

A Checklist for Detecting Stockbroker/Financial Advisor Abuse: WHAT INVESTORS (AND THEIR ACCOUNTANTS AND ADVISORS) SHOULD KNOW

Fortunately, most financial advisors are ethical, competent, and have their clients' best interests at heart. Nonetheless, thousands of investors lose money - in good markets and in bad - due to investment sales practice abuses and/or their advisors' failure to adhere to basic principles of modern portfolio theory (such as asset allocation). These investment losses can wreak havoc on investment portfolios, and investors - particularly retirees on a fixed income - can suffer dramatic declines in their net worth from which they'll never fully recover.



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What should investors look for in trying to detect stockbroker/financial advisor abuse? This checklist is a starting point:

- Am I buying and quickly selling just to recognize small profits (or take losses), instead of holding for the longer term?
- Am I seeing trade confirmations, which confirm trades that the broker recommended, marked as "unsolicited"?
- Am I buying securities on margin, that is, with the use of borrowed money?
- Does my broker call me after he has placed a trade, and not beforehand?
- Does my portfolio contain more than 25% of my money in any one security?
- Have I received a letter from the brokerage firm to confirm that my account activity is appropriate, and asking me to sign and return the letter or call if I have questions? As a related matter, has my advisor's "boss" called me to discuss my account?
- Do I feel that my investments are too risky for my comfort level? For example, are my savings concentrated in volatile stocks, as opposed to invested in a balanced portfolio that includes fixed-income securities?
- Have I recently retired, relying on my advisor's expectation that my accounts would earn returns of 12% or more?

Notably, investors' trusted advisors - such as accountants and attorneys - often are in a position to discover unsuitable investments and/or financial fraud in their clients' investment portfolios. For example, at tax time accountants sometimes observe securities transactions that appear to have been excessive or simply did not make sense given their clients' objectives and needs. Even investment professionals sometimes detect abuse when reviewing the incoming portfolios of new clients.

The securities attorneys of SNSFE stand ready to review investment portfolios for signs of unsuitable investments and other indications of misconduct. ■

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Investors who answer yes to any of these questions may be the victims of abuse and should seek legal assistance.