



Protecting Yourself from Financial Fraud

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It seems hardly a day goes by without the headlines informing us of yet another financial fraud that has come to light. Corporate executives have been charged with looting their companies. One major auditor has been driven out of business. Analyst's scruples have been called into question. Now, major mutual fund families are being accused of defrauding their investors. Where does it end? And how can you protect yourself?

From a historical perspective, this behavior is not really surprising. All gold rushes attract undesirables, and the greatest bull market in history certainly qualifies as a gold rush. Financial booms create an environment where a little stealing often goes unnoticed. Nobody asks questions when everyone is getting rich. However, when the inevitable turn of the cycle arrives, the fraud quickly comes to light. The resulting uproar, along with a feeling that the game is rigged, often sours an entire generation on investing.

All markets are made up of individuals, each of whom has his/her own motivations. There are likely no more crooks per capita in the investment industry than in any other industry. They are always with us and therefore, we should always be vigilant.

Unfortunately there is no way to protect yourself completely, but there are things you can do to improve your financial security. When dealing with a financial advisor, be skeptical and ask plenty of questions. Here are some specific suggestions:

- *Are you registered, in good standing, with the Securities and Exchange Commission (SEC), the State, or the National Assoc. of Securities Dealers (NASD)? Have you ever been disciplined for misconduct?
- *What other credentials do you have? (such as the Chartered Financial Analyst (CFA®) designation)
- *What is your education and employment history?
- *How are you compensated? Fee only? Commission? Hourly rate? (Be sure you understand ALL fees you will be paying.)
- *Do you have any conflicts of interest I should know about?
- *Do you have a formal, written Code of Ethics such as the one for members of the Association for Investment Management and Research (AIMR®)? Are there serious penalties for misconduct?
- *Meet with your advisor face to face. Does the person seem trustworthy? Trust your instinct.
- *As always, if something sounds too good to be true, it probably is.

The above steps should give you a place to start. Recognize that there are people who are out to separate you from your money. Be diligent in weeding them out. Be skeptical. Ask questions. Verify answers. Your financial well being is worth the effort. Additional suggestions can be found at www.prudentwealth.com including links to useful documents from the SEC and AIMR®.