

## Fear, embezzlement and fiduciaries >

### Executive Summary:

*If you're having second thoughts about financial advice in general and your advisor in particular, here's how to protect yourself and your money.*

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Are you fearful that your investment account is unprotected and that your money could be embezzled? Do you think that your financial advisor could be involved in a Ponzi scheme? Do you worry that your savings and investments are at risk from something other than market fluctuations?

Every week there seems to be another report about a financial advisor accused of manipulating investment accounts for the advisor's (and not the customer's) gain. I am amazed at some of the things that consumers have allowed to happen with their money and the results the actions produced. There is a simple strategy that you can use to protect your money.

If you have hired someone to assist you in making investment decisions, be certain this person (or entity) does not maintain custody of the funds that they are managing. You want a large, solid financial entity holding custody of your assets. Examples of this type of entity would be Fidelity, Vanguard, Schwab, TD Ameritrade, or Merrill Lynch.

The custodian of your assets should not be the person giving the advice. Keep the advisor and the custodian separate. Do not

write a deposit check for your account payable to the individual name of your advisor; send the deposit check to the advisor payable in the name of the institutional custodian.

Nearly every story of theft or embezzlement of funds involves an individual who is serving as both the advisor and the custodian of the account. If you separate the functions, you minimize your risk. Your large institutional custodial entity has a set of rules in place that prohibit their customer's monies from being moved by the advisor outside of the customer's account. These rules are set up for everyone's benefit. Your custodian will generate an independent periodic written report and allow you to view your financial assets on a secure Web site. Your custodian has a duty to protect your assets from theft.

There is also a duty that your advisor should have to you. Your adviser should be regulated by the Securities and Exchange Commission (SEC). An SEC-registered advisor pledges to act out of a "fiduciary duty" and is obligated

to put their clients' interests before their own. You need to understand this key fact. If you have a stockbroker as an advisor, you may not have someone who is putting your interests first.

There is an important distinction between a stockbroker who is regulated by the Financial Industry Regulatory Authority (FINRA) and an SEC-registered investment adviser. A broker can recommend any product that is "suitable" for a customer. A broker can sell you any investment that they have reasonable grounds for believing is suitable for you. An SEC-registered advisor is required by law to have a higher standard of care for their client than a FINRA-registered broker.

The conflict of interest that exists in the financial planning world is real so make certain you are aware of the rules that govern your relationship with your money. In order to have the highest degree of safety in your financial dealings, your money should be held separately from your SEC-registered financial Advisor. 