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Avoiding Financial Abuse – Rule #2 "Beware of Rogue Advisors"

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This is the second installment in a series that I have been motivated to write after reading Diana Henriques' book, "The Wizard of Lies – Bernie Madoff and the Death of Trust." Henriques tells how Madoff consciously engineered and maintained a $20 billion Ponzi scheme, financially ruining thousands of people. In spite of the lessons investors and regulators should have learned, the news continues to be filled with lurid tales of financial abuse and fraud. Most recently, MF Global, a brokerage firm headed by former New Jersey Governor and Goldman Sachs Chief Jon Corzine, filed for bankruptcy. Regulators fear that as much as $900M of client funds may have been misappropriated.

Much of the information used throughout the course of this series is published by the Certified Financial Planner Board of standards in a booklet named, "Consumer Guide to Self-Defense," designed specifically to provide consumers with knowledge that prevent them from potential financial abuse.

Rule number #2 in protecting yourself from financial abuse is "beware of rogue advisors" according to the booklet mentioned above.

This type of advisor can contact you in many ways such as soliciting you by phone, through e-mail, direct mail or through a friend's recommendation. It might also come as a shock when you find that your trusted advisor of many years has turned against you as a result of those concocting fraudulent investment schemes.

A rogue advisor may approach you with a "private" or "exclusive" investment opportunity. However, the letter or information describing the investment will not be of their usual stationary. They may also ask you to meet at a café or in your home rather than their office. These are all warning signs that the advisor may be "selling away" or in other terms offering an investment that has not been approved by their firm. These investments often appear "to good to be true," likely imposing danger on your finances since you may have no recourse against the advisor's firm if the investment turns out to be a fraud.

Promoters of fraudulent investment schemes often recruit financial advisors and insurance agents to sell their product. Their clever schemes allow them to produce top quality marketing material, documentation and even bogus insurance certificates that could fool experienced financial advisors too careless to evaluate the facts.

I once knew a legitimate advisor who sold "private" high yielding promissory notes that weren't available through his firm. Most of the people he sold the notes to were family and close friends, including his mother. The advisor thought he represented a legitimate company but the investment returns soon proved to be "too good to be true." As a result, his family and friends lost more than $1.5 million.

So how do you protect yourself if even experienced financial advisors can be duped? Ask for written proof that the investment is supervised by the advisor's employer or Broker/Dealer, call the advisor's supervisor or brokerage firm to ask them directly if they have approved the investment or product, and always ask your advisor if they maintain professional liability known as E&O (errors and omissions) insurance. However, you must be aware that most E&O policies do not cover "selling away".

Remember that all investments should be regulated, supervised and held by an institutional third party, not an individual. Also, never make a check payable directly to your advisor!

Remember Rule #2 for avoiding financial abuse: "Beware of Rogue Advisors".

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