

HOW TO AVOID FINANCIAL ADVISOR FRAUD



A practical guide to evaluating financial professionals, recognizing warning signs, and **protecting what you have built.**

How to Avoid Financial Advisor Fraud

Choosing a financial advisor requires significant trust. You may be asking someone to help manage money that took decades to earn, savings intended to support retirement, care for family, or eventually become part of a legacy.

Financial fraud can happen anywhere, including small towns and close-knit communities where a familiar name or personal connection may feel reassuring. Although no screening process can eliminate every risk, investors can take practical steps to evaluate a financial professional, understand how their money will be handled, and recognize warning signs before serious damage occurs.

➤ Who should read this?

Investors choosing or reviewing a financial professional; retirees and pre-retirees protecting accumulated savings; adult children helping parents; and families who want more confidence in their financial relationships.

What the Reader will Learn:

- How common forms of financial misconduct can affect an account.
- How to independently verify a professional and firm.
- Why custody and discretion are different - and why that distinction matters.
- What to ask about fees, conflicts, account access, and documentation.
- Which promises, payment instructions, and pressure tactics deserve immediate attention.

How Financial Misconduct Happens

Misconduct can range from deliberate theft to deceptive sales practices, unauthorized transactions, or recommendations designed primarily to benefit the person selling the investment.

1. Direct Theft and Ponzi Schemes

In a Ponzi scheme, money from new investors is used to make payments to earlier investors, creating the appearance of legitimate returns even though there may be little or no real investment activity. The arrangement eventually collapses when new money slows, withdrawals rise, or the fraud is discovered.¹

2. Forgery and Unauthorized Transfers

Theft may involve forged signatures, altered documents, or unauthorized withdrawals. Review account activity regularly and investigate unfamiliar transfers, unexplained withdrawals, or unexpected changes to contact information.

3. Excessive Trading

Excessive trading occurs when account activity does not align with an investor's goals, risk tolerance, or circumstances. Serious cases involving an intent to defraud or reckless disregard may be considered churning. Repeated trading can erode a portfolio through commissions, fees, expenses, and taxes.²

4. Fictitious, Misrepresented, or Unsuitable Investments

An investment may not exist, may be substantially misrepresented, or may be legitimate but unsuitable for the client. Risks, costs, liquidity restrictions, or financial condition may be concealed.

PAUSE BEFORE PROCEEDING:

Ask where the money will be held, how the investment's value is determined, what fees apply, and whether access is restricted. Vague answers or resistance to independent verification should be taken seriously.

Verify the Professional's Background

A professional title is not proof of qualification. Terms such as financial advisor, wealth manager, investment consultant, and capital manager may sound impressive, but a title alone does not establish that someone is currently registered to provide a particular service.

Before hiring a financial professional, independently verify both the individual and the firm:

- Current registration status
- Employment history and reported qualifications
- Customer disputes, disciplinary actions, and other disclosures
- Whether the official record matches the professional's representations

FINRA's BrokerCheck provides information about brokers, brokerage firms, and certain investment professionals. The SEC's Investment Adviser Public Disclosure database, commonly called IAPD, provides information about investment adviser firms and representatives.³

REGISTRATION CHECK:

Passing a qualification examination is not the same as maintaining a current registration.
Confirm the person's present status and the firm with which they are associated.

Custody and Discretion

Custody generally concerns who holds or has access to client assets. Advisers commonly arrange for funds and securities to be maintained by a separate qualified custodian, such as a bank or broker-dealer. Custodians record assets and transactions and send statements directly to clients.⁴

Discretion refers to an advisor's authority to make investment decisions without obtaining approval for every trade. It does not ordinarily allow the advisor to withdraw client money for personal use.

Risk can increase when one person controls investment decisions, holds the assets, calculates performance, and produces the only statements the investor receives. Compare advisor reports with statements received directly from the custodian and question unfamiliar activity immediately.

Understand Fees and Compensation

Compensation can influence recommendations. That does not mean every commission creates misconduct or that every advisory-fee arrangement eliminates conflicts. It does mean investors should understand how the professional and firm are paid.

- Advisory fees and commissions
- Referral fees or other incentives
- Sales charges and transaction costs
- Surrender penalties and ongoing product expenses

SEC-registered investment advisers and broker-dealers generally provide retail investors with a relationship summary known as Form CRS. It describes the firm's services, fees, conflicts of interest, and disciplinary history.⁵

Recognize Promises and Pressure

Promises of unusually high or guaranteed returns are among the clearest warning signs of investment fraud. Be cautious when an opportunity is described as having little or no risk, being available only briefly, requiring secrecy, or being impossible to explain in writing.

IMPORTANT DISTINCTION:

Some products offer contractual guarantees backed by an insurance company or another issuing institution. That is different from an individual promising extraordinary investment performance without meaningful risk.

Payment Instructions That Should Stop You

Never write an investment check directly to an individual advisor. Instructions to wire funds to a personal account, send money abroad, or pay through gift cards are major warning signs of fraud.⁶

PRESSURE PREVENTS RESEARCH:

A legitimate professional should allow time to review documents, ask questions, consult another professional, and independently verify an investment.

Questions to Ask Before Investing

1. Are you and your firm currently registered, and where can I verify that?
2. Have you or your firm had customer complaints or disciplinary events?
3. Where will my assets be held, and will I receive statements directly from the custodian?
4. Will you have discretionary authority over my account?
5. How are you and your firm compensated?
6. What conflicts of interest should I understand?
7. Are there penalties or restrictions if I need access to my money?
8. Can you provide your Form ADV, Form CRS, fee schedule, and client agreement?

The SEC encourages investors to ask about a professional's experience, registration, disciplinary history, products, fees, incentives, and services before making a hiring decision.⁷ A trustworthy advisor should welcome these questions.

PRACTICAL NEXT STEPS:

Look up both the individual and firm through independent regulatory databases.

Read Form CRS, Form ADV, the fee schedule, and the client agreement before signing.

Confirm that account statements will come directly from a qualified custodian.

Review transactions and contact information regularly.

Pause when promises sound unusually certain or action is demanded immediately.

THE CENTRAL PRINCIPLE:

Trust should be supported by transparency, independent records, and verifiable information.



Frequently Asked Questions

Q: WHAT IF AN ADVISOR IS SOMEONE I KNOW PERSONALLY?

A personal connection may build comfort, but it should not replace independent verification, written documentation, or review of custodian statements.

Q: DOES DISCRETIONARY AUTHORITY MEAN AN ADVISOR CAN TAKE MY MONEY?

No. Discretion generally allows investment decisions without approval for every trade. It does not ordinarily authorize personal withdrawals.

Q: IS EVERY COMMISSION A WARNING SIGN?

No. Commissions are one form of compensation. The important questions are how the professional is paid, what conflicts exist, what the recommendation costs, and whether it fits your needs.

Q: SHOULD I BE CONCERNED BY ONE DISCLOSURE?

A disclosure deserves review, but context matters. Read the record, ask for an explanation, and evaluate patterns, seriousness, and resolution before deciding.

Protecting What You Have Built

Most financial professionals are not fraudsters, and many build their careers around helping clients make informed decisions. Still, retirement savings may represent a lifetime of work. Taking additional time to investigate the person entrusted with that money is not rude or overly cautious. It is one of the most important ways to protect what you have built.⁸

KEY TAKEAWAY:

Verify the professional. Understand the relationship. Know where assets are held. Review independent statements. Ask about fees. Resist pressure.

We Help Regular People that Have Done
Extra-Ordinary Things.



¹Securities and Exchange Commission. Ponzi Scheme. Investor.gov. <https://www.investor.gov/protect-your-investments/fraud/types-fraud/ponzi-scheme>

²Financial Industry Regulatory Authority (FINRA). 3 Ways to Guard Against Excessive Trading in Your Brokerage Account. FINRA. <https://www.finra.org/investors/insights/3-ways-guard-against-excessive-trading-your-brokerage-account>

³Securities and Exchange Commission. How to Check Out Your Investment Professional. Investor.gov. <https://www.investor.gov/introduction-investing/general-resources/news-alerts/alerts-bulletins/how-check-out-your-investment-professional>

⁴Securities and Exchange Commission. Custody of Funds or Securities by Investment Advisers. SEC.gov. <https://www.sec.gov/files/rules/final/ia-2176.htm>

⁵Securities and Exchange Commission. Red Flags of Investment Fraud Checklist. Investor.gov. <https://www.investor.gov/protect-your-investments/fraud/how-avoid-fraud/red-flags-investment-fraud-checklist>

⁶Securities and Exchange Commission. Relationship Summaries (Form CRS). Investor.gov. <https://www.investor.gov/introduction-investing/general-resources/news-alerts/alerts-bulletins/investor-bulletins/relationship-summaries-form-crs-or-form-adv-part-3-investor-bulletin>

⁷Securities and Exchange Commission. Questions to Ask When Hiring an Investment Professional. Investor.gov. <https://www.investor.gov/introduction-investing/general-resources/news-alerts/alerts-bulletins/investor-bulletins/investor-bulletin-questions-ask-when-hiring-investment-professional>

⁸Null, Josh. Episode 60: How to Avoid Financial Advisor Fraud. Coasting in Retirement with Josh Null. YouTube video. Published July 7, 2025.

<https://www.youtube.com/watch?v=Vp5pejYEKLM>