



How to Avoid Bad Financial Advice

Source: Paladin Registry
(www.PaladinRegistry.com)

The 15 minutes that it will take you to read this FREE GUIDE may be the most profitable 15 minutes of your financial life. That's because in next few minutes you are going to learn how to avoid the risks and consequences of bad financial advice

Introduction

Bad financial advice comes in two forms: illegal and legal. For example, Ponzi Schemes are bad advice and they are illegal. There are also several forms of bad advice that are legal. For example, less ethical advisors may sell you low quality investment products because they make more money. It's not illegal for them to provide bad advice or sell bad products – that's because the rules say it's up to you to know the difference.

“If you want to avoid bad financial advice, you have to avoid bad advisors.”

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It would take years of study and continuous research to know enough to avoid the numerous forms of bad advice that produce bad results. It is much easier to learn to avoid advisors who provide bad advice. There are three types of bad advisors:

- Criminals (Ponzi and other Scams)
- Incompetent advisors (Don't know enough to provide good advice)
- Unethical advisors (Put their interests ahead of yours)

The Custodians

When you hire an advisor a company will take physical possession of your assets. These entities are called broker/dealers, custodians, trust companies, or mutual funds. Their role is to receive dividend and interest payments, process transactions, make distributions, and produce brokerage statements.

Advisors who are criminals can steal your assets if they or their companies act as your custodian. For example, Madoff Securities acted as its own custodian when it perpetrated its Ponzi scheme. When advisors control the custodian, they distribute investor assets to themselves and produce fake statements that made their rigged performance reports look real.

“Criminals can't steal your assets if they don't come in contact with them.”

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The easiest way to avoid these scams is to follow these rules about custodians:

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- Make sure the custodian that takes possession of your assets is a brand name company or a major, independent company that is responsible for billions or trillions of dollars.
- Never write a check or transfer your assets to a company that you don't know – even if your favorite advisor recommended the company.
- When advisors work for big companies, their companies act as custodians for assets. The big company should be a household name that you are familiar with.
- When advisors are independent, third parties act as the custodian. Examples of major third party custodians include: Schwab, Fidelity, Pershing and TD Ameritrade.
- Be particularly cautious with custodial companies that have acronyms for names – for example, FTS, Inc. may not be Fiduciary Trust Services. The initials could be for Frank's Trucking Service.

Referrals

There is an easy way to find and select a financial advisor for your assets – ask a friend, family member, associate or your CPA for the name of their advisor. You probably assume, if they are happy with their level of service and results, you will have the same experience. This assumption could be a big mistake that creates a major financial risk.

- Ponzi schemes and other financial scams are sold using referrals to friends and family of current investors.
- What if the person you asked for a referral didn't know he or she was the victim of an investment scam or bad financial advice?
- What if the person you relied on for a referral doesn't know the critical differences between good and bad advisors?
- What if the referral source recommended a particular advisor because there was a personal relationship (they play golf together)?
- When a referral source describes their "great" results, those results have already happened. There is no guarantee your future results will be the same as the referral source's past results.

"Madoff Securities used referrals to perpetrate a \$50 billion scam."

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Under no conditions should you accept referrals from friends, family, associates or professionals without conducting your own due diligence. This failure cost investors in the

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Madoff Ponzi scheme \$50 billion. They would not have invested with Madoff if they conducted even minimal due diligence on the Internet (See Internet Category).

Sales Pitches

One characteristic of bad advisors is they rely on sales pitches to convince you to buy what they are selling. Since there is no written record of the sales pitch, you have no documentation for what was said to you. This gives bad advisors the latitude to say just about anything to gain control of your assets.

It's critical that you know verbal information benefits advisors and not you for the following reasons:

- Verbal pitches let the advisors take maximum advantage of their personalities and sales skills.
- It's easy for them to misrepresent verbal information (what they said).
- It's easy for them to omit information when it's verbal (what they didn't say).
- It's easy to deny verbal information because there is no record and it's your word against the advisor.

"Listening to sales pitches is a high risk way to select a financial advisor."

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Any time an advisor's sales pitch sounds too good to be true you have to assume it's not true - even if you like the advisor. Needless to say, relying on sales pitches when you select advisors or buy investment products is very risky.

Advisor Ethics

Who can I trust with my money? Unfortunately there is no easy answer for this question. Don't assume because the investment industry is regulated that you are protected from bad advice. There is nothing illegal about bad advice that is the result of ethical lapses. The rules are loose enough that there are a number of deceptive sales tactics that can damage you just as much as some criminal enterprises. For example:

- Advisors can sell you bad products because they and their companies make more money.
- Sales reps can call themselves financial planners even when they have no planning certifications or experience.
- Sales Reps can tell you they are financial experts when they are new to the industry.

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- Advisors can tell you they are trustworthy even when they have large numbers of investor complaints on their record – they know less than 5% of investors check compliance records.

When you select advisors or buy their product recommendations it's up to you to know who is providing ethical advice and who is providing bad advice that may be illegal or legal. Since you aren't an expert on investment products, it's easier to review the ethical backgrounds of advisors.

“How do you measure ethics when one of the problems is the truthfulness of advisors?”

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Ask the advisors for their CRD or IARD numbers so it is easy to view their compliance records. Anyone who can't or won't provide a number should be automatically excluded from further consideration. Use the numbers to access advisor files at the regulatory agencies.

- FINRA.org – Go to their website to review the compliance record of advisors who hold securities licenses and their broker/dealers.
- SEC.gov – Go to this website to review the ADVs of Registered Investment Advisors who are responsible for more than \$25 million of investor assets.
- State Securities Commissioner – Contact commissioners for additional information about sales representatives, Investment Advisor Representatives, and Registered Investment Advisors under \$25 million.
- State Insurance Commissioner – Contact commissioners for additional information about sales representatives and advisors who market insurance advice and products.

Advisor Competence

Investors also have a major challenge when they try to determine the competence of advisors. That's because advisors don't have track records that document their results and they don't have meaningful disclosure requirements.

Bad advisors know you want to select a competent financial professional who can help you achieve your financial goals. Consequently, these advisors have developed several deceptive sales practices to convince you they are experts.

- They claim to be financial experts, even when it is not true.

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- They claim to be financial planners even though they have no planning experience or certifications.
- They promise high returns for low risk, even though the product doesn't exist.
- They use the performance of hot products (for example, a mutual fund) to create fake track records – they select the fund 'after' the performance occurred.

“In the absence of audited track records how do you determine advisor competence?”

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You have to minimize the impact of advisor sales pitches, personalities, claims, and promises to begin to assess the actual competence of advisors. You should focus on criteria that impact the professionals' ability to provide high quality financial advice:

- Always ask questions about the advisors' five sources of financial competence:
 - How many years of pertinent financial services experience do you have?
 - What colleges did you attend and what degrees did you earn?
 - What current industry certifications do you hold and when did you obtain them? (CFA®, CIMA®, and CFP® are the best.)
 - Are there any other professionals at your firm who will impact the advice and services you provide me? If yes, provide descriptions of their experience, education, and certifications.
 - Do you belong to any associations that have continuing education programs? The best associations are IMCA, NAPFA, FPA, and the CFA Institute.
- Next, you should ask questions about the advisors' registrations and fiduciary status:
 - Are you a Registered Investment Advisor (RIA) or Investment Advisor Representative (IAR)?
 - RIAs and IARs provide financial advice for fees.
 - Non-RIAs and non-IARs are sales representatives who hold securities licenses that limit them to selling investment products for commissions.
 - RIAs and IARs are held to the highest ethical standards in the financial services industry.
 - Do you acknowledge you are a fiduciary when you provide financial advice and services?
 - Fiduciaries are required to put your financial interests ahead of their own.
 - Non-fiduciaries are not required to put your interests first. They are required to make suitable recommendations (a very vague standard).

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Conflicts of Interest

The financial services industry is notorious for conflicts of interest that negatively impact investors. In fact, every financial services company and advisor, regardless of quality, has a core conflict of interest. How they deal with this core conflict gets down to the advisor's personal code of ethics.

The core conflict is companies and advisors can always make more money when they put their interests ahead of investors. This explains why so many Wall Street firms have paid billions of dollars of fines for cheating investors. They put their need for profit to drive share prices and executive bonuses ahead of their clients' need to achieve financial goals.

"Your only real protection from industry conflicts of interest is the ethics of your advisor."

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Advisors are not going to point out potential conflicts and they will go to great lengths to hide this information from you. This is the number one reason why investors are always surprised when they find they were damaged by brand name companies or advisors they liked. Listed below are a few potential conflicts that you should ask about:

- Does your company or any affiliated companies manufacture investment or insurance products? If yes, will your recommendations include those products?
- Does your financial advice or recommendations always put my financial need to achieve goals ahead of your need to make money?
- Are you or your company paid any additional compensation to recommend proprietary or particular third party products to me?
- Do you charge me fees and receive commissions from third parties for providing the same services (double dipping)?
- Does your company, in any way, pressure you to market particular products to me?
- Will your advice or recommendations always be consistent with my stated tolerance for risk?

Full Disclosure & Documentation

You already know advisors don't have track records and they don't have mandatory disclosure requirements. Industry regulations leave it up to investors to know enough about advisors to

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ask the right questions and decipher their responses. The problem is that in the absence of track records and meaningful disclosure, advisors are free to say whatever they have to in order to gain control of your assets.

You must limit your selection of advisors to those professionals who volunteer full disclosure for their credentials, ethics, business practices, compensation, conflicts of interest, and services. When advisors volunteer information about themselves, and they document it, it means they have nothing to hide. When advisors don't volunteer written information about themselves, it means they have something to hide.

"Your best protection from misleading sales pitches is written documentation."

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Higher quality advisors know written information is more reliable than verbal information and it helps them prove they are competent, ethical professionals with nothing to hide. Low quality advisors prefer sales pitches because they have a lot to hide. Plus, the pitches make maximum use of their personalities and sales skills.

You can greatly reduce your risk of bad advice if you require advisors to provide written documentation for important information that will help you evaluate their competence and ethics. The quality of the information you receive will go up and lower quality advisors will weed themselves out when they are reluctant to document information about themselves.

Industry Associations

Another way to weed out bad advisors is to ask them for a list of associations they belong to. Granted some high quality advisors may not belong to associations, but they have other credentials that prove they are competent and ethical. However, in the absence of other credentials, association memberships are another way to assess the quality of advisors. Bad advisors don't belong to high quality associations for five reasons:

- They have to submit background information to become members. They don't want to provide documentation to associations just like they don't want to provide it to you.
- They may not have the licensing or certifications that would permit them to be members of the associations.

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- Other association members may know about their unethical sales practices and report them to the association, regulators, or law enforcement officials.
- Joining associations increases their visibility when their goal is to be invisible except to the people to whom they are selling bad advice.
- They don't have the knowledge and won't commit the time to meet the associations' continuing education requirements.

"Association memberships help you measure advisors' commitment to their profession."

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Five higher quality associations include the following organizations:

- NAPFA (National Association of Personal Financial Advisors)
- FPA (Financial Planning Association)
- IMCA (Investment Management Consultants Association)
- CFA Institute (Chartered Financial Analyst Institute)
- AICPA (American Institute of Certified Public Accountants)

The Internet

There are four Internet services that can help you find quality advisors, learn more about them, and avoid bad advisors:

- Use an online Directory that is not part of the financial services industry (for example, PaladinRegistry.com) to find advisors. Paladin Registry also provides documentation for advisor credentials, ethics, business practices, and services.
- Visit the advisors' websites. Are they quality sites? Does the information on the site validate what the advisor is telling you? It's always a good idea to print copies of pages that describe the advisors' services, philosophy, credentials, and services.
- Conduct Google searches using the advisor's name and the advisor's company name. Go at least ten pages deep in Google looking for information that confirms what the advisors are saying or contradicts their claims. Look for articles from independent third parties that describe the competence and ethics of the advisors.
- Use the Internet to view information on regulatory websites: Use the Internet to view information on regulatory websites: For example: FINRA.org, SEC.gov, state securities commissioners, and state insurance commissioners.

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“Use the Internet to obtain information that helps you protect your financial interests.”

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About PaladinRegistry.com

Founded in 2003, Paladin is an information services company that provides three free public services to investors who use the services of financial professionals: Education about advisors, services that match investors to pre-screened advisors in their communities, and documentation for the advisors’ credentials, ethics, business practices, and services. Visit <http://www.paladinregistry.com> to learn more.

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