

CFP BOARD

CONSUMER GUIDE TO FINANCIAL SELF-DEFENSE

Know the red flags and avoid financial abuse



A consumer guide from Certified Financial Planner Board of Standards, Inc.

Reviewed by Federal Citizen Information Center, U.S. General Services Administration

WELCOME

It should surprise no one that Certified Financial Planner Board of Standards, Inc.—whose core mission is to serve the public—would publish a “self-defense guide.”

At CFP Board, we take the responsibility to protect American savers and investors very seriously. It is why we insist that CERTIFIED FINANCIAL PLANNER™ professionals adhere to a fiduciary standard of care, which requires them to put the interests of the client first. It is also why we uphold the CFP® certification as the standard of excellence for personal financial planning.

As the CEO of CFP Board, I have found recent events particularly disturbing. Fraud and mismanagement by financial professionals have undermined consumer confidence. CFP Board is in an ideal position to advance the protection of consumers from fraudulent, unethical practices that can put their financial futures at risk.

CFP Board’s consumer advocate, Eleanor Blayney, CFP®, has written this guide as a first line of defense for consumers who may be vulnerable to the minority of financial professionals who do not practice according to the highest ethical standards. It is written in dedication to those who have been hurt by, or victims of, financial fraud and mismanagement.

In these pages, CFP Board’s consumer advocate alerts consumers to some of the common behaviors that warn of fraudulent or unethical practices on the part of a financial professional. She describes these “red flags” and their potential consequences, lists the things that consumers should do to protect themselves, and provides information on how to file an official complaint if unethical or incompetent practices are suspected. I encourage you to use this guide as a tool to protect yourself and your loved ones.

This guide, however, is just a starting point. To truly protect your financial status, seek the advice of an advisor who will put your interests first. A list of CERTIFIED FINANCIAL PLANNER™ professionals in your area is available on CFP Board’s web site (www.LetsMakeaPlan.org). The site also offers a wealth of financial planning information specifically designed to protect and educate consumers.

I wish you success in your pursuit of financial well-being.



Kevin R. Keller, CAE
CEO, CFP Board

Caution: Red Flags Ahead

Check the news in any given week, and you'll likely run across another sad tale of financial fraud. Even the most sophisticated investors can fall prey to it, as the Bernie Madoff saga clearly demonstrates.

But you don't have to run in Madoff's circles to encounter financial abuse. For instance, CFP Board's 2012 Senior Financial Exploitation Survey of CERTIFIED FINANCIAL PLANNER™ professionals found that:

- **More than half of respondents (56%) had personally worked with an older client who had been subject to an unfair, deceptive, or abusive practice.**
- **The majority of respondents reported that older Americans are subject to a variety of practices that could violate federal and state laws and regulations, including being offered unsuitable financial products and subject to omission of material facts and misrepresentations about financial products.**

This raises some serious concerns. Whom can we trust? Where do we turn for guidance? What red flags can warn us of potential trouble?

That's why CFP Board has produced this Consumer Guide to Financial Self-Defense. Here you'll find a series of "red flags," taken from a CFP Board survey of situations reported by CFP® professionals where a consumer had been taken advantage of by a financial professional. Each of these red flags:

- **Identifies a common situation where consumers may be victimized.**
- **Describes the warning signs of fraud or abuse.**
- **Shares real-life situations in which consumers were abused.**
- **Shows you what you can do to protect yourself.**

CFP Board is in a unique position to offer this booklet. As an organization created to serve the public, CFP Board holds CERTIFIED FINANCIAL PLANNER™ professionals to rigorous ethical standards that put the client's interest ahead of their own.

You can protect yourself from shady operators. Use the tips in this booklet as your first line of defense.



Eleanor Blayney, CFP®
Consumer Advocate, CFP Board

RED FLAG 1

“WE’VE KNOWN HIM FOREVER. I’M SURE YOU CAN TRUST HIM.”



DID YOU KNOW?

56% of CFP professionals have worked with an older client who had been subject to an unfair, deceptive, or abusive practice.

Source: CFP Board 2012 Senior Financial Exploitation Survey

DO YOUR HOMEWORK

Maybe he's lived next door for years. Perhaps your kids play together, you golf in the same foursome, or a close friend recommended him. Whatever the details, he claims to be a financial professional. Why not just go with him?

To be sure, you want an advisor you can trust. But knowing someone as a person doesn't mean you know him as a financial professional. People take it on faith that the financial professional is who he appears to be—that the credentials on his business card are legitimate. Yet sometimes their trust is misplaced.

SPOT THE RED FLAG

- ▶ A financial professional fraudulently claiming to be a CERTIFIED FINANCIAL PLANNER™ professional holds a power of attorney for a client's account and steals \$1 million.
- ▶ A financial professional gets business by claiming to be retired military, a CFP® professional, and even a member of the CFP Board's Board of Directors. Clients discover that none of these claims are legitimate only after they've been taken advantage of.

YOUR SELF-DEFENSE MOVES

- ▶ Ask your financial professional if they are a fiduciary. This obligates them to base their recommendations on the client's best interests, fully disclosing any conflicts of interest (actual, potential, or perceived). If the financial professional avoids the question or doesn't understand the term, go elsewhere.
- ▶ Trust, but always verify. You can't board a plane without verifying your identity and passing security checks. With your very livelihood and future security at stake, you can't afford to hire a financial professional without a background check.
- ▶ Ask your prospective financial professional to identify the organizations that license or supervise him. Brokers are regulated by FINRA; investment advisors by either the SEC or a state securities regulator; insurance agents by the state insurance commission in states in which they do business; CFP® professionals by CFP Board. Go to the web sites of these organizations to check the financial professional's background and disciplinary history, if any. (See the reference list at the back of this guide for links to these organizations.)

RED FLAG 2

**“JUST SIGN HERE.
I’LL TAKE CARE OF THE REST.”**



DID YOU KNOW?

In 2012, consumers reported paying over \$1.4 billion due to fraud—or a median amount of \$535.

Source: Federal Trade Commission Consumer Sentinel Network Data Book, February 2013

FILL IN ALL THE BLANKS

Financial planning involves a lot of paperwork. To make the process easier, many financial professionals offer to complete the forms for you, using the information they have on file. But this can sometimes lead to trouble. A well-intentioned but careless financial professional can get your information wrong; an unethical professional might falsify data. Either situation can result in financial loss.

SPOT THE RED FLAG

- ▶ A financial professional fills out an investor profile for a client. The profile incorrectly describes the client as eligible for an investment. As a result of the misinformation in the profile, the client was put into an investment that was not suitable for the client's income or net worth. The investment later proved to be worthless.
- ▶ While filling out a life insurance application, a financial professional asserts that his client has no history of alcohol abuse, even though her driving record includes an alcohol-related charge. When the client dies in a car accident, the insurance company discovers the false statement and refuses to pay benefits to her beneficiaries.

YOUR SELF-DEFENSE MOVES

- ▶ Regardless of the paperwork burden, do not leave blanks that someone else could fill in without your knowledge or consent.
- ▶ Ask your financial professional to send you copies of the final, submitted documents. These should be clearly marked with the word "final" (or "as submitted") and the date the document was completed. That gives you hard evidence should a discrepancy arise later.

RED FLAG 3

“THIS IS JUST FOR MY SPECIAL CLIENTS.”



DID YOU KNOW?

Over one million complaints to the FTC in 2012 were fraud-related, and 7,000 of those complaints were investment-related.

Source: Federal Trade Commission Consumer Sentinel Network Data Book, February 2013

BEWARE OF ROGUE FINANCIAL PROFESSIONALS

Your financial professional presents you with a “private” or “exclusive” investment opportunity. Her letter looks different somehow: maybe it’s not on her employer’s stationery, or it bears the logo of another company. And though you’ve always done business at her office, this time she asks you to meet at a local café.

Be cautious. Your financial professional could be “selling away”—offering you an opportunity that her employer does not know about or supervise. That could hurt you in two ways: not only could your money be going into unsuitable or fraudulent investments, but if they don’t work out, you may have no legal claim against the employer.

SPOT THE RED FLAG

- ▶ A broker uses the logo and “guarantee” of his former employer, an insurance company, to sell a tax-free corporate bond returning 32% a year. (If the mention of a former employer doesn’t send up red flags, the promise of a 32% return on a tax-free corporate bond should!)
- ▶ A financial professional “sells away” an interest in a private partnership to a client. The client loses her \$4 million and has no recourse to sue the employer.
- ▶ A financial professional offers a client an opportunity to earn a preferred interest rate. The catch: the “opportunity” involves lending money to the advisor himself.

YOUR SELF-DEFENSE MOVES

- ▶ Ask your financial professional to verify—in writing—that his employer or company supervises the investment.
- ▶ Ask the employer or company directly whether it approves and supervises the investment.
- ▶ If your financial professional is a sole practitioner, verify that she carries professional liability insurance.
- ▶ Remember that investments should always be regulated or supervised by independent third parties, with the risks and possible conflicts of interest fully disclosed.

RED FLAG 4

“I’LL SEND YOU ALL OF THE INVESTMENT REPORTS.”



DID YOU KNOW?

Complaints regarding Ponzi and pyramid schemes represent the number one type of complaint received by the SEC in 2012, with complaints increasing by 1,328% between 2011 and 2012.

Source: SEC FY2012 Annual Complaint data

MAKE SURE IT ALL ADDS UP

What if your financial professional's reports are the only reports you get? Or what if you receive no regular reports at all? This happened to Bernie Madoff's clients, and we know how that turned out. Madoff's reports showed account balances that had long since disappeared into his boats, mansions, and cars.

SPOT THE RED FLAG

- ▶ A financial professional asks a 71-year-old woman to transfer accounts to his new firm. From then on, she receives no statements showing her accounts or the value of her investments.
- ▶ The only statements a client receives are from his financial professional. Later, he is horrified to learn that the financial professional is going to prison for fraud.
- ▶ A financial professional accepts money from a client for a specific investment, but the client never receives written confirmation that the investment has been purchased. The financial professional is later found guilty of running a Ponzi scheme.

YOUR SELF-DEFENSE MOVES

- ▶ Make sure you receive regular statements from independent third-party sources. Usually, these sources are the custodians of your assets—either a brokerage firm or a trust company. Reconcile the statements with reports you receive from your financial professional, and ask about any discrepancies.
- ▶ If you invest in limited partnerships, real estate, or non-traded securities—any investment not valued frequently or held by a separate custodian—verify that the investment manager is audited annually by a reputable independent accounting firm.

RED FLAG 5

“MAKE THE CHECK PAYABLE TO ME...”



DID YOU KNOW?

Attempts to quantify the amount of fraud and its costs in society—already estimated at \$40-50 billion—are likely understated, as many individuals do not report instances of fraud.

Source: Stanford University Financial Fraud Research Center, Scams, Schemes & Swindles: A Review of Consumer Financial Fraud Research, 2012

DON'T GIVE AWAY THE KEYS

You've met with a financial professional, liked what you heard, and decided to buy a financial product. Then, when you get out your checkbook, the professional says, "Just make it payable to me. I'll make sure it gets invested." Or he tells you to leave the payee line blank. At best it's unethical. At worst it's fraud.

SPOT THE RED FLAG

- ▶ A financial professional deposits a client's check, made payable to himself, into his own account for his own use. He then issues fraudulent statements, leading the client to believe that the funds have been invested.
- ▶ A financial professional talks a client into lending her money. Later she declares bankruptcy, and the client has little chance of collecting the debt.
- ▶ A financial professional persuades a client to give him \$100,000 for an "advanced premium deposit fund" that will pay off her \$2 million life insurance policy. When the client asks for her money back, she discovers that the financial professional is using the funds for his own purposes.

YOUR SELF-DEFENSE MOVES

- ▶ Never give a financial professional a blank check that can be filled in later.
- ▶ Refuse any request for a personal loan.
- ▶ Question any situation that gives a financial professional unlimited access to money intended for investment (or money actually invested). That includes giving the professional a full power of attorney for your accounts.

RED FLAG 6

“I KNOW IT’S A DIFFICULT TIME, BUT YOU NEED TO DECIDE.”



DID YOU KNOW?

Financial con artists wear many disguises, from those who sweep in on the heels of a national disaster and those claiming to be “senior specialists,” to those tantalizing consumers with free lunches and promises and those selling financial products and services through places of worship.

Source: Boston College Financial Security Project, “The Rise of Financial Fraud: Scams Never Change but Disguises Do,” 2012

STEP BACK

Your life has turned upside down. Perhaps you've lost a spouse, are going through a difficult divorce, or lost your home. In the face of events like these, we often feel vulnerable and overwhelmed—not the best time to make big decisions. Unscrupulous financial professionals know this and may swoop in with “opportunities,” pressing you for a decision before you can think straight.

SPOT THE RED FLAG

- ▶ A financial professional convinces a recent widow to invest her \$350,000 death benefit in a variable life insurance policy. Her greatest need, however, is not insurance but cash—cash that's now tied up in the insurance policy.
- ▶ A hurricane victim receives a loan from the Small Business Administration to rebuild his business. A financial professional presses him to purchase an annuity with the funds instead—an annuity he can't touch for 10 years without significant surrender fees.
- ▶ A woman visits the local funeral home to make arrangements for her mother's funeral. A financial professional meets her there with paperwork to move the mother's investments to the bank he represents. Only later does the woman discover that he not only moved the investments, but sold them without her knowledge.

YOUR SELF-DEFENSE MOVES

- ▶ Be suspicious of pressure tactics or sales pitches during a major life change. It's best not to make important decisions for at least a year or two after a personal loss.
- ▶ Find an advocate—a close family member or trusted professional—to help you with truly urgent matters, such as meeting tax or reporting deadlines.

RED FLAG 7

“THIS ONE’S A NO-BRAINER. YOU CAN’T LOSE.”



DID YOU KNOW?

Investment fraud victims are more likely to be male, relatively wealthy, risk-taking, interested in persuasive statements, open to sales situations, and better educated than the general public.

Source: Stanford University Financial Fraud Research Center, “Scams, Schemes & Swindles: A Review of Consumer Financial Fraud Research,” 2012

LOOK FOR THE DOWNSIDE

High returns, no risk. If it sounds too good to be true, that's because it is. A fundamental principle of investing is "there's no such thing as a free lunch." If a financial professional tries to convince you otherwise, take your business elsewhere.

SPOT THE RED FLAG

- ▶ A financial professional sells variable annuities to seniors with the promise of no loss of the funds invested and a high return. Seniors hear all of the advantages—an income stream they can't outlive, guaranteed death benefits, high yield—and sign up. The financial professional, however, fails to mention the steep surrender charges and limited options for distribution.

YOUR SELF-DEFENSE MOVES

- ▶ When your financial professional recommends a fund, insurance contract, or retirement strategy, listen carefully for a fair, complete discussion of the pros and cons. Write them down. If you're hearing only pros, you're not getting the full story.
- ▶ Ask the financial professional under what circumstances the investment will not perform as projected. Consider economic events—such as inflation or rising or declining interest rates—as well as your personal circumstances. What happens if you need money for an unexpected event? What happens if you die early or outlive the income stream?
- ▶ Make sure the financial professional focuses on your specific needs as much as on the investment.
- ▶ Ask for a description of the investment in writing, with a clear statement of its benefits and risks.

RED FLAG 8

“THIS OFFER IS GOOD FOR TODAY ONLY.”



DID YOU KNOW?

Individuals age 55 and older are significantly less likely to acknowledge they were victims of fraud than those under 55. In fact, only 37% of victims 55 and older acknowledge they were defrauded, compared to 56% of those under 55.

Source: AARP Foundation National Fraud Victim Study, March 2011

DON'T LET YOURSELF BE PRESSED

The bigger the decision, the more time and thought it deserves. After all, the choices you make today can have consequences for years to come. Ethical financial professionals know this—so they give clients plenty of space for making smart choices, urging action only when chronic indecision has hurt the client's interests in the past.

Unethical financial professionals see things differently. They might push a deal to meet sales quotas or earn bonuses. For them, a fast decision trumps a right decision.

SPOT THE RED FLAG

- ▶ A financial professional visits her clients at home, seeking a signature or a check. Ethical professionals may also make home visits, but only for the convenience of clients; unethical professionals invade the client's personal space to gain an emotional advantage. (One client, visited six times by a persistent financial professional, considered signing the deal as a way to make the visits stop.)
- ▶ A financial professional invites clients to a free dinner and seminar. The resulting sense of social obligation created an implied pressure to sign up for the professional's "limited time only" investment.

YOUR SELF-DEFENSE MOVES

- ▶ Give yourself plenty of time to mull over an investment before you decide. Don't act until you fully understand what is being offered.
- ▶ Speak up when you feel pressured. Any feeling of pressure is reason enough to delay making a decision.
- ▶ Know how the financial professional earns her pay, and consider this as you evaluate her advice. A professional who practices as a fiduciary will disclose upfront whether her compensation is tied to a specific product or recommendation. If she doesn't mention how she is paid, ask.
- ▶ Use your "free look" period. Contracts for insurance policies and annuities often give you this period—usually 30 days—during which you can back out without incurring penalties.

RED FLAG 9

“I CAN REPLACE THAT WITH SOMETHING BETTER.”



DID YOU KNOW?

In fiscal year 2012, the SEC received orders requiring the payment of more than \$3 billion in penalties and disgorgement for the benefit of harmed investors—an 11% increase over the previous year.

Source: Securities and Exchange Commission, November 2012

FOLLOW THE MONEY

Better for whom? Ethical financial professionals are always on the lookout for ideas and investments that make their clients' lives better. In contrast, unscrupulous financial professionals typically base their buy/sell decisions on the size of their commission or fee. Because selling sometimes feels like admitting a mistake, a suggestion to sell for "something better" can be a powerful motivator for investors—and a recipe for trouble in the hands of a scam artist.

SPOT THE RED FLAG

- ▶ A financial professional convinces a client to replace a variable annuity as soon as its surrender charges have expired, assuring the client that this is a "tax-free" transaction. "Tax-free" does not mean "fee-free," however. The professional makes \$80,000 in undisclosed commissions on the replacement annuity. The client now faces a renewed period of surrender charges.
- ▶ At the suggestion of his financial professional, a client buys an insurance policy with an extravagant premium—nearly half the client's annual income! The client has no beneficiaries and doesn't need the insurance for estate planning. What triggered the decision to buy? The financial professional recommends the policy as a "tax-free investment" likely to perform better than other investment options.

YOUR SELF-DEFENSE MOVES

- ▶ Whenever you are presented with a proposed transaction, ask, "What does this cost me?" In particular, ask about surrender charges, loads, commissions, internal expenses, or other transaction charges. (The existence of charges isn't an abuse; not being told about them is.)
- ▶ Always ask your financial professional, "Do you get paid from this transaction?" Third-party payment or commission isn't a red flag all by itself. But if the benefits for you aren't enough to justify that commission, look for other investment options.
- ▶ Consider whether the timing of proposed transactions is motivating the recommendation. Sometimes, new annuities are sold just as the surrender charges on existing annuities have disappeared, or an advisor suggests a replacement insurance policy or financial product just as she moves to a new firm.

RED FLAG 10

“IT’S VERY COMPLICATED. NO NEED TO BOTHER YOU WITH ALL THE DETAILS...”



DID YOU KNOW?

The annual financial loss by victims of elder financial abuse is estimated to be at least \$2.9 billion dollars, a 12% increase from the \$2.6 billion estimated in 2008.

Source: The MetLife Study of Elder Financial Abuse Crimes of Occasion, Desperation, and Predation Against America's Elders, June 2011

ASK, ASK, AND ASK AGAIN

Financial matters are complicated. That's why we rely on financial professionals in the first place. Unfortunately, lack of financial expertise—or other issues, such as dementia—can make clients vulnerable to fraud.

SPOT THE RED FLAG

- ▶ An elderly client asked her bank for a better rate on her CD. She walked out with an annuity that could not be surrendered for more than 10 years without a steep sales charge. The client had no idea that her new investment worked very differently from her old one.
- ▶ A client had never heard of the companies he held as individual stocks in his advisor-managed portfolio. He discovered this only after incurring substantial losses.
- ▶ A client was unaware that his brokerage company had been named as the trustee in his estate planning documents—and that the named trustee could not be replaced.

YOUR SELF-DEFENSE MOVES

- ▶ Tell your financial professional when you don't understand something. Ethical professionals will be happy to explain: they know that the best clients are well-informed clients. If you don't understand the explanation, ask the financial professional to put it in more simple terms.
- ▶ Forget about delegating your financial decisions to a professional just because you don't want to be bothered. At a minimum, you must be able to assess whether your financial professional is helping you.
- ▶ If necessary, get a second opinion on your financial professional's recommendations or approach. The cost of another set of eyes is trivial compared with the potential cost of fraud or abuse.
- ▶ Plan for the possibility that you may not be able to handle your own affairs. Visit an estate planning attorney to put documents in place that will ensure the continuity of your financial management and that your wishes will be respected if you are unable to execute them yourself.

**“ YOU CAN PROTECT
YOURSELF FROM SHADY
OPERATORS. USE THE TIPS
IN THIS BOOKLET AS YOUR
FIRST LINE OF DEFENSE. ”**

Eleanor Blayney, CFP®
Consumer Advocate, CFP Board

Remember Your Self-Defense Moves

To Prevent Financial Abuse:

1. Do your homework.

Ask your financial professional to provide services with the “duty of care of a fiduciary.” Identify the organizations that license or supervise him (see the reference list on the next page), then check their web sites for the professional background and disciplinary history, if any, of the advisor.

2. Never leave blanks on paperwork.

Always ask for final or submitted copies (with the word “final” or “submitted” stamped right on them).

3. Ask whether your investments are regulated or supervised by independent third parties.

4. Make sure you receive regular statements from independent third-party sources—not just from your financial professional.

5. Trust, but always verify.

If you invest in limited partnerships, real estate, or non-traded securities, verify that the investment manager is audited annually by a reputable independent accounting firm.

6. Never give a financial professional a blank check.

Question any situation that gives your financial professional unlimited access to your money.

7. Take your time before any decision.

Don't make major decisions just after a life change, like a divorce or the death of a loved one. Find a trusted family member or friend to help in reviewing or making the decision.

8. Weigh the pros and cons.

Ask your financial professional to list the pros and cons of each investment idea. If you hear only the pros, you're not getting the full story.

9. Understand how your financial professional earns her pay.

She should disclose any conflicts of interest—actual, potential, or perceived—that might affect her recommendations.

10. Before agreeing to any transaction, carefully consider the charges you'll incur and the timing involved.

11. Understand your investments.

Ask if you don't understand, and get a second opinion if necessary.

12. Designate a trusted friend or relative to handle your investments in case something happens to you.

Resources and Useful Links

TO FIND A CERTIFIED FINANCIAL PLANNER™ PROFESSIONAL IN YOUR AREA...

www.LetsMakeaPlan.org

TO CHECK THE BACKGROUND OF A FINANCIAL PROFESSIONAL...

Some of these resources may also tell you about your advisor's employment history, disciplinary record, and registrations.

www.CFP.net/verify

www.finra.org/brokercheck

www.adviserinfo.sec.gov

TO FILE A COMPLAINT...

Start by taking your complaint directly to the financial professional and the management of your advisor's company or firm. If you fail to get a satisfactory response, then contact the agencies below.

If the complaint is about a CFP® professional, contact:

CFP Board

www.CFP.net/report-misconduct

If the complaint is about a broker or securities product (such as stocks or mutual funds), contact:

The Financial Industry Regulatory Authority (FINRA)

www.finra.org/Investors/ProtectYourself/p118628

Your state securities regulator

www.nasaa.org/about-us/contact-us/contact-your-regulator

If the complaint is about an insurance salesperson or product (such as insurance policies or annuities), contact:

Your state insurance commissioner

<https://eapps.naic.org/cis/fileComplaintMap.do>

If the complaint is about an investment adviser or investment advice, contact:

The U.S. Securities and Exchange Commission (SEC)

www.sec.gov/complaint.shtml

Your state securities regulator

www.nasaa.org/about-us/contact-us/contact-your-regulator

OUR MISSION

The mission of Certified Financial Planner Board of Standards Inc. (CFP Board) is to benefit the public by granting the CFP® certification and upholding it as the recognized standard of excellence for personal financial planning.

1425 K STREET NW #500
WASHINGTON, DC 20005
800-487-1497 (TELEPHONE)
202-379-2299 (FAX)
MAIL@CFPBoard.org

LetsMakeaPlan.org

CFP BOARD

CERTIFIED FINANCIAL PLANNER
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