



## Checking Out Your Financial Advisor

Emily Lambert, 06.08.09, 12:00 AM ET

Financial regulators aren't much help when it comes to preventing ripoff artists from plying their trades. They didn't catch Bernard Madoff, even with years to do it and a road map from whistle-blower Harry Markopolos. Nor did they stop alleged bogus banker R. Allen Stanford, scheming lawyer Marc Dreier or the scores of foreclosure-prevention scamsters now preying on desperate homeowners.

What's an investor to do?

Fortunately, the best form of fraud prevention is free. It's called common sense. Don't pony up for any scheme that sounds too good to be true or that promises above-market returns for below-market risk. Be extremely wary of exotic "smart" money investments like hedge funds and private equity. They're expensive, illiquid and selective in their disclosures.

The best disinfectant is sunlight of the sort you get in disclosure-laden vehicles like mutual funds and exchange-traded funds. Stick with them and the probability is low that your money manager will run off to Namibia with your life's savings.

Even if you stick to mainstream investments, there are all manner of sharpies you still need to be wary of--brokers, insurance agents and wealth managers, to name a few. If you use them, a bit of legwork before you invest can prevent big problems down the road. Or you can go considerably further to check out the people managing your money. Here are some pointers for do-it-yourself sleuthing. Prices are approximate.

### For Free

The Financial Industry Regulatory Authority is a securities industry body that keeps tabs on securities brokers and brokerages. Portions of its Central Registration Depository are available at [finra.org](http://finra.org) and are a good place to gather basic information. Unfortunately, Finra's online database is somewhat sanitized and can gloss over disciplinary problems. For the full data run, contact state securities regulators, and be sure to ask for all disciplinary material on the person or company of interest. The information should be cross-checked with Google search results, newspaper databases and word of mouth.

Many financial advisors hold the Certified Financial Planner credential issued by the CFP Board of Standards, a private agency in Washington, D.C. that also offers online searching. Some of those pitching financial services hold the Chartered Financial Consultant credential; most ChFCs are life insurance agents who, like traditional stockbrokers, get commissions for selling you a product such as deferred annuities. They are licensed by individual state insurance departments, which will also provide information upon request.

### \$50

PeopleSearchNow.com reports past addresses, phone numbers, relatives, neighbors and criminal records. You'll have to sort through the data dump yourself. A report on a retail broker in California cited criminal activity; it turned out to be a traffic ticket. Beware of sites, like NetDetective.com, that charge you for data that are just as easy to pluck from the original sources yourself at no cost.

### \$350

\$350

Companies like **Commercial Business Intelligence** will search civil and criminal court cases, prison and other public records to find bankruptcies, liens, judgments and news stories. Full legal complaints can be included in these reports.

**\$2,500**

Outfits like First Advantage Investigative Services, which is popular with hedge fund investors, dig through the backgrounds of money managers to verify academic credentials, employment histories and professional licenses. For additional fees they will dig up professional acquaintances and call them up. First Advantage compiles reports once on each subject and updates them for subsequent purchasers.

"If you don't have the money to do proper due diligence, then you don't have the money to invest in that hedge fund," says First Advantage Executive Vice President Randy Shain.

**\$10,000**

At this price point nationally known investigative firms like Kroll Inc. become affordable. The Marsh & McLennan unit uses public records to connect dots that can add up to fraud. That might include searching for other businesses listed at a money manager's address or getting an opinion from a chatty ex-spouse.

Other investigators go beyond looking for outright fraud. Edward Siedle of Benchmark Financial Services specializes in ferreting out excessive fees and conflicts of interest between, say, a hedge fund bundler (known as a fund of funds) and the investment vehicles it touts.

"You have to watch out that the person you're going to for advice doesn't have a conflict of his own," Siedle cautions.



## Investigating the Investigator

Emily Lambert, 06.08.09

Money doesn't buy everything. Take Wealth Management International, a Los Angeles, Calif. firm that, for a minimum of \$25,000, says it will have its panel of 30 lawyers, accountants and analysts comb through your estate in search of problems. That, says owner Steven Roth, will spotlight excessive commissions or a lack of sufficient insurance coverage, among other things. He claims his experts will also recommend ways to get out of bad investments and into good ones, plus help you minimize court costs and recover money you've lost.

The funny thing is that Roth's own Web site, while vowing to provide conflict-free advice, contained very little information on the guy providing it, until FORBES inquired.

Michael Adams of Commercial Business Intelligence did a little public records research on Roth and came up with these tidbits: He's been barred from association with any NASD member firm and was accused in civil complaints of soliciting investments for a currency Ponzi scheme.

Roth says that securities regulators barred him from the industry because he couldn't afford to pay a fine. A California appeals court found Roth was a victim of the Ponzi scheme over which he was sued. All suits against him were settled, dismissed or won by Roth (with no payments by him). He says he's not trying to hide anything and will discuss his experiences in a forthcoming book. He started Wealth Management International, Roth adds, "because I realized how easy it is to get screwed." No kidding.