



Financial Focus: Madoff scam has lessons for investors

In light of the Bernie Madoff Ponzi scheme scandal, what steps can investors take to ensure their money is invested soundly?

Dual roles a red flag

The Madoff Ponzi scheme has shaped up to be the largest such scam in history; potential losses amounting to as much as \$50 billion in investors' wealth. Bernie Madoff was a longtime industry insider who used his reputation and elite associations to foster trust. Unfortunately many investors allowed his personality to trump due diligence and full disclosure.

According to the Global Fiduciary Standard of Excellence, Practice 3.4 states that, "A due diligence process is followed in selecting service providers, including the custodian." Simply following this one screen would have eliminated Madoff as an investment manager because he also acted as the custodian, which gave him access to the investors' money.

Investors should see a big red-flag and when the same person serves as adviser, investment manager and takes custody of the investments. Experts agree that investment managers should not have custody of their clients' money. Rather, it is held in a separate "custodial account." Several large firms, such as Schwab, Fidelity and TD Ameritrade, provide custodial services for independent investment advisers and their clients.

To safeguard your wealth, you should consider utilizing an independent adviser who follows a proven investment process that adheres to fiduciary standards of excellence. When you do that, you can sleep well at night knowing that your money will remain your money.

Richard B Komarek
Accredited Investment Fiduciary
highWAY Financial Networks
Redding

rkomarek@highwayfinancial.com



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