

[Avoiding financial planning and investment advisor frauds and scams - Overview](#)

Category : Frauds and Scams by Financial and Investment Advisers

Published by [The Skilled Investor](#) on Aug/2/2005

Avoiding financial advisor and investment counselor frauds and scams - Overview

The best way to avoid being defrauded or scammed by a financial or investment advisor is to investigate carefully several different advisers before hiring one of them. If you carefully choose a financial adviser or investment counselor, you have a far greater chance of finding one who is objective, competent, and ethical. This could help you to avoid significant problems in the future. Accompanying this overview article, *The Skilled Investor* has published a list of "never-dos" with an advisor. This never-do list is presented in several articles: -> [Avoiding advisor frauds and scams - The "Never-do" list, Part 1](#) -> [Avoiding advisor frauds and scams - The "Never-do" list, Part 2](#) -> [Avoiding advisor frauds and scams - The "Never-do" list, Part 3](#) As a rule, when screening financial advisors, "when in doubt, don't." Move on to another adviser. Even when you have worked with an advisor for some period, do not let the "relationship" prevent you from taking your business elsewhere. If you become less than completely comfortable, leave. It is your money, your future, and your decision. It is amazing how naive and trusting individuals can be when they chose a broker, investment advisor, or financial planner. For example, the Investor Protection Trust (<http://www.investorprotection.org>) commissioned a 1996 national telephone survey of 1,001 individuals entitled "The Investor Protection Trust Investor Knowledge Survey." Of the total number of respondents, 641 had "received advice from a stockbroker or financial planner." These persons were asked this question: "Did you personally ever ask for or get specific background information about such things as violations of investment laws on the part of the brokers or planners you used, or other disciplinary actions, such as firings and damage claims against them?" Eighty eight percent of respondents said they had not sought nor received such information. Since personal financial assets take so much work to acquire, it is very surprising how few individual investors perform background checks on investment counselors. Many individuals use only personal referrals from friends and acquaintances to locate advisers. While this method might increase personal comfort, in essence, it presumes that someone else back up the referral chain has already checked out the advisor. Do not count on that having been done by your friends or acquaintances! If you follow this unverified advisor referral method, you may be taking unnecessary risks. Numerous multi-million dollar financial and investment frauds have been committed, especially within affinity groups such as religious communities, where one investor trusted the referral of another without asking any questions. Either defrauded investors did not think about checking on advisers or they presume that someone else must already have done so. The advent of the Internet has made some financial advisor and investment counselor background checking far more straightforward. People seeking financial planning and investment advice need to avail themselves of these resources. *The Skilled Investor* has published a variety of articles that can help you with checking the backgrounds of potential advisers. See: -> [On-line information about registered securities broker-dealers and investment advisory firms](#) -> [On-line information explaining the licenses of financial planners, investment advisors, and insurance representatives](#) -> [Checking the backgrounds of individual securities brokers and advisors who sell investments](#) -> [On-line information about commodities brokers and futures brokers](#) For information on how to find

state regulatory agencies that issue warnings on frauds, scams, and identity theft, see: [Finding state regulators of brokers, investment advisors, and insurance agents and brokers](#) In addition, you could check on potential frauds with the: ->Better Business Bureau (BBB) (<http://www.bbb.org>) ->National Fraud Information Center (NFIC) and Internet Fraud Watch (IFW) (<http://www.fraud.org>) “The NFIC/IFW is operated by the National Consumers League, America’s oldest nonprofit consumer organization.” (<http://www.nclnet.org>) ->American Association of Retired Persons (AARP) (<http://www.aarp.org>) (Select "Money and Work," then "Be a Wise Consumer." See in particular AARP’s page on scams: <http://www.aarp.org/money/consumerprotection/scams>) For the simple sake of good citizenship, if you do come across what you believe is a financial fraud or investment scam, take a little of your time to report it to the appropriate state government authorities and/or to one of the above listed business and consumer organizations. Do this even if you personally were not taken in by a dubious financial proposal. You could save more naïve persons from personal financial tragedy. Financial criminals will not stop voluntarily. They just move on looking for an easier victim. As an addendum, note that the role of the Securities Investor Protection Corporation (SIPC) (<http://www.sipc.org>) is focused on asset recovery and not fraud prevention. “SIPC is an important part of the overall system of investor protection in the United States. While a number of federal, self-regulatory, and state securities agencies deal with cases of investment fraud, SIPC's focus is both different and narrow: Restoring funds to investors with assets in the hands of bankrupt and otherwise financially troubled brokerage firms. The Securities Investor Protection Corporation was not chartered by Congress to combat fraud.”2

Also, see these related articles about 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) Investor Protection Trust (IPT) (<http://www.investorprotection.org>) “The Investor Protection Trust Investor Knowledge Survey,” 1996, hardcopy obtained from IPT
2) See <http://www.sipc.org> for more information on the SIPC’s mission and services.