

the STRATTON *letter*

REMEMBERING DON MACNEIL OR HOW NOT TO GET “MADOFFED”

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**Definition: “ma•doff” -v.- 1. To lose all of one’s investment in a Ponzi Scheme due to failure to perform due diligence because of trust and friendship, despite one’s intelligence.**

### ✧ DONALD MACNEIL

I was first introduced to Don MacNeil in 1978 by his daughter and son-in-law, Mary Ann and Scott Killinger. Don was looking for an investment advisor at the time and I was recommended. He had retired from serving as Controller of United Parcel Service (UPS), moved to Florida and faced the challenge of investing the proceeds of his UPS stock. He became a client that year and we have maintained a relationship with the MacNeil Family for 30 years reaching into the second generation.

### ✧ THE CHALLENGE

UPS at that time was a privately held company. Management was encouraged to invest their excess cash in stock of the company during the years they were employed. The price of the stock was determined by the Board of Directors based upon professional appraisal techniques and it was a “managed” price. There was not much difference between UPS and many other privately owned companies in that respect. The difference came however, when investors retired. The company had the right to call back stock over the next ten years at approximately 10% per year and pay investors cash for the stock. Conceivably, if the company exercised all of its calls, by the age of 75, you would hold no UPS stock. The company then turned and recirculated that stock to junior levels of management as a continuing motivation to build the company.

The challenge arose in that many of the managers who accumulated great wealth in UPS stock simply didn’t know how to invest their funds in any other securities. UPS had been their only investment through their active business career and suddenly they were given significant amounts of cash to deal with. Remember, this was 1978 and there were no financial planners around at that time. These very early retirees were often victims of stock brokers, insurance salesmen, and anyone else who saw an opportunity to make money out of their cashflows. Don MacNeil, retired in Florida, played golf actively three times per week but felt a strong responsibility for his fellow retirees. He adopted the role of unpaid financial planner. He did it both out of the responsibility for his fellow retirees and as an intellectual hobby. He studied everything there was to learn about that field. He attended conferences, read articles and was truly a knowledgeable financial resource.

### ✧ PRIMARY THESIS

When I met Don, he had already developed a primary thesis that he enlarged upon and applied to all of those he offered help. He felt there were four specialists in financial planning that every retiree needed to retain. They were:

- Attorney
- Tax Accountant
- Custodian for Securities
- Investment Advisor

Each one of the above was supposed to perform a specialized service for the retiree but in the performance of their primary duties they were expected to watch the output of the other three. Thus, the retiree had a four legged professional stool that would be responsible to him and could call an alarm if they thought things were being done improperly.

The critical element in this was the fact that Don insisted upon a separate custodian to hold the cash and securities of the retirees. This could be a brokerage custodian (such as Charles Schwab) or a bank custodian (such as BNY Mellon). They would provide separate records monthly to the retiree. The investment advisor would provide its own set of records and it was the retiree's responsibility to pay attention, read the records and to see that they conformed with each other. **IN THIS WAY, YOU COULD NEVER HAVE A MADOFF SITUATION DEVELOP.**

The Madoff situation and all Ponzi schemes rely upon trusting people who do not ask for or demand independent verification. Back in the 1980s, Ronald Reagan initiated disarmament talks with the Soviet Union at that time in terms of ballistic missile warheads. Ultimately, to sign a treaty it was necessary to trust your opponent but Reagan came up with that wonderful phrase "trust but verify." This applied to disarmament but it also applies to wealth management to make sure that your assets really exist – verify it on a regular basis. Every responsible investor should pay intelligent attention to their wealth. Admittedly, they must rely upon the expertise of more than one person in the tax, legal and investment areas. But, it is up to the owner to ask for verification. No legitimate, ethical expert will respond negatively to that request. If it is not met with complete candor immediately you should avoid the expert at all costs.

#### ✧ THE RESULTS AND DON'S FEE

Starting in the late 1970s, Don MacNeil was a missionary in the field of financial planning. Many UPS retirees and their extended families benefitted from his wisdom, his energy, and his sense of responsibility. Some of those families became clients of Stratton Management Company in the early 80s and have remained clients for a period of twenty to thirty years, working well into the second generation.

Don expressed at the start of any discussion with a retiree that he never charged any fee for himself and had nothing personal to gain in the relationship. I am certain that initially this carried a lot of weight together with the fact that Don had been a highly respected financial member of UPS management. However, Don was no fool and at the end of the assignment, he would tell the retiree how much time he had spent on this project and how much this might have cost if others had charged a fee. He then "suggested strongly" that the retiree might want to make a contribution to Don's favorite charity, a community services and outreach facility run by Edmundite Priests in Selma, Alabama. He even suggested how much a proper contribution might be to reward the orphans and to compensate Don for his efforts. To the best of my knowledge, no one ever rejected his advice.

Don MacNeil was one of a kind, a rare person of integrity and intelligence who was willing to share that with his fellow retirees. Most of the people that he counseled desperately needed his services. If the really sophisticated investors who were taken advantage of by Bernie Madoff had only met Don MacNeil and followed his four pillars of advice, they would be undamaged today. I am writing this memo as a reminder to my children and grandchildren. I intend to give each one of them a laminated copy in a binder to keep with their investment records so they will always be able to remember the principles of how not to be "madoffed." Ponzi schemes come along in every generation. Trust but verify.

**James W. Stratton**  
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