

## WEALTH MANAGEMENT

### **Protecting Your Money from the Madoffs of the Future: Advice for High-Net-Worth Individuals and Families**

Those who do not learn from history are doomed to repeat it. Despite clear warning signs, many wealthy individuals and families placed their trust and their fortunes with Bernie Madoff. Now, their lives are changed and their money is gone.

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As early as May 2001, *Barron's* ran an article that suggested that there was something “fishy” about Madoff's operation. Among other things, the fact that he did not charge management fees and just took commissions on trades raised suspicions. *Barron's* was not alone in their concerns. Over the years, several institutional managers and large broker/dealers also rejected Madoff's investment firm after it failed several due diligence tests. This tells us that the warning signs were there for investors to see. Nevertheless, mostly wealthy individuals and families chose to ignore the lure of an investment opportunity that was just too good to be true.

The Madoff fraud continues to send shockwaves throughout the high-net-worth community, with large estates going up for sale, family fortunes lost, suicides and even discussion of the sale of some or all of the New York Mets baseball franchise. This is particularly unfortunate not only because of the lives ruined and the wealth squandered, but because of the human toll—not every Madoff client was wealthy and some are even homeless thanks to Bernie Madoff's criminal enterprise.

These are tragedies that could have been avoided, and future Madoffs will count on people making the same mistakes in the future. Here are six ways to protect your wealth, and to determine whether an investment opportunity may be too good to be true.

*Madoff promised double-digit positive returns year end and year out.* Consistent returns of 10 percent to 15 percent per year through all markets is just too good to be true. Remember that old saying, “If it sounds too good to be true, it probably is.” Another time-tested corollary is, “If you don't understand the investment strategy, or if your advisor refuses to explain it to you, then run for the hills.”

*Be dispassionate.* Many institutional investors avoided entanglements with Madoff because they scrupulously followed their due diligence checklists, and when he and his organization failed certain items, they refused to invest. You should also follow proper due diligence procedures when evaluating your financial advisor and make sure everything is in writing. Do not get carried away with the promise of great riches or the lure of a famous investment manager.

*Consider whether your advisor employs an independent custodian.* An independent custodian helps safeguard an advisory firm's assets and reports major activities performed by the advisory firm, providing an extra layer of security for the clients. Because there was no independent custodian for Madoff, there was no third party involved in his activities to confirm or verify his actions, thus leaving the door open for him to falsify statements and his “trading” profits.

*Obtain independent audits from a well-known accounting firm.* Madoff invested over \$36 billion dollars of people's assets, yet his so-called auditing firm was a three-person accounting firm in a storefront in Rockland County, New York. When examining a fund manager, make sure their audits are certified, peer-reviewed and performed by a reputable firm who has experience in this area and audits similar firms.

*Look for an independent broker/dealer and a compliance department that passes the sniff test.* Not only was Madoff his own custodian, but he also acted as his own broker/dealer. This arrangement allowed him to appoint his brother and niece as his compliance officers and to process his own trades—which could easily be falsified.

*Look for transparency and care about technology.* Madoff's statements were often late, were impossible to understand and were printed on a Dot Matrix printer. In addition, he offered no online access, a standard feature for most equity accounts these days. For someone who pioneered the use of technology on the NASDAQ, these "behind-the-curve" approaches are noteworthy and should have been another sign of trouble for a firm of any size.

*Debra Taylor, CPA/PFS, Esq., is a principal of Taylor Financial Group, LLC, a full service wealth management firm located in Franklin Lakes, NJ. She has been recognized for her dedication to her clients, having been named to the LPL Financial Chairman's Council\*, a distinction that less than 2 percent of the 12,027 LPL Advisors hold.*

**AGATE TYPE**

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