

**December 19, 2008**

Dear Friends & Clients,

You likely have heard about the massive fraud perpetrated by a former titan of Wall Street, Mr. Bernie Madoff. Mr. Madoff has been accused of operating a Ponzi scheme that may have lost his clients as much as \$50 billion. Learning of a financial scandal of this magnitude naturally makes all investors anxious about their own investments and about the financial services industry in general. We want to assure you that neither Bragg Financial Advisors nor our clients have exposure to Mr. Bernie Madoff's investments. We also want you to know how the structure of your relationship with Bragg precludes this type of fraud from occurring. Likewise, we believe it is important that you and the public know that the vast majority of financial advisors and brokers operate in a way similar to Bragg and, as a result, could not perpetrate this sort of crime.

If you or someone you know wonders what exposure exists for them in their various investment management relationships, remember that the question is one of custody and reporting. *Who can put their hands on the money and how are activities and transactions reported to the client?* This is probably where Madoff "made off" with the money; it appears he had full access to the monies and provided his own customized, fabricated reporting.

Like almost all financial advisors, we do not keep client assets in our custody. Rather, Pershing LLC, a subsidiary of Bank of New York Mellon, is the custodian of client assets. Pershing's business involves safekeeping, custody, clearing, and reporting on client accounts. They have exclusive responsibility and capability to provide account statements and confirmations of activities within your account. No monies can transfer in or out of an account without client notification sent directly to the investor by Pershing.

Pershing is one of the largest clearing firms in the country, providing clearing and custody services to over five million individual accounts valued at over \$940 billion as of March of 2008. The financial strength of Pershing provides the first, and perhaps most important, measure of protection for your assets. As of June of 2008, Pershing's net capital was five times greater than the minimum required by regulators. Pershing and our broker-dealer firm, Queens Road Securities LLC, are each registered broker-dealers with the Securities Exchange Commission (SEC) and members of the Financial Industry Regulatory Authority (FINRA). Both the SEC and FINRA require us to comply with various rules intended to maximize the protection of your assets. One of the most important rules, the SEC Customer Protection Rule, requires Pershing to segregate investor assets, which means that even if Pershing fails, your assets would be separate from Pershing's own assets and therefore unaffected.

Also, as a reminder, the investments we make on your behalf are liquid. We do not manage your monies within a limited partnership nor have we entrusted the management to other partnerships, like hedge funds, whose shares may not be liquid and whose actions are not transparent.

After the market events of the last year, it is now safe to say that Bragg Financial doesn't claim to have a "can't lose" investment strategy. In the case of Madoff, we are astounded that professional fund managers threw the law of averages out the window and bought into Madoff's "too-good-to-be-true" steady returns with no risk.

# Special Market Commentary

**BRAGG**  
FINANCIAL ADVISORS

Unfortunately, many less savvy investors were drawn in too. It is a costly lesson to learn and a sad day for many good people.

We hope this information is helpful to you. As always, we are grateful to you for your relationship with our firm. We realize this has been an extraordinarily difficult time and we value your trust above all. Thank you for your confidence in Bragg Financial.

Sincerely,



Benton Bragg, CFP, CFA  
President, Bragg Financial Advisors, Inc.

Registered Principal, Queens Road Securities, LLC