How to Protect Yourself against the Next Bernie Madoff

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A recent article on KPRC references a Houston couple who filed a lawsuit against their financial advisor after losing their retirement and life savings. The advisor made multiple outrageous investment pitches; some with 18% interest payments and others promising a $55,000 investment growing to $100,000 in 90 days. The couple later realized they were lured into a Ponzi scheme. As a result, their life savings disappeared. The couple was in shock as they had a personal relationship with the advisor, went to the same church and shared common charitable inclinations.

In response to the incident, listed below are a set of guidelines outlining how to make informed decisions on selecting investment advisors and protect against Ponzi schemes.

- A personal relationship with your advisor is great, in many cases this can help with communication. However, do not make a decision to work together exclusively based on that connection. Just because you know them socially does not mean they are providing a quality business service.
- Ensure your investment money is held with a reputable third-party custodian, not the advisor that manages the money. Most advisory firms have a relationship with a major custodian, such as Schwab, Pershing, TD Ameritrade, etc. Your money is deposited to an account with the custodian, and the advisor or money manager has the ability to manage the account based on your objectives. Your statements should come directly from the custodian, not the advisor. Furthermore, your statements have full disclosure of trading activity and exact values within the account. Most Ponzi schemes involve you writing a check directly to the advisor's company. They then create a statement based on your 'account value,' which could be whatever they choose.
- There are no investments with high return and no risk; they do not exist. Be very cautious if someone is pitching a risk-free investment with no downside. Remember the saying, "If it sounds too good to be true, it probably is."
- Review investments you own. If you made a 15% return last year, check your holdings to see what did well and why. Be aware of your investments and the associated risk.

It is essential to have confidence and clarity over your total financial picture. After reviewing the guidelines above, if you are still unsure, consider a second opinion. Financial planning firms can provide an independent second opinion in exchange for a flat fee.