



## Adviser Theft: More Common Than You Think [Ep. 12]

*Transcript*

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In life, I feel like oftentimes when people, something happens bad, they say that, "Oh, I knew in my gut that something wasn't right." I would trust that. If something's off on your senses about a person, him or her, or the situation or how it's invested, I would trust that. That can be very meaningful and trust your intuition.

(...)

All right, Robert, you ready? I'm ready. Okay. Well, today's going to be an interesting topic, how to stop a financial adviser from stealing you blind. Yeah, I'm excited about that. It's something that people don't talk about a lot. I think it's one of those conversations that you dare to talk about in some senses. So I'm excited to have that discussion. I agree. How do? Let's start out.

(...)

How can a financial adviser rip somebody off? Well, to be clear, we've talked about in the past fees and stuff of that nature. That's not what we're talking about today. We're not talking about just maybe somebody put you in a proprietary product and locked in with a massive commission and you're locked in a product for 10 years. That's not the rip off we're talking about. We're talking about Bernie Madoff. Exactly.(...) Exactly. What happened to Tom Brady? Yep. Things like that. Okay, perfect.

(...)

Bernie Madoff, that's the first example we're going to talk about. So Bernie Madoff, right? What made him unique? Chairman of the NASDAQ leveraged the fact that he had celebrities as clients and that creates a, I think, false sense of security and people do less research than they should on the adviser.

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Bunch of red flags with him. I think if people would have done a little bit more research when it came to him, they would have seen a few things, right? He created his own statements.

(...)

The assets were held where he was.

(...)

It's interesting when it comes to rate of return, the rate of return he was quoting, he could make his clients was only 8 to 12,(...) which honestly, a portfolio that you have, you know, 60, 70, 80, 90, 100% stocks, that's not unrealistic over a decade. Over time. Exactly. Yeah. If

I tell somebody, hey, if they're heavy in inequities over a decade, they should expect 8 to 10, 8 to 12.(...) That being said, candidly, last three years, right? Clients have done well over that. Some clients have done north of 20, but that's not normal. Just because you make somebody over 20% one year to assume you're into over a decade is a wrong assumption.(...) And what makes Bernie a little bit more unique is not, yeah, he's pretending he can do 8 to 12, but with no negative years. It was every year. That's where it just gets unrealistic. It'd be nice, but it's not realistic. And you know, it's interesting. We've been doing this about 20 years and I thought I knew a lot about Bernie Madoff. You know about the Ponzi scheme, you hear about it. And there's some movies that have come out about it, but the Netflix did a documentary just two years ago on it. And I sat and watched it with my wife, Lauren, and it was crazy that, I mean, not only what Bernie did to clients, but how it affected his family and his wives, his sons.

(...)

It's hard to think that people actually do that stuff, but it still exists today, right? I mean, that's what happened to Tom Brady. It can happen.

(...)

Candidly, I did not watch that Netflix documentary because it makes me feel uncomfortable. I don't like watching that stuff. I did see the one that Robert De Niro did the movie a few years ago, I think in 2017 that it came out.

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And I've read a book on it, but I think you just have to be careful.(...) And another thing, by the way, somebody might say, well, you're saying 8% to 12% rate of return is okay over a decade, but perhaps not every year. Just to give somebody an idea of what type of returns you should expect, it always changes, right? And one number you should always look at is what the 10-year treasury is paying.(...) What is a 10-year treasury? A 10-year treasury is a government bond.(...) And right now you're at about 4.4-ish. Historically, it's a little bit

higher.(...) So if you can guarantee make 4.4% per year over 10 years in a government treasury in today's environment, if anybody's promising you even 7, but let alone eight, nine, 10, 11, 12,(...) there's risk involved. They may not be disclosing it, but there's some form of risk. Market risk, credit risk, some type of risk that you have to be aware of. Now, if they were the 1970s and interest rates are really high, 10, 15, 20%, that's a different story. But I've been an adviser for 22 years.

(...)

We've experienced very low interest rates during that time. And even a few years ago, 10-year treasury was under 2%.

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So even less so if somebody's guaranteeing a 7, 8, 9, if it sounds too good to be true, it is. One of those things you like to say sometimes is there's no free lunch. And I like to tell people when they hear something about, oh, this guarantees 8, 9, 10. I go, if there was an investment out there that guaranteed 10%, everybody would do it. Warren Buffett would do it. And if he's not doing it, then why would somebody else think they're smarter than him? So going back to there's no free lunch.

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Now, there might be people listening thinking, well, yeah, but my portfolio over the last 10 years is done 10, 15, even 20%. But what they may fail to realize is that was the best decade in stock market history. So I think you probably would agree that you can average that. But what you're talking about is not what you can average in a portfolio that has its ups and downs, but like Bernie Madoff, when he's trying to tell people, I guarantee you an 8 or 10 or 12%.(...) Nothing down. 100%. So I think what you're saying is 8 to 12 is not unrealistic over time. But to have that every year consistently, no negative year over a decade, two decades, that can't be done. To your point, Berkshire Hathaway, Warren Buffett, he didn't do that. And he's got amazing returns. But even it being Berkshire Hathaway loses money

from time to time. Typically 2 out of 10 years are bad. Now this happened, and I can't remember the story. Maybe you can. I apologize, but didn't this happen to an NFL player recently, right? Yep. Yep. I like how you're leading me right along there, Robert. So this just happened in terms of being public. I read it on ESPN about six weeks ago.

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And again, this is allegedly, right?(...) So more recently, a couple months ago, it kind of became public information. Ex-NFL player for the Miami Dolphins, Pro Bowler Safety, Rashad Jones was allegedly

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defrauded by former adviser Isaiah Williams from January 2022 to March 2024,(...) where he allegedly misappropriated \$1.5 million through 133 wire transfers to pay for his lifestyle.

(...)

And this is just-- it's crazy. Yeah. Well, it's crazy to think that that stuff in today's world of technology and just access at our fingertips to know when something happens immediately, that this type of scam can still happen without us knowing about it. So if I'm a consumer, if I'm a client or looking to hire an adviser, how can I potentially avoid those types of scams, those type of advisers? Yeah.(...) Well, in the case, let's talk about this individual incident, that what happened is the adviser had authority, had like a power of attorney for withdrawals, allegedly, right? Again,(...) this is-- everything is allegedly-- It's a very fine line to be crossing. Yeah. I can't think of a single good reason why your financial adviser is going to need authority to take money out of the account on your behalf and to send it wherever. I mean, if you want money out of the account, you should-- the adviser can bring it to your attention, hey, we need to send X amount to this investment or wherever, but you, the client, you should be involved in endorsing that money movement. I mean, we know people that love their family but still don't trust their family to have that type of power over their investments and control and money. So that's a tough one for an

adviser to make that argument. But I came up with a list of what I would consider kind of low hanging fruit of things you should be worried about, right? And by the way, this isn't super rare.

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Excuse me, super common, I should say, in terms of advisers literally taking the money out. But it happens from time to time. Again, I read the article and I thought it'd be worth spending an episode talking about some pitfalls, just things you should be aware of not to fall. Well, and I know Annie upstairs, one of our senior advisers, great lady, she got into this industry because her grandparents were defrauded. And so although it's not common, it happens. And it happens to everyday people. It's not always the pro bowlers, you know? Well, and you and I, we hear from clients from time to time, but typically when this happens, people don't want to say it because they're embarrassed. You know, nobody wants to say they were naive enough to get, taken advantage of. Now, again, it's 100% the fault of the person that committed a crime. Don't get me wrong. But I feel like sometimes you could do your due diligence. Yeah, you should at least make it, you know, cross your T's, dot your I's. So that being point, I'll go over a few low hanging fruit. One is if you, if you're looking for an adviser, or have an adviser, make sure that they have a legit custodian. What is a custodian? A custodian is where your investments are held, right? Going back to Bernie Madoff, he was his own custodian. Hence he could fill his own statements. Right. So yeah, explain that. The assets were in his name. Okay. Right. So not only can he invest people's money, but he can literally just take the money. Well legally he is not supposed to, but he could and who's going to be watching. Right. Because he's not being regulated because he's his own custodian.(...) He's his own compliance. That's right. Okay. Theoretically he was still audited, but it's, it's hard. He controlled the audit. So I would make sure that you're at a legitimate custodian, you know, we custody currently only with Raymond James, but we're not the, we're not the only legit great custodian. There are plenty other ones.(...) If you have an adviser who uses Fidelity or Charles Schwab, TD Ameritrade, they're all, they're all known as the best custodians on a planet with Raymond James, with Raymond James, of course. Absolutely. Um, but any of those are legit. I would just make sure you're with a legit custodian. Uh, next thing is if it sounds too good to be true, it is, you know, if somebody's guaranteeing you less risk than, than the market yet similar to market returns.

(...)

There's something going on. There's a type of risk. Um, and you need to be aware of it. Doesn't mean it's a bad investment necessarily, but you need to be aware of it. Um,(...) do a background check on your financial adviser. Uh, we just had a situation recently where I think I know what you're about to say. Yeah. Um, we had a client who, um, without diving into personal stuff, basically just had a terrible situation with an adviser and adviser doing, um, bad things. Uh, I would argue illegal things to her in her account.

(...)

And um, she was looking to fire them and did fire that person ended up going with us, but, uh, I did a quick background and what she was alleging of them. There was a, there was a track record of this happening five or six times in the last decade.(...) So I would do a background check. There's two main websites that you can find this information or public websites. First is [brokercheck.finra.org](http://brokercheck.finra.org) that's [brokercheck.finra.org](http://brokercheck.finra.org) or the second one is [adviser info.scc.gov](http://adviserinfo.scc.gov) adviser with a E R so a D V I S E R info dot sec.gov. And I think if you, if you go to one, the one will take you to the, yeah, the broker check can send you a link, but in case you want to look them both up. Yeah. Perfect.

(...)

Now, if an adviser has a bankruptcy, a DUI, it's on there.(...) Now nobody's perfect. Uh, again, our full firm, we have all clean records, but let's say your adviser has a, I don't know, bankruptcy.(...) If it's one, it happened 20 years ago. Maybe you're okay with that. And it's still, you're still comfortable working with them. That's fine. But if there's, you know, six DYs in the last six months and two bankruptcies and some liens, again, it's your money. You can still decide to work with them, but my, I'm not telling you to work or not work with that person. What I'm just saying is be aware, go in with your eyes open and you make the decision with, with the full knowledge of everything. They might be a fun person to hang out with, but you might not want to manage your money. Exactly. Yeah. You're not looking for a friend. You're looking for a financial adviser. You know, if I'm having heart surgery, uh, I want whoever the best surgeon is, not somebody who's fun to golf with. And it tells me a funny joke. I want who, who's going to do the best thing for us. Um, we've talked about this in the past where I like, you know, oftentimes clients become friends, but that's the approach I'd

rather do than, you know, somebody's a friend and then they become a client and, and then maybe they give you a shot because of that friendship. I would rather somebody give us a shot because we're doing the right job for them. And if we become a friend, that that's bonus. But at the end of the day, at the end of the day, they're engaging with us to perform a service at a world-class level. And I think that's an important distinction that you made or a tidbit that you made where

(...)

the U4, uh, the securities license, doing a background check on the people on advisers, it doesn't just look at their professional record. If a client's ever made a complaint, it looks at their personal life. So nothing's hidden. So you get to know about the professional record and the personal life. And I don't think people realize that, but it's an important tidbit there. A hundred percent. Yeah. Uh, next thing is just understanding what you're in.(...) If somebody cannot explain to you what you're in, in a minute, that's a problem. You know, right now, private REITs have become a big deal lately.(...) Um, there's a lot of these investments that are, are kind of confusing to understand index annuities that come with these riders. And if this happens to your account, then you're guaranteed to this, you know, investments don't need to be that confusing. Um, and if your adviser can't explain it to you how it works and your fees all embedded in a very simple manner, I would argue that's a, that's a red flag. Something's going on again. If you want to bypass that alert or alarm and still work them totally fine.(...) But I would argue you should be able to understand, even if you're not a, um, have a finance degree or not in this industry, you should have a pretty good grasp of what your investments are doing. That's what they're doing, but you just mentioned it, how they're also getting paid. Yep. Yep. And we've had a podcast on that of tons of ways you can get paid, right? About advisers disclosing fees. They're soft dollars. We're not going to get into, um, how to, how to do all that research on this episode, but there's soft dollars, there's commissions, there's 12 B ones. There's a lot of fees that can be embedded, um, that, that you need to fully understand.(...) Um,(...) the next one is don't fall for titles. You know, a lot of advisers call themselves financial advisers, wealth managers, planners.

(...)



This is, this is not a regulated industry. Um, when it comes to titles, when comes other things that it's super regulated, but anybody can have that, uh, title and then, Oh my gosh, they, you know, they, they're a wealth manager. What does that mean? What designations do they have beyond that? What other education or experience? So don't be sold by, you know, president of this vice president of this. It means relatively nothing. Are myself proclaimed title as the best financial adviser on the planet? I'm putting it on my business card. Is that not legit? I thought it was. So what if somebody, what if a client happens to run into all these situations we're talking about, what should they do at that point? If they're already there and they're already, they feel like they're getting scammed. They feel like something might be going on. What do they do?

Well, before I get that point, I would say last one is power of attorney, right? I would not give a financial adviser, uh, a power of attorney on your portfolio in terms of being able to do withdrawals. Okay. Right. Now to your point, um, let's say somebody's in a situation like, man, I think this could be messed up or, you know, I would, I would immediately freeze the accounts and try to get the, the portfolio out of there. There's a word in that industry called an ACAT where you transfer your investment somewhere else. We were talking about this a few days ago in preparation for today's conversation. And you said, um, yeah, but if it's frozen, man, what if they don't release it? And that's true. They may not, but if you look at the Bernie Madoff situation, a lot of clients had their assets and for whatever reason, maybe they didn't even know it was a Ponzi scheme, but were able to transfer it out. So my advice would be, if you have any concern, try to immediately get your accounts out.

(...)

I would reach out to some type of regulator, the SEC or FINRA and, and, you know, let them know what's going on. And then thirdly, I would get an attorney and help you review everything. Um, was everything on the up and up and what's going on? And then maybe fourth, find a new financial adviser. Yeah. Trusted financial adviser. But I would, but I would, 100%, but I would, I would get your assets protected before you've been do that. Right. Because if you don't get your assets protected and out of there, there might not be any money to give you your new adviser. Right. So you need to put out the fire first before you figure out where to put all your furniture, where you're going to move it to, if you will. Well, like I said in the beginning, I was excited to talk about this. I think a lot of people want to hear about these things because they, this is stuff they normally only see on TV and they

don't hear about, but, uh, knowing how to avoid it is important. So if you were to give us one takeaway from the entire conversation, what would that be? Like the most important nugget on how to avoid that and what to watch out for? What would you do?

(...)

I would say go with your instincts.(...) I would say in life, I feel like oftentimes when people, something happens bad, they say that, Oh, I knew in my gut, uh, that something wasn't right. Right. I would trust that if, if, if something's off on your senses about a person, him or her or the situation or how it's invested, I would trust that, that, that can be very meaningful and trust your intuition. Perfect. Well, thank you, Glen.

(...)

Before we head out, we do have a mailbag question and I have a feeling you're going to like, uh, the name of this person because their name is also Glen, but it's two n's. So it's spelled wrong and they're, they're, they're in Tennessee. So, um, so the question is, how do I know if I'm putting the right assets in the right accounts?

(...)

So, yeah, there's, there's a million ways we could talk about that. So I'm going to, I'm going to take a single lane cause this could be an hour conversation. So I'm going to approach this from a tax standpoint. Okay. So from a tax standpoint, if you are, if you have, uh, let's say, let's say you have \$2 million and a million of it is, is in an IRA and a million of it's in a brokerage account. In other words, a taxable account, all things equal.(...) Um, let's say you're maybe you're retired or near retirement, I would shift more of your fixed income into the IRAs.

(...)

Right. Why? Great point. Cause most of your fixed income is going to be taxed at ordinary income. Now there might be a listener that says, well, what happens if I have a municipal bond where it's tax free? Most of them are then obviously yes, you would put that on a brokerage, but, um, in this environment, most of my career for most clients, it's going to be much more attractive to have, uh, corporate bonds, meaning corporates, meaning Coca-Cola, Walmart type bonds, cause you can get a higher yield, pay the taxes and you still net more than you would on an immunity bond. You need to do the math. It's not like that a hundred percent of the time, but frequently it is, uh, has been our experience. So what I would do is out the investments that spit out in gains or income that's taxed at your income level. I would tend to shift more of that money in your IRAs. Why? Because when you take out money out of it, if it's a traditional IRA, you're going to pay income tax no matter what.(...) Right. Uh, if it's a Roth, okay, it's tax free no matter what, but either point, either case, what is the highest, uh, most likely the highest, uh, product or investment capital gain or, or dividend or income that you're going to pay? Most likely it's going to be from your fixed income.

(...)

Um, so I'd put that in your, in your IRAs or Roths, your basically your qualified accounts and I would, I would lean more of your stocks where you're, you're going to get your qualified dividends come from, which, which for most people it's going to be less than our income bracket. Um, you're also going to have your long-term capital gains. And lastly, you're going to get your stepped up cost basis. Right. So if I have, uh, let's say I put in \$10,000 in Apple 20 years ago and now it's worth a couple hundred K. Um, when I pass away in that taxable account, there's a step to cost basis. So now my cost basis is 200K and my children do not pay a capital gain on the difference of what I paid it and not paid it.

(...)

You get that benefit in a, in a brokerage account, right? Had I done that same investment in an Apple, in an IRA or a Roth, there's no step to cost basis. I'm just going to pay income tax when I withdraw those funds.

(...)

And if I could add, I would probably say also it's important, and we did a podcast on this to, to do a financial plan and under, and have different buckets, have that traditional IRA, the Roth, the brokerage accounts. And of course that's going to depend on age where somebody's out when they want to retire, but it's important. You just said it's important to do the math and understand where those assets are coming from and have a financial adviser. That's savvy enough to understand current tax laws and where your assets are to minimize taxes in retirement. Yep. A hundred percent to reiterate that the advice I just gave, I think is going to apply to 95% of people. There's always going to be exceptions, which to your point, that's why you want to do the financial plan to, to let it crunch the numbers and see what's going to net you the most amount of money. But in most cases,(...) I think it's going to be what we just discussed. Awesome, Glen. Thank you. And I want to thank the other Glen for sending in the question.

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As a reminder, if you do have any questions, feel free to tag us or put it in the comment section of the videos or send it to GDS at [GDSwealth.com](https://GDSwealth.com). Thank you for tuning in today and Glen, I really appreciate it. Thank you.

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