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Take time to research advisor

By Nirvi Shah, Sunday, Sep. 27, 2009

So you think you've found the right financial advisor -- because you've asked them a lot of questions. Make sure you don't trust their answers blindly.

While even careful investors who research their investments and advisors are at risk of being had, there are steps everyone can take to lower their risks, said Eric Bailey, a managing principal at Tampa-based CapTrust Advisors, which has offices in Miami. Those steps include everything from verifying what your advisor says to closely observing how they act.

“Fraud is a difficult thing to detect before it is too late,” Bailey said. “So it is essential to do some homework on the front-end to minimize the risk of being swindled.”

The research is important even if it isn't easy.

Public records: Bailey points out that jailed Florida entrepreneur Arthur Nadel had been disbarred by the state of New York -- which is public information. Knowing about the disbarment may have deterred some investors.

Nadel's hedge funds lost most of their value -- but he kept telling investors they were making money, the Securities and Exchange Commission has said. Nadel has been charged with defrauding investors of about \$350 million.

Although disbarment information is public, quick searches of Arthur Nadel on the New York State Bar Association website and the New York Office of the Unified Court System website for Nadel's name don't show his ejection from the bar.

Kali Holloway, a spokeswoman for the court system, confirmed Nadel's status, but said that because Nadel became a lawyer in 1958, he wasn't required to register with that state. Registration began in 1982.

Regulatory agencies: Bailey also recommends checking the websites of the SEC and Financial Industry Regulatory Authority to see if an investment advisor is registered, or if they have been suspended, censured or fined.

Look up your broker and their firm at sec.gov/investor/brokers.htm and click “Research Individual Brokers or Firms.” The Securities Exchange Commission's phone number is 800-732-0330. Or go directly to finra.org/brokercheck. FINRA's phone number is 800-289-9999.

For example, if you read Bernard Madoff's investment advisor public disclosure form at these sites (before his conviction and sentencing earlier this year), you would have found he disclosed a rules violation and the related fines his firm paid.

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Managing Principal
CapTrust Advisors

To find out who regulates dealers in a specific state, go to the website of the North American Securities Administrators Association, nasaa.org.

Consumer advocacy groups: The Better Business Bureau keeps records of complaints filed against a financial advisor and the nature of the complaints. They are at bbb.org. Click on the link that says "Check Out a Business." You can also file complaints on the site.

If you want to file a complaint with the state or another agency, there is a guide to doing so here: www.flofr.com/Director/complaints.htm.

The Miami-Dade Consumer Services Department also may have complaints on file about an advisor, although the county doesn't regulate them and cannot take action on the complaints. But to check if there is one, call 305-375-3677 or e-mail consumer@miamidade.gov.

Get references: Ask the planner for names of clients.

"Even though nobody's going to give you a name of somebody who doesn't like you, still ask," said Meg Green, a certified financial planner in North Miami Beach.

Watch for conflicts of interest: One of the big problems with Madoff, who was sentenced to 150 years in prison for his investment fraud scheme earlier this year, was a huge conflict of interest that not many people questioned, Bailey said.

"He was the investment manager, the broker and the custodian. There were no independent third parties to separate activities and provide a conflict-free environment," Bailey said. "This allowed Madoff to easily fabricate his entire kingdom."

For investors, the best scenario is to have an independent custodian to hold the assets and an independent advisor involved in monitoring the investments, he said.

This keeps conflicts of interest from occurring and sets up a system with a "watch dog" in place for the benefit of the investor.

One simple way of seeing if your investments have a check-and-balance system in place, Bailey said: Look at the return address on statements.

They shouldn't be coming from your advisor, he said, but a separate entity altogether.

Reflect on your initial conversation: Did the advisor listen to you and ask a lot of questions or did they spend most of the time talking? The advisor needs to understand all they can about you and your specific situation. This isn't a time for them to talk about themselves, said Andrew Menachem, of Morgan Stanley Smith Barney.

And once you settle on someone, he said, keep close watch on what your advisor says. "No one needs an advisor that blindly agrees with everything you say. It might make them likable but it won't help your investment results. Most of the time a good advisor protects you not only from bad outside advice but from yourself."

Professional organizations and titles: If someone says they are a certified financial planner or certified public accountant, see if it's true.

Look up certified financial planners at cfp.net/search or call 800-487-1497. The website also lists if the Certified Financial Planner Board has disciplined a planner.

If they claim they are a certified personal financial advisor, check at findanadvisor.napfa.org, or call 800-366-2732.

Verify someone's status as a licensed certified public accountant at cpadirectory.com, which charges \$45 for a search). For a free search in Florida, check accountant and other licenses at www.myfloridalicense.com/dbpr/index.html.

If someone says they are a certified senior advisor, confirm it at www.society-csa.com, or call 800-653-1785.

Florida also has a website with more information for investors to educate themselves: www.flofr.com/director/investoreducation.htm.

Additional Directories:

North American Securities Administrators Association
202-737-0900 or www.nasaa.org

National Association of Insurance Commissioners
816-783-8500 or www.naic.org

Financial Planning Association
800-322-4237 or www.fpanet.org

American Institute of Certified Public Accountants-Personal Financial Planning Division
888-777-7077 or pfp.aicpa.org

Society of Financial Service Professionals
888-243-2258 or www.financialpro.org