

# SENIORS: TOP 12 TIPS TO AVOID INVESTMENT SCAMS

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1. IF AN OFFER SOUNDS TOO GOOD TO BE TRUE, IT PROBABLY IS.
2. Don't Succumb to Sales Pressure. When it comes to a "now or never" opportunity, choose "never." Product salespeople often seek to motivate you by preying upon your emotions of "greed" (i.e., "you'll make a lot of money) or "fear" ("you'll never lose money on this investment").
3. Protect Your Confidential Information; Don't Reply to Phone Solicitations. Keep account numbers, codes and passwords private. NEVER provide this information over the phone to ANYONE that calls.
  - a. Recent scams involve phone calls that have stated "I'm from the Social Security Administration (or Medicare) and I need to verify your information ...."
  - b. Consider placing your name on the "Do Not Call" list. Visit [www.donotcall.gov](http://www.donotcall.gov) to register with the National Do Not Call Registry administered by the Federal Trade Commission (or call toll-free 1-888-382-1222).
4. Shred, Shred, Shred. Shred bills, junk mail and receipts when discarding them.
5. Report, Report. Don't be afraid to report your experiences. If you feel uncomfortable, tell someone - your CPA, attorney, a family member, a knowledgeable neighbor, etc.
6. Get Statements Directly from "Custodian." ALWAYS receive investment account statements DIRECTLY from the "custodian" (i.e., a brokerage firm, such as Schwab, TD Ameritrade, Fidelity), when working with an investment adviser.
7. General Powers of Attorney? NEVER give a *general power of attorney* to your financial advisor. It is permissible to give a *limited* power of attorney to financial advisors, to conduct trades on your behalf (this often keeps costs lower) or to deduct their fees from your custodian's accounts (the custodian monitors this process). If anyone requests a *general power of attorney* to be signed by you - get legal advice, first.
8. "Trust but Verify." Always review your monthly statements. Check out all of the "transactions" - including purchases, sales, withdrawals, wire transfers, etc. Ask questions of your advisor on anything you don't understand. Ask to speak to the firm's "Compliance Officer" if you suspect anything wrong.

9. Is It Time To Involve A Trusted Family Member? If you become less sharp than you used to be, request online reports, or a copy of your monthly custodial statements, be mailed or e-mailed to a trusted family member (or, if none exists, to your CPA or attorney, for their review). Have them review your monthly statements.
10. Avoid Expensive Luncheon Seminars. Realize that the only way to finance marketing through luncheon seminars (it costs a lot to pay for the room, food, and the invitations to get people there) is to sell *highly expensive* investment products. These include, but are not limited to, equity indexed annuities, equity indexed universal life insurance, variable annuities, and variable life insurance policies.
11. Ask for Disclosure of ALL Fees, Costs, Compensation In Writing. If your current or new “financial consultant” or “financial advisor” resists putting answers to these key questions *in writing* to you, then it is time to *walk away*:
  - a. Please state for me, in writing, how much you (*personally*) get paid, as a dollar amount, or as a percentage of the investment account or investment product you have sold to me or are recommending to me.
  - b. Do you receive *any other compensation* from your firm (i.e., bonuses, etc.) or from any product manufacturer (i.e., attendance at educational events, free trips, etc.) relating to the products or services you recommend to me? Please state this in writing.
  - c. Please state for me, in writing, all of the fees and other forms of compensation earned by your firm, either as a dollar amount or as a percentage of the amount invested, for any investment advisory service, financial planning service, investment product, or investment program recommended to me.
  - d. What are the total estimated fees and costs of the investment product you recommend to me. For pooled investment products (mutual funds, ETFs, variable annuity sub-accounts, hedge funds, unit investment trusts, etc.), set forth for me not only the *disclosed costs* (annual expense ratio – and break out separately any 12b-1 fees; sales loads; contingent deferred sales charges), but also the fees and costs relating to securities transactions within the fund (brokerage commissions paid in connection with security sales within the fund, and estimated costs due to market impact / bid-ask spreads / opportunity costs due to delayed or canceled trades). *Obtaining the prospectus is not enough. A knowledgeable financial advisor will be able to estimate the “total fees and costs” of mutual funds, ETFs, etc. and provide you this estimate in writing.*

The recently published RAND Report (2008), commissioned by the SEC, reported that 3/4ths of customers were “happy” with their financial advisor. Yet, 30% of those surveyed in the Rand Report thought they never paid their “financial

consultant" any fees, ever. Everyone deserves reasonable compensation, at least when they deliver quality advice. But there is no reason to continue to see excessive fees and costs continue, to the detriment of the financial future of our own fellow citizens. Billions and billions of dollars a year are needlessly diverted away from individual investors and to product manufacturers and their sales representatives. And Wall Street firms have done a good job of hiding these fees and costs.

DEMAND ANSWERS from your financial advisor – KNOW WHAT FEES AND COSTS YOU ARE INCURRING – AND GET IT IN WRITING.

## 12. Will Your Advisor Sign a "Fiduciary Oath"?

(Understand the Distinction: "Arms-Length" vs. "Fiduciary" Relationships.)

There exists two main types of relationships under the law between the providers of products and services and their customers or clients. In an arms-length relationship the buyers and sellers of a product or service act independently and have no relationship to each other. While the buyer must be treated fairly and honestly, no fiduciary relationship is deemed to exist. Often discrete statutory law or regulations impose specific obligations on the seller, such as disclosure of key facts in writing (as seen in consumer credit laws). At other times laws impose specific additional obligations on the seller or seller's agent, such as the duty of suitability imposed upon broker-dealer firms and their registered representatives.

In contrast, fiduciary relationships impose upon the seller the highest standard of care under the law. A fiduciary is expected to be extremely loyal to the person to whom they owe the duty, and hence the seller (fiduciary) possesses a "duty of loyalty" to not put his or her personal interests before that of the client. The fiduciary must not profit from his or her position as a fiduciary, unless the principal provides informed consent. The fiduciary duty is often said to consist of three primary duties – loyalty, due care, and utmost good faith. However, other duties (such the duty of "no profit" and the duty to "avoid conflicts") may also exist and may be applied upon the fiduciary.

"Suitability" and other regulations (such as FINRA's regulations which require broker-dealer firms to "observe high standards of commercial honor and just and equitable principles of trade") have elevated, to a small degree, the arms-length relationship above that of where the customer must protect his or her own interests. But the suitability doctrine and other regulations applicable to broker-dealer firms still impose very few duties, relative to the very high duties imposed upon investment advisers and others in fiduciary relationships.

*Will your financial advisor put in writing that he or she (and his or her firm) will be a fiduciary to you at all times – and will always act as a trusted advisor to you and in your best interests?*