Avoiding financial advisor frauds and scams - The Never-do list - Part 3

Category : Frauds and Scams by Financial and Investment Advisers

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22 Good Ways to Avoid Financial Advisor and Investment CounselorFrauds and Scams - The Never-Do List, Part 3 This article discusses things that you should "never do" with a financial planner or investment advisor, and it covers unsolicited advice, sales pressure, and account decision-making discretion. 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 the other articles in this series see, ->Avoiding financial planning and investment advisor frauds and scams - Overview ->22 Good Ways to Avoid Financial Advisor Frauds and Scams - Part 1 ->22 Good Ways to Avoid Financial Advisor Frauds and Scams - Part 2 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, just find another adviser. Avoid unsolicited advice and heavy pressure from a financial planner or investment advisor **NEVER respond to telephone "cold calls" or reply to unsolicited financial planning or investment pitches that arrive via letter or email.** If you need the services of an advisor, be proactive instead and go find a good advisor. Most established advisors use referrals for new business. Most advisors who approach you by telephone and mail are focused on selling commissioned financial and investment products. Of course, legitimate advisors will advertise their services, but they will avoid pressure tactics. If you are the party that initiates contact during your screening process to find an advisor, then you are far more likely to have a satisfying advisor relationship than if you wait for the phone to ring. **NEVER respond to financial planner and investment counselor pressure of any kind.** If you are being pressed to act on anything and you are not comfortable, simply stop and end the conversation. Anyone who will not allow you reasonable time to think and consult other sources to evaluate a proposal should be avoided entirely. While you should proactively and judiciously manage your financial affairs and move forward at a reasonable pace, there is never a good reason to panic. For example, simply do not trust anyone who: ->tells you that something is a "hot tip," a "once-in-a-lifetime opportunity," etc. ->claims there is "no risk" or "guarantees" you will not lose money ->claims to have "insider information" or is pushing tantalizing rumors ->promises unrealistically high investment returns. **NEVER proceed with an investment that came unsolicited without checking the investment using independent sources, such as the SEC, various national securities regulators, your state government, and private antifraud groups.**For more information on financial scams go the state agencies that regulate investments, insurance, and other commerce in your state. These sites offer useful information to help you avoid being defrauded by sharp operators.Also, see Finding state regulators of brokers, investment advisors, and insurance agents and brokers There is a tremendous amount of good information on the web about various frauds, scams, get-rich-quick / Ponzi / pyramid schemes, etc. that are currently being perpetrated and that other people are falling victim to every day. If you act without first checking these online sources, you will feel very stupid to find that the warnings were already there, if only you had checked before jumping into something. You might be

surprised by the number of people, who are taken in by these scams and who lose substantial sums. Stock Broker and Investment Counselor Decision-Making Discretion **NEVER give a stock broker, advisor, or investment counselor - particularly one who is compensated on a transactions basis - the discretion to trade in your account without your prior and specific permission.** Many securities brokers will disagree vehemently with this "never-do" rule. It is a common practice for brokers to have discretion to trade for a client in their account without prior approval of specific trading activity. However, securities brokers are not held to a fiduciary, "best interests" standard in conducting business with you. Instead, the "suitability" of an investment recommendation is the standard, which provides far greater latitude to the broker and less protection to the investor. A few investors might get favorable court or arbitration judgments and partial or full recovery of lost assets for egregious violations of the suitability standard. However, the best way to avoid account churning and bad decision-making by brokers is simply not to let a broker "advisor" trade without your prior consent. Only give discretion when you are extremely comfortable with the ethical practices of your advisor. In any event, you should ask yourself if there is any valid reason ever to give anyone discretion to trade without your prior approval. One justification given is convenience. However, a hands-off approach on your part to investment decisions made on your behalf means you are not continuing to learn. Instead, you are reneging on your decision-making oversight responsibility and turning your "adviser" into the sole decision-maker. Another justification offered for giving such discretion is that in times of wild market fluctuation and panic, your advisor can react faster without you. The scientific finance evidence is highly dubious concerning whether anyone knows how to time the market advantageously or react appropriately during a panic – particularly on a net returns basis after costs and taxes. Certainly, you should still be consulted in any decision regarding a market panic. History has shown the standing pat is the preferred alternative for the long-term investor. However, if you wish to anticipate and respond to such market events, you can always have standing stop loss orders at specific prices with you advisor, which means you did participate in decision making beforehand. ____

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 . .