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10 TIPS FOR FINANCIAL SELF-DEFENSE

Since people are always asking us how they can better protect themselves against broker misconduct and other forms of investment fraud and negligence, we thought we'd offer this list of ten easy tips. It will go a long way toward helping you to protect yourself and to reach your financial goals. One general rule applies across the whole range of these tips, however: you must be proactive when it comes to your money and your broker. Just because you're hoping for passive investment income does not mean you should become a passive investor. Passive investors are vulnerable investors. Ok, keeping that in mind, let's jump in:

1) Know Your Broker.

The easiest way to protect yourself against broker misconduct is to run a background check on every prospective financial adviser you're considering starting a relationship with. We're all pretty comfortable running background checks on job candidates, on potential renters, sometimes even on a daughter's fiance!so why not run one on the person who's going to be handling your life savings, college funds for your children, or your retirement money. We're not telling you to hire a private investigator. All you need to do is run a BrokerCheck® via the FINRA website, and you're on your way. BrokerCheck® will provide you with a history of any complaints, suits, or disciplinary actions that have been filed against the broker in question for as long as they've been registered with FINRA. The vast majority of brokers will have a clean record. If on the other hand the broker you're researching has a tainted record, seriously consider other options.

2) Get a Second Opinion.

As with medical care, it always helps to get a second opinion to put things in perspective. If you find yourself concerned about your account, or feel like something has gone wrong, contact a broker who is a CFP or Certified Financial Planner to review your account. CFPs can review your brokerage accounts and other assets, including life insurance, disability, long-term care policies, real estate holdings, tax returns, annual income and retirement plans, and they can give you an idea of the general state of your financial affairs. If your broker has let you down or worse, a CFP will probably be able to detect it and recommend a suitable course of action. In order to find a CFP, you can visit the following websites: Financial Planning Association, American Institute of Certified Public Accountants/Personal Financial Planning Division, The Certified Financial Planner Board of Standards, and the Federal Government also provides extensive literature on careful and effective financial planning.

3) Review Account Opening Documents.

If you've already opened a brokerage account, these are the documents you signed when you originally opened the account that state your investment objectives and risk tolerance. If you haven't opened your account yet, keep an eye out for these documents, and obtain copies. Your account opening documents are part of a legally binding agreement between you and your financial adviser which limits the type of investments and financial products your broker can recommend. Your broker may be a hotshot, but he or she is still legally obligated to respect your wishes, objectives, and risk profile when investing your money. Once you've obtained these documents, ask your broker if he or she feels your objectives and risk tolerance are reflected in your investments. If they are not or there is any discrepancy between your objectives and your portfolio, tell the broker to make changes. Your account should be a reflection of you, not your broker.

4) Calibrate Your Risk Tolerance Accurately.

Upon reviewing your account opening documents, you will find your stated risk tolerance from when you initiated the account. Make sure this was and is still accurate. Far too often, a communication breakdown occurs between investor and broker that leads to an inaccurate risk tolerance assessment. Many investors who think of themselves as "conservative" find that, upon review of their account opening documents, their broker has miscategorized them as "moderate" or even "aggressive." Risk tolerance is a rather unscientific way of determining an individual investor's willingness to suffer losses in the hope of future gains. This categorization helps determine how and where your money will be invested. If you can't stand wild swings in your retirement savings, get your paperwork adjusted so your broker won't be able to recommend risky investment strategies or volatile financial products.

5) Make Sure Your Investment Objectives Are Correct.

Following on from the last tip regarding risk tolerance, your investment objectives are another way of limiting what strategies and products your broker can recommend to you. Are you interested in organic growth, aggressive growth, speculation? How about preserving your principal or earning income? For the more savvy investor, do specific kinds of companies or products appeal to you? Maybe you just want a balanced

portfolio that will grow slowly but surely over time. Whatever your investment objectives, they're just that, yours. Review your account opening documents and make sure your broker has recorded your objectives accurately. Again, your statement of objectives will help determine how and where your money is invested. Bringing your objectives in strict accordance with your goals as an investor will ensure that your broker is investing faithfully on your behalf; or, if he or she is not, that supervisors at the brokerage will take notice of the mismatch and hopefully rectify it before it's too late. Checking an investor's account against his or her objectives is one way brokerage supervisors manage compliance between customers and brokers.

6) Adjust Your Risk Tolerance and Objective As You Go.

Life takes us in new directions all the time. One year we're flush; another year, we're tightening our belts. Maybe you retired this year and no longer have a strong income. Or an injury at work has left you disabled. Or you hit the lottery and would like to try some of those hot tech companies that seemed too risky only a year ago. One thing in life is constant: change. That also means that very likely your risk tolerance and investment objectives will change over time. The problem is, your broker may not know about it. Discuss any and all significant life changes with your broker as soon as possible to see if they might have an impact on your investor profile. Your broker should be able to tell you which life changes will lower or increase your risk tolerance or substantially alter the investment objectives you previously agreed upon.

7) Review Your Account for Balance.

As with our lives, our portfolios should ideally reflect a healthy balance. In the case of a financial portfolio, that means a sensible distribution between stocks, bonds, and cash. Balance is essentially a way of reducing overexposure in one direction or another. Balance is a tried and true way of managing risk. When bonds shoot up, stocks generally go down. As a general rule, bonds are less risky than stocks; but over the long run, stocks generally provide better returns than bonds. Some advisers suggest that, as you age, the percentage of bonds in your account should increase and be calculated as a percentage of your portfolio to your age. This is a simplified version of what is known as "asset allocation." For example, a 60 year old investor might have 60% in bonds; whereas an 80 yearold might have 80% in bonds. Your monthly account statement from your brokerage may include a pie chart or some other visual representation that helps signify

the percentages of stocks, bonds, and cash you own. If you have trouble determining your asset allocation from you statement, contact your broker and have him or her explain it to you. Don't forget to follow up by asking why your broker thinks that allocation distribution is a good one for you in particular.

8) Watch Out for OverConcentration.

Remember how millions of investors lost many millions of dollars during the tech bubble of 20002002? That's primarily because the tech boom got people thinking that tech stocks would keep going up forever. In addition to not having proper asset allocation, many accounts around that time had the stock component of their portfolio over-concentrated in tech and telecom companies. This sort of imbalance made accounts vulnerable to a much higher degree of risk and flouted the commonsense warning, "Don't put all your eggs in one basket." Upon reviewing your account statement, if you find there to be an overconcentration in your portfolio in one or more sectors, contact your broker and ask him or her why you are invested that way. If their answer is not satisfactory or in accordance with your risk tolerance or investment objectives, tell them to adjust your portfolio or go over their head and speak to a Branch Manager at the brokerage firm about it.

9) You Are Your Own First Line of Defense.

Never assume your broker is carefully watching over your account with your best interest in mind. As anyone who has been involved in a lawsuit over account losses knows, brokers and their brokerage firms typically argue that they have absolutely no duty to monitor a customer's account on a regular basis, and only a limited responsibility to keep a customer's best interest in mind when they're recommending purchases and sales of securities. Shocking, right? It's not something brokers tend to advertise. The broker and brokerage firm position is that they are essentially financial advisers who counsel customers when it comes time to make a decision the rest of the time, well, sorry, but you're mostly on your own... At any rate, the duty of monitoring an investment account is a gray area, one you should try to make as blackandwhite as possible by keeping vigilant watch over your money. Look at your monthly account statements carefully. Call your broker regularly and review with him or her your current holdings and talk about the past and future. Let them know that you're keeping an eye on things even when they may not be.

10) Don't Be Afraid to Go Over Your Broker's Head.

Like most of us, brokers have bosses, supervisors, and managers. Most larger brokerages will have a host of brokers working under the supervision of a Branch Manager. Branch Managers are subject to regulations that go beyond what ordinary brokers are subject to, including duties to review each of your broker's trades on a timely basis and to review your entire account at least once a year. If you went to a restaurant and were given rude or incompetent service by your server, wouldn't you ask to speak to the manager? Well, if you're not happy with your broker's performance or even if you just want to check in to see who's looking over your broker's shoulder, contact the brokerage's Branch Manager and set up a meeting. This isn't just a meal we're talking about: it's your financial security. Especially in cases where there's a communication breakdown between you and your broker on risk tolerance, investment objectives, asset allocation, and over-concentrated positions, get in touch with the Branch Manager and see if they can give you answers.