in securities and **\$100,000** in cash aggregate maximum for each account
 - Insurer: Equitable Casualty Insurance Company
 - Deductible: None
 - Expiration: December 31, 2008

- **Charles Schwab Corporation –**
 - **\$600 million** aggregate maximum for the entire firm limited to a combined return to any customer from a Trustee, SIPC and Lloyd's of \$150 million including cash up to \$900 thousand.
 - Insurer: Lloyds of London

- **J.P. Morgan Securities Inc. –**
 - No excess SIPC (most accounts in custody under Bank insurance discussed above under trust and custody accounts)

- **NatCity Investments, Inc. –**
 - Securities cleared through First Clearing Corporation (see CAPCO below)

- **Wachovia Securities –**
 - Securities cleared through First Clearing Corporation (see CAPCO below)

The Customer Asset Protection Company (CAPCO)

CAPCO is an insurance company that provides "Excess SIPC" net equity protection for customers' securities accounts as follows:

- Coverage: Surety Bond with no specific dollar limit
- Covers: The difference between a customer of the brokerage firm "net equity" (as defined by SIPA) and the total of all funds and securities distributed to the customer from other resources. Other limitations are contained in exclusions and conditions in the Bond.
- Capitalized: by its member firms
- Reinsurance: Two monoline financial guaranty reinsurers rated AAA by Standard & Poor's.
- Expiration: issued for a one-year term and requires an annual underwriting review. It can be canceled by CAPCO if there is a change in SIPA that would affect the coverage provided by the Bond. CAPCO must give the Firm 90 days prior written notice before any cancellation is effective.

CAPCO provides coverage for only one line of business so it is not subject to potential losses in other lines of insurance like multi-line insurance companies who also provide Excess SIPC protection.

The following broker/dealers carry CAPCO's Excess SIPC protection:

- **A.G. Edwards & Sons, Inc.**
- **Bear Stearns Securities Corp.**
- **Credit Suisse Securities (USA) LLC**
- **Edward D. Jones & Co. L.P.**
- **National Financial Services LLC (Fidelity)**
- **Goldman Sachs & Co.**
- **Lehman Brothers Inc. (Neuberger Berman)**
- **Morgan Stanley & Co., Inc.**
- **Raymond James and Associates**
- **Ridge Clearing & Outsourcing Solutions, Inc.**
- **Robert W. Baird & Co.**
- **Pershing LLC**
- **First Clearing, LLC (Wachovia and NatCity Investments, Inc.)**

See www.capcoexcess.com for additional information.

Broker/dealer Fidelity Bonds

In addition to SIPC and excess SIPC insurance all broker/dealers are required by law to carry Fidelity Bond insurance.

As an example, **UBS Financial Services Inc.** has **\$100M** aggregate maximum Fidelity Bond -

- Coverage: employee dishonesty, robbery, theft, fidelity and mysterious disappearance
- Insurer: National Union Insurance Company
- Deductible: \$5 million

THE FINE PRINT IN YOUR BROKERAGE ACCOUNT AGREEMENT

Today, many brokerage account agreements restrict your broker from using the securities in your account for any purpose without your written authorization. However, some brokerage account agreements contain language such as or similar to the following:

“All securities, commodities and other property held, carried or maintained by you in your possession in any of my accounts may be pledged and repledged by you from time to time, without notice to me, either separately or in common with other such securities, commodities and other property for any amount due in my accounts or for any greater amount, and you may do so without retaining in your possession or control for delivery a like amount of similar securities, commodities and/or other property.” (Arvest Securities Account Agreement)

This means your broker, subject to SEC rules, can lend your stock (and collect fees) to short sellers, hedge funds, corporate raiders and buyout funds and possibly even give them voting rights and control for key periods, without your knowledge and without maintaining offsetting collateral.

If your brokerage account contains this type of language, your assets may be used by the brokerage house and therefore are subject to claims of the firm's creditors. The Lipson Group recommends that you modify or close such accounts.

MUTUAL FUND AND MONEY MARKET FUND SHARES

Mutual funds and money market funds are Registered Investment Companies organized under the Rules and Regulations of the Investment Company Act of 1940. The assets of mutual funds are not available to creditors of the sponsor. Mutual fund assets are custodied as well so that the securities held by the fund are not subject to claims of creditors of the sponsor.

Mutual fund shares, including money market fund shares, are considered securities of the customer for purposes of SIPC. In other words, a bank money market account is an "on balance sheet" account covered by FDIC protection that is limited to \$100,000 per account while a non-bank money market fund is an "off balance sheet" security not subject to the claims of creditors of the bank.

Money market funds (MMF)

The purpose of a MMF is to provide a place to keep cash for the short term and have easy in and out access to your money.

MMF's can invest in different types of paper such as:

- bank CD's (CD's are not protected from the claims of the bank creditors)
- federal paper
- municipal bonds (subject to the financial health of the municipality)
- variable rate obligations

Variable Rate Obligations

Variable and floating rate securities are derivative instruments whose value is linked or derived from another security, investment or index. The interest rate offered by a variable rate security adjusts (resets) on particular dates (such as the last day of a month or calendar quarter).

The March 1, 2008 Prospectus of the Victory Funds states that the funds may own variable or floating rate securities.

The December 31, 2007 Annual Report of the Goldman Sachs Financial Square Funds states that the funds did not have any direct exposure to collateralized debt obligations or mortgage-backed securities and the funds allowed its structured investment vehicles to mature.

The Lipson Group suggests you regularly review the prospectus and annual report of any MMF you own in order to monitor the type of investments made by the MMF to evaluate the safety and liquidity of the assets in the MMF funds.

CONCLUSION

In today's financial environment, asset protection has become a primary concern for investors. We hope the information presented here will give you a better understanding of the event to which your accounts maybe at risk and how you can better protect your assets.

THE LIPSON GROUP

April, 2008

This paper was prepared by Alan Gordon Lipson, Managing Partner of The Lipson Group, Inc. Mr Lipson can be reached at The Lipson Group, Inc. 1500 Hanna Building, 1422 Euclid Avenue, Cleveland, OH 44115, (216) 861-1100, ex 109, aglipson@lipsoncpa.com

NOTE: This paper is intended to provide clients of The Lipson Group with insight on asset protection and is not intended to address the needs of any particular investor. Nor is it intended to promote any broker/dealer or financial institution or advertise their services. All opinions expressed are those of The Lipson Group, Inc.