Avoiding financial advisor frauds and scams - The Never-do list -- Part 1

Category : Frauds and Scams by Financial and Investment Advisers

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22 Good Ways to Avoid Financial Advisor and Investment Counselor Frauds and Scams - The Never-Do List, Part 1 This article discusses things that you should “never do” with a financial planner or investment advisor, and it covers adviser selection, contracts, signatures, and ownership title of your assets. You should never do certain things with a financial planning or investment adviser. This “never-do” list cannot guarantee that you avoid problems with an adviser. However, it could help to reduce substantially the chances of experiencing problems, financial frauds, and investment scams. *The Skilled Investor’s* list of “never-dos” with an adviser has been split into several articles. For other articles see, ->Avoiding financial planning and investment advisor frauds and scams – Overview ->22 Good Ways to Avoid Financial Advisor Frauds and Scams – The “Never-do” list, Part 2 ->22 Good Ways to Avoid Financial Advisor Frauds and Scams – The “Never-do” list, Part 3 Many of the items listed are either illegal or widely viewed as unethical. However, legality or ethics will not stop a crook. Others of these practices are legitimate and frequently encountered in the advisory industry, but they are potentially subject to abuse. If an advisor suggests listed items, you should have heightened concern, and you should not ignore the matter. If the adviser does not have a good explanation and you remain uncomfortable, find another adviser. Selection of a Financial Advisor and Investment Counselor **NEVER look for an advisor until you have done a preliminary assessment of your needs and know the type of advisor you are looking for.** For ideas on selecting an advisor, see the links to *The Skilled Investor’s* advisor selection at the bottom of this article.**NEVER begin working with an advisor until you have thoroughly investigated his or her background and credentials. This involves doing most, if not all, of the following**:->Get leads for potential advisors from certification organizations. See: Private certifications of financial planners and investment advisors and Widely recognized private financial and investment advisor certificationsObtain leads from respected business associates and friends – but only if those persons themselves have thoroughly investigated their advisors and have been very pleased with the services provided over a long period of time ->Interview at least three advisors ->Check references Be particularly thorough about this process, because the references provided to you could be associates of the “advisor” rather than true customers. If you ask probing questions, you are more likely to reveal any deceit.Just because a friend, neighbor, or member of a group that you belong to recommends someone, do not trust automatically without checking other sources. Some of the biggest, “hundred million dollar” frauds have happened, because groups of affiliated people relied upon each other to build trust, when not one of them had really done any independent background checks on the person who committed the fraud. ->Check an advisor's registration, licenses, and certifications. Use the websites of or call appropriate national and state regulators to ensure that your advisor has the necessary registration and licenses to operate. Check for any disciplinary actions. To do this, begin with *The Skilled Investor's* overview on advisor regulation, licensing, and certifications;Regulation of financial planners and investment advisors - Introduction ->Call at least one of the educational institutions from which the advisor claims to have been granted a degree. Confirm that the advisor did attend and actually received the degree. Financial Planning and Investment Advisor Contracts **NEVER work with an advisor without a written and signed contract specifying the services to**

be rendered, the cost of those services, how the advisor will be compensated, etc. NEVER commit to a contract that does not allow either party to terminate the contract quickly without anything more than a very small administrative termination charge. There should not be a significant financial termination penalty. Of course, any acceptable work performed prior to termination would require payment. If prepayments have been made, then there should be provision for automatic refunds on work not yet performed. In fact, you should resist making significant prepayments for services (see “Payments” in Avoiding advisor frauds and scams – The “Never-do” list, Part 2). **NEVER allow your agreements with an advisor to be transferred or assigned to another advisor without your written consent. Under such circumstances, you should be allowed to terminate the contract without any penalty.**If your advisor wishes to sell his or her business including your contract, the transfer should be voluntary on your part. If you consent, your current advisor should facilitate the transfer process and ensure that the transfer is in your best interests. Your advisor will benefit from the sale of his practice and your relationship with him is part of the underlying value for which the acquirer is paying. Your advisor should clearly explain the value to you of entering into a relationship with the new practice owner and should help to smooth the transfer. Signatures **NEVER give your advisor power of attorney or legal authority to sign anything on your behalf.** Note that it is also wise to keep certain financial relationships separate. For example, a planning or investment advisor should not also serve as an executor or trustee of any of your legal arrangements. There could be exceptions with very long term and trusted advisors. However, if you have such a relationship with a trusted advisor, you are probably not reading this article. **NEVER sign blank or partially completed documents to be filled out by your advisor later.** Get a copy of all completed and signed documents with original signatures before you leave the office. If there is a problem in the future, you have a copy of your document for comparison. Statements **NEVER work with an advisor who does not provide regular, timely, and accurate statements of your accounts, if your agreement calls for your advisor to manage accounts for you.** Asset Ownership Title and Beneficiary Status **NEVER allow your advisor to share ownership title or have beneficiary status in any of your accounts -- never, ever** Mailing addresses **NEVER allow the primary mailing address for any of your accounts to be that of your advisor.** The primary account mailing address should always be your permanent address. You should receive all account statements and notifications directly. You might authorize that copies be sent to your advisor, but your advisor should not be allowed to make any changes to the provisions governing your account without your written approval.

See these related articles on advisor selection: ->Preparing to interview a financial planner or investment advisor -> Questions to ask, when hiring an advisor - Part 1, Background and training -> Questions to ask, when hiring an advisor - Part 2, Fees and contracts ->Questions to ask, when hiring an advisor - Part 3, Services and references . .