

[Avoiding financial advisor frauds and scams - The Never-do list - Part 2](#)

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 2 This article discusses things that you should "never do" with a financial planner or investment advisor, and it covers fees, payments, and proprietary investments. 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 1](#) ->[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. Financial Planner and Investment Counselor Fees **NEVER share investment profits or capital gains with your advisor.** You will never find an advisor who is willing to share in your losses, so why share in your gains? Only more wealthy "accredited" investors who sign documents asserting that they meet certain minimum asset and/or income levels can legally enter into investments that allow profit sharing with others.¹ These accredited investors are presumed to be more well-informed investors who can properly assess risky investments. However, it is doubtful whether some accredited individual investors are sufficiently able to assess certain investment risks. **NEVER pay excessive asset management fees.** Before you pay even competitively priced asset management fees be certain that you will receive justifiable value in exchange. Always compare asset management fees with the alternative of paying competitive hourly fees. Your assets represent your hard-earned money. The value of an advisory service should be evaluated in relation to the long-term net returns performance of your assets and not just the total amount of gross assets you possess. See this article: [Excessive costs are a huge problem for individual investors](#) Payments Made to Financial Planners and Investment Advisers **NEVER make substantial advanced payments to an advisor for work that is not yet completed.** In certain circumstances, prepayments may be appropriate and you can negotiate the amount. Certainly, however, you should not pay more than 50% of any agreed upon fee as a prepayment. In addition, if any prepayment amounts asked were substantial, it would be better to ask that the job be broken down into a series of partial deliverables. You could assess these deliverables and make smaller progress payments. **NEVER make payable to an advisor any check, wire transfer, or other form of payment for any securities, insurance or other purchase.** Make out the check or other form of payment directly to the company from which you are buying a financial product. Your money goes directly to the company supplying the financial product and does not pass through your advisor's account, where it could be stolen. Only contractually agreed upon planning and investment advisory fees should be paid directly to an advisor. [Note, of course, that you still should check out the investment to ensure that it is legitimate.] **NEVER provide a loan or a loan guarantee to your advisor.**

NEVER proceed without a written understanding on whether your advisor can accept third party commissions or payments related to his or her business with you. See: [Does it matter how financial planners and investment advisors are paid?](#) and [Financial planner and investment advisor compensation paid by third parties](#) Avoid Proprietary Investments Sold Through a Financial Planner or Investment Counselor **NEVER buy proprietary investments that are only available through your advisor.** These products, which may include various limited partnerships, can pay high commissions to an advisor, but tend to be poor investments. Such illiquid, proprietary investments are difficult to value and have no ready and competitive resale market. In general, only invest in securities that are traded in broad public markets. Yes, of course, there are numerous private offerings. These offerings are how many firms get started. However, you should already know whether you are personally sophisticated regarding the evaluation of private business opportunities. If you are not and your only source of information and judgment on a private investment opportunity is the advisor who will be paid by someone else to sell it to you, then the likelihood that you could be duped is higher. Unsophisticated investors should rely on publicly traded securities, because on average public markets tend to do a very good job of establishing the best current risk-adjusted fair market value of a security. **NEVER invest in anything about which there is little or no printed information.** However, even if there are substantial and visually impressive hardcopy materials, you still should check independent sources to insure that this proprietary “opportunity” is legitimate and sensible. _____

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](#) 1) See <http://www.sec.gov/answers/accred.htm> for a definition of “accredited investor” . . .