

Advisor Fraud: How to Help Your Clients Avoid Being Swindled

Certainly 2008 will long be remembered for the carnage in the investment markets. Yet, in the aftermath, many investors faced the ultimate pain: losing their entire investment to a fraudulent advisor. The poster child for this unnerving trend is the Bernie Madoff case and the estimated \$50 billion Ponzi scheme to which he admitted in December. Victims of his scam include sophisticated business owners, famous entertainers, and successful entrepreneurs. However, in the months that have followed, thousands of everyday investors have been affected by hundreds of unethical advisors around the country through Ponzi or similar scams. What advice can you give your nervous clients when they ask “Should I trust my investment advisor?”



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1. Be sure the advisor uses an unaffiliated third party to custody the investments. Typically, a registered representative will have a broker-dealer that performs this function. A Registered Investment Adviser (RIA) typically will use a discount brokerage to hold the funds and allow the advisor to trade on the client's behalf. If they are not affiliated the advisor has no control over the firm and is the best protection against receiving fake documents.
2. Checks submitted by your clients should only be written to the custodian of the investment account (Charles Schwab, for example) or directly to the product provider (an investment company, insurance company, and so on). The only time a check should be made payable to an advisor's firm would be to cover fees. These may include investment management, financial planning, or other consulting fees provided by the firm.
3. Monthly statements and confirmations of investment activity should be prepared by and come directly from your client's custodian. When advisors have control over the content of client statements, bad things can happen. Virtually every investment fraud case we have heard of includes this key component.
4. Be a resource to your clients by checking their existing or prospective advisor's regulatory and disciplinary history through one of the channels below:



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FINRA (registered representatives)

<http://www.finra.org/Investors/ToolsCalculators/BrokerCheck/index.htm>

SEC Investment Advisor Disclosure

http://www.adviserinfo.sec.gov/IAPD/Content/Search/iapd_OrgSearch.aspx

Investment Advisors Registered with States

<http://www.nasaa.org/QuickLinks/ContactYourRegulator.cfm?state=oh#contactinfo>

5. Offer to interview the advisor for your client. Investment advisors that base their recommendations on the client's goals and objectives will be more than willing to discuss the investment strategies and specific approach of their firm. This interaction should lead to strong conviction, one way or the other, in the trustworthiness of the advisor.

Investment Advisors have long been under significant regulation, yet fraud continues to occur. Unfortunately, there is no silver bullet to protecting your clients, but following the tips above will help create a better chance that they can avoid a life changing disaster.

If you have any questions, please do not hesitate to call us at 440-740-0130.

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