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# Seven tips to avoid fraud schemes

## My View

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Rob Siegmann, COO, Financial Management Group

The recent sentencing of convicted former investment adviser [Glen Galembo](#) to 15 years in prison is a wake-up call for any investors who may be content to relegate investing details to their trusted financial advisers.

While the sentencing provides justice and partial restitution for investors who were duped in a Ponzi scheme that affected 141 clients for a total of around \$100 million, the real question now is, how can investors trouble-shoot shady investment practices and avoid being taken by a Ponzi-schemer in the future?

Ponzi schemes develop when returns are paid to existing investors from the contributions of new investors. Organizers often solicit new investors by promising high returns with little or no risk. But it's inevitable that eventually, when the supply of new investors dries up, the fraud is exposed.

When it comes to protecting your money, it's better to be proactive rather than reactive. Here are seven simple strategies to vet investment advisers and avoid anyone capable of trying to steal your money:

- Ask questions and do research — Investing is not overly complicated. Any financial professional should have a strategy that he or she can explain in simple English. If you don't understand the investment, look for a different financial strategy.
- Check your adviser's credentials — The **Financial Industry Regulatory Authority** (FINRA) regulates the securities industry and protects investors. Verify your adviser's registration online at [www.finra.org](http://www.finra.org). Most often, financial advisers have earned the CFP, CFA or CPA designations. Question the knowledge of salespeople without those respected credentials.
- Take good references with a grain of salt — Companies only reach out to their happiest clients to provide a reference, so check with the **U.S. Securities and Exchange Commission** to see if any complaints have been filed against an adviser.
- A hard sell indicates hunger. A hard sell does not indicate that an investment may be fishy. But high pressure tactics mean your adviser is eager to make a commission check.

- Keep control of your money — Never write checks to an individual or his or her firm unless it is a large and trusted custodian like **Charles Schwab** or **Vanguard**. Your money should be held in your name. Also, there are no benefits worth the risk of co-mingling your money with others in an 'omnibus account.'
- Demand and receive financial statements – Your worth should be reported in regular statements from a qualified and trusted independent custodian. Or, verify your account regularly online.
- Consider working with a fee-only firm— Commission-based investment firms sell insurance or annuities in which the advisers earn a commission. This can lead to loading up clients with expensive financial products. Get a second opinion before making any major investment. Fee-only firms charge a set price or percentage for financial advising and investment management and belong to the **National Association of Personal Financial Advisors** (NAPFA).

No one wants to become a victim of a [Glen Galemno](#) or a [George Fiorini](#). But each new generation of investors needs to arm itself against unscrupulous scammers.

[Rob Siegmann](#) is chief operating officer at Financial Management Group. Reach him at 513-984-6696.