David W. Demming
Certified Financial Planner™
David W. Demming Jr.
Certified Financial Planner™
Karen Bordonaro
Certified Financial Planner™

Spring 2012

DEMMING FINANCIAL SERVICES CORP.

13 New Hudson Road
Aurora, Ohio 44202

Tel: 330 • 562-2122
Toll Free: 877 • 841-2122
Fax: 330 • 562-6086
Email: info@demmingfinancial.com
www.demmingfinancial.com

Client Newsletter

Past market performance is not indicative of future results

Why I Am Leaving Goldman Sachs

By GREG SMITH
Published: March 14, 2012 in *The New York Times*

TODAY is my last day at Goldman Sachs. After almost 12 years at the firm — first as a summer intern while at Stanford, then in New York for 10 years, and now in London — I believe I have worked here long enough to understand the trajectory of its culture, its people and its identity. And I can honestly say that the environment now is as toxic and destructive as I have ever seen it.

To put the problem in the simplest terms, the interests of the client continue to be sidelined in the way the firm operates and thinks about making money. Goldman Sachs is one of the world's largest and most important investment banks and it is too integral to global finance to continue to act this way. The firm has veered so far from the place I joined right out of college that I can no longer in good conscience say that I identify with what it stands for.

It might sound surprising to a skeptical public, but culture was always a vital part of Goldman Sachs's success. It revolved around teamwork, integrity, a spirit of humility, and always doing right by our clients. The culture was the secret sauce that made this place great and allowed us to earn our clients' trust for 143 years. It wasn't just about making money; this alone will not sustain a firm for so long. It had something to do with pride and belief in the organization. I am sad to say that I look around today and see virtually no trace of the culture that made me love working for this firm for many years. I no longer have the pride, or the belief.

But this was not always the case. For more than a decade I recruited and mentored candidates through our grueling interview process. I was selected as one of 10 people (out of a firm of more than 30,000) to appear on our recruiting video, which is played on every college campus we visit around the world. In 2006 I managed the summer intern program in sales and trading in New York for the 80 college students who made the cut, out of the thousands who applied.

I knew it was time to leave when I realized I could no longer look students in the eye and tell them what a great place this was to work.

When the history books are written about Goldman Sachs, they may reflect that the current chief executive officer, Lloyd C. Blankfein, and the president, Gary D. Cohn, lost hold of the firm's culture on their watch. I truly believe that this decline in the firm's moral fiber represents the single most serious threat to its long-run survival.

Over the course of my career I have had the privilege of advising two of the largest hedge funds on the planet, five of the largest asset managers in the United States, and three of the most prominent sovereign wealth funds in the Middle East and Asia. My clients have a total asset base of more than a trillion dollars. I have always taken a lot of pride in advising my clients to do what I believe is right for them, even if it means less money for the firm. This view is becoming increasingly unpopular at Goldman Sachs. Another sign that it was time to leave.

How did we get here? The firm changed the way it thought about leadership. Leadership used to be about ideas, setting an example and doing the right thing. Today, if you make enough money for the firm (and are not currently an ax murderer) you will be promoted into a position of influence.

What are three quick ways to become a leader? a) Execute on the firm's "axes," which is Goldman-speak for persuading your clients to invest in the stocks or other products that we are trying to get rid of because they are not seen as having a lot of potential profit. b) "Hunt Elephants." In English: get your clients — some of whom are sophisticated, and some of whom aren't — to trade whatever will bring the biggest profit to Goldman. Call me old-fashioned, but I don't like selling my clients a product that is wrong for them. c) Find yourself sitting in a seat where your job is to trade any illiquid, opaque product with a three-letter acronym.

Victor Kerlow

Today, many of these leaders display a Goldman Sachs culture quotient of exactly zero percent. I attend derivatives sales meetings where not one single minute is spent asking questions about how we can help clients. It's purely about how we can make the most possible money off of them. If you were an alien from Mars and sat in on one of these meetings, you would believe that a client's success or progress was not part of the thought process at all.

It makes me ill how callously people talk about ripping their clients off. Over the last 12 months I have seen five different managing directors refer to their own clients as "muppets," sometimes over internal e-mail. Even after the S.E.C., Fabulous Fab, Abacus, God's work, Carl Levin, Vampire Squids? No humility? I mean, come on. Integrity? It is eroding. I don't know of any illegal behavior, but will people push the envelope and pitch lucrative and complicated products to clients even if they are not the simplest investments or the ones most directly aligned with the client's goals? Absolutely. Every day, in fact.

It astounds me how little senior management gets a basic truth: If clients don't trust you they will eventually stop doing business with you. It doesn't matter how smart you are.

These days, the most common question I get from junior analysts about derivatives is, "How much money did we make off the client?" It bothers me every time I hear it, because it is a clear reflection of what they are observing from their leaders about the way they should behave. Now project 10 years into the future: You don't have to be a rocket scientist to figure out that the junior analyst sitting quietly in the corner of the room hearing about "muppets," "ripping eyeballs out" and "getting paid" doesn't exactly turn into a model citizen.

When I was a first-year analyst I didn't know where the bathroom was, or how to tie my shoelaces. I was taught to be concerned with learning the ropes, finding out what a derivative was, understanding finance, getting to know our clients and what motivated them, learning how they defined success and what we could do to help them get there.

My proudest moments in life — getting a full scholarship to go from South Africa to Stanford University, being selected as a Rhodes Scholar national finalist, winning a bronze medal for table tennis at the Maccabiah Games in Israel, known as the Jewish Olympics — have all come through hard work, with no shortcuts. Goldman Sachs today has become too much about shortcuts and not enough about achievement. It just doesn't feel right to me anymore.

I hope this can be a wake-up call to the board of directors. Make the client the focal point of your business again. Without clients you will not make money. In fact, you will not exist. Weed out the morally bankrupt people, no matter how much money they make for the firm. And get the culture right again, so people want to work here for the right reasons. People who care only about making money will not sustain this firm — or the trust of its clients — for very much longer.

Greg Smith is resigning today as a Goldman Sachs executive director and head of the firm's United States equity derivatives business in Europe, the Middle East and Africa.

Smith, Greg. (2012, March 14th) Why I Left Goldman Sachs. *The New York Times.* Retrieved from http://www.nytimes.com

Fiduciary Delays

Article Courtesy of Bob Veres, Inside Information

If we were to craft a commercial for the slippery concept of "fiduciary standards," perhaps we should look to these fine examples of refined marketing excellence: http://www.metacafe.com/watch/2221825/best_of_5_worst_local_tv_holiday_commercials_ever/.

Chances are you missed the announcement, buried on page C7 of the January 24, 2012 issue of the Wall Street Journal, but it caused a stir in the financial planning world. The Securities and Exchange Commission has put off implementing a key part of the Dodd-Frank Act: creating a fiduciary standard for all who give investment advice, whether they be brokers or SEC-registered registered investment advisors.

Anybody who saw Fabrice "Fabulous Fab" Tourre boast about his prowess selling complex toxic securities to his unsuspecting customers, or watched Goldman Sachs CEO Lloyd Blankfein testifying uncomfortably to Congress that his firm had no duty whatsoever to protect the interests of his customers in these transactions, quickly realized that Wall Street is not totally about creating vast wealth for the people who receive brokerage advice. This was further underscored when Smith Barney traders chortled in their internal e-mails that betting against some of the toxic mortgage pools they had sold their customers was "the best short ever."

Dodd-Frank was supposed to change all that, by asking the SEC to require that brokers who made investment recommendations be held to a fiduciary standard "at least as stringent" as the standard that investment advisors are held to. Under heavy lobbying pressure from Wall Street, the SEC has dragged its feet on this issue so effectively you might think it was wearing shoes made of cement. And for most investors, this stalled effort at reform has sailed totally under the radar.

What does it mean to act as a fiduciary? The fiduciary concept is actually pretty simple, and can be found in the very first written legal code, the Code of Hammurabi (roughly 1770 BC) and in Cicero's orations during the Roman Republic around 50 BC. In the ancient world, a trader would take his caravan (or sailing ship) to some distant land to trade Mesopotamian clay pots or bronze artifacts for furs, tin or copper. Since the trader would be gone for months or sometimes years, somebody had to make basic business and financial decisions on that person's behalf while he was on the road. And it was important that this person make decisions that were in the trader's interest, not his own. When somebody came to offer the merchant a great business opportunity, he wouldn't want somebody who would jump in and buy it for his own profit instead, or buy it and then sell it back to the merchant's account at a fat markup.

As Cicero put it:

> "…in cases where we ourselves cannot be present, the vicarious faith of friends is substituted; and he who impairs that confidence, attacks the common bulwark of all men, and as far as another depends on him, disturbs the bonds of society."
>
> (Oration for Sextus Roscius of America; Cicero 106 – 43 BC)

So the basic idea of a fiduciary is a simple standard of behavior. You are watching out for and protecting the interests of someone who has given you their trust. You are making decisions and recommendations that will benefit that other person. You would, under this simple standard, have to avoid triumphantly selling at a markup the same securities that your colleagues are confidently betting will blow up and leave your customers with frightening losses--while generating outsized gains that will flow into the Wall Street bonus pool.

With this in mind, it becomes a lot easier to see why Wall Street has lobbied so hard to stall being held to this standard.

You might start to hear the next round of arguments about this part of Dodd-Frank either prior to or after the general election. The Wall Street lobbyists and trade organization have argued that instead of being prohibited from acting on conflicts of interest and engaging in self-dealing, brokers should be allowed to "disclose" them to their customers. The lobbyists on the side of consumers and fiduciary advisors think it's possible that the SEC will bow to Wall Street's heavyhanded lobbying tactics, and create a new, watered-down version of the ancient fiduciary concept. By this time next year, it is possible that representatives of Merrill Lynch, Smith Barney or UBS will be able to behave like Fabulous Fab and still hold themselves out as fiduciaries, so long as their brokerage agreement says somewhere on page 14 that they might be working harder to generate profits for their brokerage employer than looking out for the interests of the person who receives their advice. Cicero and the Mesopotamian trader would have seen through this ruse in a heartbeat. Today's regulators are a lot easier to fool, and not always totally focused on protecting consumers. (Just ask Bernie Madoff.)

SEC-registered Registered Investment Advisors have been living under a fiduciary standard--the one referenced in Dodd-Frank--since 1940. It's true; you don't see RIA firms routinely handing out seven-figure bonuses to their brokers and sales agents. But many advisors who live under this business model make a good, honest living--and, most importantly, they don't have to squirm uncomfortably when somebody asks them to explain their recommendations.

Dear Clients,

Demming Financial Services Corp. strives to be a holistic, fee-based financial planning firm. We are an independent, family owned Registered Investment Advisor regulated under the SEC and the state of Ohio since 1980. As Registered Investment Advisors and as CERTIFIED FINANCIAL PLANNER™ professionals, we have been required to practice under a fiduciary standard of conduct for over 32 years. This duty requires us to put the interests of our clients ahead of our own. As we have no proprietary products or outside corporate interests to encourage the questionable use of such products, we attempt to give prudent advice to the best of our abilities. Human behavior will always be influenced by internal biases and preferences, and we are no different. But we believe our incentives allow us to give advice in a position of trust for our clients. The articles in this quarter's Newsletter hopefully articulate a different perspective on how some other organizations view their relationships with the individuals with whom they conduct business. We are proud of our relationships built over the past 30 plus years and look forward to doing the same over the next 30 years.

David W. Demming, CFP® *David W. Demming Jr., CFP®* *Karen Bordonaro, CFP®*

Announcing…

Cameron Leif Demming

The newest member of the Demming family arrived
November 6th, 2011
A great example of long-term succession planning!