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Is your broker a crook? If your money is lost and your financial adviser is missing, here's what you can do to recoup your investment

Black Enterprise, August, 2006 by Lynnette Khalfani

LIKE MANY PEOPLE INTERESTED IN learning about Walt Street, George L. Forbes spent years educating himself about stocks and bonds. Forbes, head of the Cleveland NAACP and former president of the Cleveland City Council, even sat on a powerful state commission that helped investment firms win contracts to manage hundreds of millions of dollars in assets for the Ohio Bureau of Worker's Compensation.

Despite his financial prowess, Forbes fell victim to a scam that bilked dozens of investors out of as much as \$300 million.

The scam, securities industry officials say, was committed by Frank Gruttadauria, a former manager of a Cleveland office of Lehman Brothers. For more than a decade, Gruttadauria courted wealthy clients and encouraged them to invest millions of dollars with him, according to the Securities and Exchange Commission. When the investments didn't pan out, Gruttadauria began an elaborate shell game, using money from new clients to replace the failed investments of established clients.

When the scheme finally spun out of control, 44-year-old Gruttadauria disappeared, according to the Federal Bureau of Investigation. That was Jan. 11, 2002. Four weeks later, Gruttadauria turned himself in and pleaded guilty to bank fraud, mail fraud, securities fraud, and identity theft. He's now serving a jail sentence after he admitted taking \$54 million from client accounts without authorization and misappropriating more than \$115 million in investor funds over a 15-year period.

Forbes, now 75, put his actual losses "in the area of the low six-figure range." He is certainly not alone in being duped by an unethical stockbroker. In fiscal year 2005, the SEC received nearly 20,000 complaints against rogue stockbrokers; 700 complaints involved theft of funds or securities.

In another high-profile case, stockbroker Calvin Darden pleaded guilty in August 2005 to defrauding several prominent African American investors, including rapper Nelly and NBA star Latrell Sprewell. New York Assistant District Attorney Elson Ho says Darden defrauded 11 victims out of about \$7 million. Darden was sentenced in November to four to 12 years in prison and was ordered to repay approximately \$6 million to investors and securities firms.

So what should you do if your broker--or your hard-earned money--is suddenly missing? And how can you reduce your chances of getting involved with an unscrupulous stockbroker in the first place? Experts say the key to avoiding both dilemmas is being proactive.

"There is a standard assumption that most people don't want to get involved," says Leland Hevner, president of the National Association of Online Investors. "But it is our firm belief that risk is mitigated by knowledge and involvement."

Start by thoroughly researching any broker, financial planner, or adviser you are considering hiring. Explore the North American Securities Administrators Association Website, www.nasaa.org, or call 888-84-NASAA for a regulator in your state.

State regulators, along with the National Association of Securities Dealers, jointly maintain a database of more than 650,000 stockbrokers and 5,000 securities firms. Known as the CRD, or the Central Registration Depository, the database contains critical information, such as whether a broker has ever been sanctioned or fined for investor wrongdoing. To check CRD records, contact the NASD's consumer hotline at 800-289-9999, or visit the regulatory arm of the NASD online at www.nasdr.com and use NASD's "Broker Check" system.

Moreover, anyone identifying himself as an investment adviser or as someone who sells securities must be licensed and registered to do so--no matter how small or large the firm. Companies with less than \$25 million in assets under management must register with the state. Firms with more than \$25 million in assets must register at the federal level with the SEC. So any legitimate securities salesperson or investment adviser is going to be registered somewhere.

"If you find out that they're not registered, or if they're hesitant to give you their CRD or investment adviser number, that should set off alarm bells, says Bob Webster, a spokesperson for NASAA. "One simple phone call really can save people a whole lot of time, grief, and money."

Many investors, however, shy away from asking potential advisers detailed questions, which is a big mistake. "The relationship between a client and an investment manager is very much built on trust," says Jon Stokes, senior policy analyst at the CFA Centre for Financial Market Integrity. "You're turning over all kinds of personal information," Stokes adds, so if an adviser won't reciprocate "then that's a big red flag."

According to NASAA's Investors' Bill of Rights, you have the right to ask for and receive information from a firm about the work history and background of the person handling your account, as well as information about the firm itself. If something goes awry, you also have the right to discuss account problems with the branch manager or compliance department of the firm and receive prompt attention to, and fair consideration of, your concerns.

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