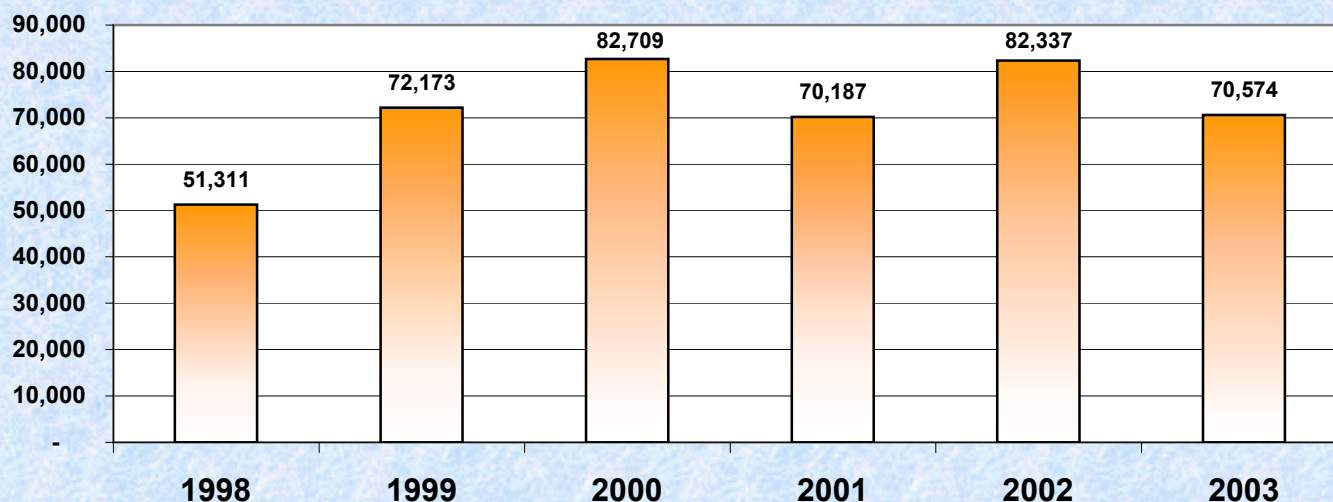


## Securities and Exchange Commission Total Investor Complaints & Questions by Fiscal Year Ending September



Source: [www.sec.gov/news/data.htm](http://www.sec.gov/news/data.htm)

### Protecting Yourself From Fraud - Choosing the Right Advisor

**"Integrity without knowledge is weak and useless, and knowledge without integrity is dangerous and dreadful." - Samuel Johnson**

Increasingly investors are seeking help from professional advisors, whether they be accountants, attorneys or financial and investment advisors. Many investors are retaining advisors to guide them through the complexity of today's financial marketplace while other investors who possess the aptitude just don't have the time or desire to sort through it all. When retained, professional advisors are required to act in the best interests of their clients, yet every year there are numerous complaints as well as enforcement actions taken against a few advisors and/or firms.

Within the financial and investment industry the Securities and Exchange Commission ("SEC") is the main regulatory body responsible for oversight. The chart above displays the number of investor complaints and questions received by the SEC over the last six fiscal years ending September 2003. The five most common complaints were those concerning misrepresentations, fees and costs, unsuitable recommendations, transfer of account problems, and unauthorized transactions. The SEC also provides data on the number of violations of Federal securities laws. Over a four year period, from 1998 thru 2001 (the most recent data available), the SEC took enforcement action against 1,713 individuals and firms. Broker dealer firms and persons associated with broker dealer firms accounted for 1,024 or 60% of the total. Investment advisory firms and persons associated with such firms accounted for 264 or 15%. The remaining 425 or 25% were either stock promoters, CFOs of publicly traded firms, attorneys, accountants / auditors and other uncategorized individuals.

While we don't think that fraud is an industry wide blight, we do believe that investors can take steps to minimize the possibility of falling victim to fraud. Unfortunately, one area that we continue to hear about is advisors who steal money from their clients. Fortunately, there is a relatively easy solution for clients to protect against this type of theft: simply move your assets to a third party custodian. It is much more difficult, if not impossible, for an advisor to steal if the client's assets are held by a third party custodian.

On the following page we discuss some of the steps an investor can take in choosing the right advisor.

**"If you have integrity, nothing else matters. If you don't have integrity, nothing else matters." - Alan Simpson**

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**"It is impossible to go through life without trust: That is to be imprisoned in the worst cell of all, oneself."** - Graham Greene

### **How do I choose a Financial Advisor?**

When choosing a financial advisor there are several important elements to consider. An investor should choose an advisor much the same way he/she would select a law firm, an accountant, a doctor or a dentist - find people with **education, experience, integrity** and **dedication** to their clients.

The first two, **education and experience**, are the easiest to verify. Financial and investment planning are complex and involve many different areas of knowledge (financial markets, economics, legal and tax issues, etc). While having financial designations does not guarantee the best results, having no specialty certifications is inviting potential problems. Experience is also important, so examining the advisor's work history will help you to understand whether the advisor has the experience to provide the level of service and advice you are seeking. Also, make sure that the advisor is properly registered with the appropriate authorities. Ask: are you registered with the Securities and Exchange Commission? The National Association of Securities Dealers? Have you ever been publicly disciplined for any unlawful or unethical actions in your professional career? Advisors who are registered with the SEC must provide you with their Form ADV Part II. This document is a comprehensive disclosure about education, background, sources of income, and potential conflicts of interest.

The last two elements, **integrity and dedication**, are harder to verify. But, one important fact may help shed some light. How does the advisor get paid? Does the advisor charge a fee or earn commissions from selling investment products? Does the advisor receive payments from entities other than his or her client? The way an advisor gets paid may help avoid many potential conflicts of interest. In addition the advisor's degree of **independence** is important. Is the advisor selecting the best investment vehicles available or does he use his firm's proprietary products?

One good way to gain some insight on the advisor's integrity is to find out if the advisor is **respected by his/her clients**. Ask for several client references and call them. Also, does the advisor commit to a standard of ethical and professional conduct? A code of ethics that requires an advisor to act with integrity, practice in a professional and ethical manner, exercise independent professional judgment and put client interests before his own is extremely important.

### **A Financial Advisor should:**

**Pay attention and act on what you say** - A financial advisor should always listen to what you have to say and respect your chosen degree of risks and objectives. If you feel as though you are not being heard or treated with courtesy and respect, find someone else.

**Explain things until you understand them** - A good financial advisor will provide you with information and take as much time as necessary to explain a proposed action. Remember, it is your investment. You have every right to understand exactly what is going to happen. You should never feel pressured to make certain decisions.

**Be someone with whom you feel comfortable** - The more the advisor knows about your financial situation and goals, the better you will be served. If you feel uncomfortable, you may not provide your advisor as much information as is needed to receive the best advice. Do you share similar values and core beliefs? Sharing common values goes a long way toward building trust.

**Act as a human circuit breaker** - A good advisor will try to "talk you out of" doing things which might be hazardous to your wealth. People often get urges to act on emotion (e.g. some investors have a tendency to chase hot returns and attempt market timing). These contemplated actions often have predictably negative financial consequences. It is quite useful to have a "voice of reason" available to discuss the potential imprudence of such actions.

**"Without trust, words become the hollow sound of a wooden gong. With trust, words become life itself."** - John Harold