HOW TO CHOOSE THE RIGHT INVESTMENT ADVISOR

Finding a reliable Investment Advisor can be challenging. While many advisors act in good faith, some may have undisclosed conflicts of interest. Protecting yourself requires asking the right questions, reading disclosures carefully, and understanding how advisors really get paid.

Before signing any advisory agreement or engaging an Investment Advisor, it is recommended to obtain independent legal advice. If you experience any disputes, complaints, or alleged losses related to your investments, you should seek advice from a lawyer experienced in securities or investment-related matters.

Below are key points, questions, and red flags you should consider before hiring an Investment Advisor.

DUE DILIGENCE, VERIFICATION AND QUESTIONS

First Things First: Verify the Advisor

- Use the **Investment Adviser Public Disclosure (IAPD)** search: https://adviserinfo.sec.gov Check the advisor's background, license status, disciplinary history, and their **Form ADV**, including brochure disclosures, the mandatory disclosure document updated annually with fees and potential conflicts.
- Use the **Financial Industry Regulatory Authority (FINRA)** Broker Check search: https://brokercheck.finra.org
- Use the **Certified Financial Planner (CFP)** search: https://www.cfp.net/verify-a-cfp-professional

Questions You Should Ask an Investment Advisor

1. **Conflicts of Interest**
    - Do you promise to put my interests first at all times?
    - Do you receive commissions, bonuses, revenue sharing, or any other compensation that might influence your advice? If so, please explain fully.

2. **Compensation and Fees**

    - How are you compensated for managing my account?
    - Are there any fees, expenses, or charges—such as custodial, trading, mutual fund, or platform fees—that may not appear clearly on my account statements?
    - Will you provide me with a detailed report of every fee and expense charged to my account, with each type of fee broken out and stated in dollar amounts?

3. **Investment Strategy and Performance**

    - Do you have written material describing your investment philosophy and strategies, as well as the historical results you've achieved for clients?

Part 2A of an Investment Advisor's Form ADV – The Brochure – reveals, in part:

> The Firm assists clients in defining their investment objectives for those assets placed within the firm's management. On a discretionary basis, the Firm then develops an appropriate portfolio of investments for the client's account, selecting specific investments (principally using no-load mutual funds) that are consistent with the client's investment objectives. Thereafter, the Firm monitors the client's investments, making changes in the client's specific investments or portfolio composition as deemed appropriate.

An Investment Advisor can earn money through revenue sharing by receiving a portion of ongoing fees like 12b-1 fees charged by mutual funds, creating a conflict of interest since the advisor may recommend funds for their own benefit rather than the client's. 12b-1 fees cover marketing and shareholder services and are disclosed in mutual fund prospectuses, but not all advisors accept or report these fees. Advisors must disclose acceptance or rejection of such fees in regulatory filings and client agreements. If a no-load mutual fund's prospectus shows 12b-1 fees but an advisor fails to disclose its receipt or rebate of these fees, it risks regulatory violation and reputational damage. Alternatively, rejecting the fees without crediting clients may also breach fiduciary duty by withholding those benefits.

Additionally, there are different classes of no-load mutual fund shares, and some classes may incur 12b-1 expenses while others may not. Share classes (such as A, B, C, D, Institutional, or Advisor classes) often have different fee structures including varying 12b-1 fees. Therefore, clients should carefully review both the fund prospectus and the specific share class details along with advisor disclosures to understand the fee implications fully and protect their interests.

- What benchmarks do you use to measure success, and how has your performance compared with those benchmarks? Please explain any significant deviation.
- How do these results compare with those of other Investment Advisors?

4. **Portfolio Management Process**

- How will you design or adjust my portfolio to reflect my age, goals, and risk tolerance?
- Who will be responsible for making the final portfolio decisions?
- Will you have discretionary authority to buy and sell in my account without my prior approval, or will you consult me before making changes?

5. **Ongoing Client Relationship**

- How often will we meet, or otherwise review my investment plan and progress?
- Will you also assist with related financial needs, such as estate planning, taxes, and beneficiary designations?
- May I designate a trusted contact person in the event of elder abuse concerns or cognitive decline?

6. **Client Rights and Documentation**

- If you provide me with paperwork to sign, may I take those documents home and review them before I sign?

Questions the Investment Advisor May Ask You

1. **Goals and Priorities**
    - What are your primary financial goals—for example, retirement income, leaving a legacy, charitable giving, or other priorities?
    - What concerns or worries you most about your finances today?
2. **Financial Snapshot**
    - What assets and income sources do you currently have?
    - What liabilities or debts do you carry?
3. **Personal and Family Circumstances**
    - Do you have any health conditions or long-term care needs that could affect your financial planning?
    - Who are your designated beneficiaries and heirs?
4. **Decision-Making and Support**
    - Who else is currently involved in helping you make financial decisions?
5. **Investment Understanding and Risk Tolerance**
    - How would you describe your knowledge and comfort level with different types of investments, such as stocks, bonds, annuities, or alternatives?
    - On a scale of 1 to 10, how would you rate your risk tolerance?

EVALUATING ADVISORS' PERFORMANCE CLAIMS

The Benefits of Comparing Investment Advisors' Performance Claims

It is also important for prospective clients to obtain comparable performance information from multiple advisors. Having a basis for comparison helps in making a more informed decision by evaluating factors such as consistency and risk-adjusted return.

If an Investment Advisor ignores or avoids the subject of past performance when asked, it should raise a red flag for the prospective client.

When an Investment Advisor states that they have achieved a particular return percentage for clients in managed accounts, it is important for prospective clients to engage in thorough due diligence. Here are key questions a prospective client should ask to verify such claims:

1. **Verification and Accuracy**
    - Has the performance been audited or independently verified by a credible third party? Who?
2. **Calculation Method**
    - Are the returns reported gross of fees (before expenses) or net of all fees and expenses?
    - Over what exact time period was this performance achieved?
    - Is GIPS® used to calculate investment results? CFA® [Chartered Financial Analyst] Institute Global Investment Performance Standards (GIPS®) provides standardized, industry-wide guidance on performance calculation and reporting. If firms report using GIPS, you can compare apples to apples. Using GIPS is not mandatory for Investment Advisors. https://compliancetracking.cfainstitute.org/gips-firm-list
3. **Nature of Results**
    - Do the results reflect actual client accounts, or are they based on hypothetical or simulated portfolios?
    - Does the reported performance represent all clients, or only a select group?
4. **Investment Approach**
    - What investment strategy or methodology was used to generate these returns? If an Investment Advisor refuses to explain their strategy and instead calls it "proprietary," take that as a clear warning sign.

5. **Comparisons and Context**
    - How does this performance compare to the most relevant benchmarks or market indices?
6. **Disclosures and Assumptions**
    - What disclosures, assumptions, or methodologies should I be aware of regarding how the performance was calculated?

Prospective clients should request this information in writing. Having a written record ensures transparency and provides documentation that supports clear understanding and protects client interests. This approach also aligns with regulatory expectations that advisors must be able to substantiate all performance claims they make.

COMPENSATION MODELS: COMPARING FEE-ONLY vs. FEE-BASED

Fee-only advisors are legally obligated to act in the client's best interest at all times, providing a higher level of fiduciary duty compared to other compensation models. Selecting a fee-only Investment Advisor emphasizes transparency, objectivity, and fiduciary responsibility; however, it may have trade-offs compared to commission-based or hybrid models.

Fee-Only Advisor: Main Benefits

- **Objectivity and Transparency:** Fee-only advisors are paid directly by clients, not through commissions from product sales, making their advice generally more unbiased.
- **Fiduciary Duty:** Most fee-only advisors are fiduciaries and legally required to act in the client's best interest, reducing conflicts of interest.
- **Clear Pricing:** Fees—typically hourly, or flat—are straightforward, so clients can track costs easily**.** Their fee structure clearly aligns their success with clients' financial outcomes, reducing the risk of hidden conflicts.

Drawbacks of Fee-Only Model

- **Higher Upfront Costs:** Fee-only services may carry higher direct fees than commission-based ones, particularly for smaller portfolios or low-transaction accounts.
- **Limited Product Access:** These advisors may not sell proprietary or insurance products, potentially requiring clients to coordinate with third parties for some needs.
- **No Guaranteed Excellence:** Fee-only advisors focus on objective advice; as with any professional, verifying their expertise and credentials is important.
- **Possible Scope Limits:** Some states restrict fee-only advisors from certain insurance consultations or product reviews.

SPLITTING YOUR PORTFOLIO

Some clients consider handing only part of their portfolio to an Investment Advisor, mirroring transactions themselves for the rest, hoping to save on fee costs, especially the typical 1% assets-under-management charge. This tactic has practical and ethical implications that can affect the advisor-client relationship.

- Most advisors will ask about total investable assets for risk assessment, tax planning, and suitability regulations.
- If mirroring is uncovered, advisors may view it as a lack of trust or unwillingness to fully engage, which could strain relationships or prompt the advisor to decline working with such clients.
- The advisor's fiduciary or regulatory obligations may require a holistic view of your finances to provide compliant advice; splitting information can limit their effectiveness.

INVESTMENT ADVISOR MARKETING SLOGANS

These slogans emphasize alignment of interests, highlighting that an advisor's compensation depends on delivering positive client results, which builds trust and partnership:

- "Your success is our success"
- "Partnering for your financial growth"
- "Aligned with your goals, invested in your future"
- "We grow when you grow"
- "Committed to your financial success"
- "Your goals, our mission"
- "Profit together, prosper together"
- "Invested in your outcomes"
- "We succeed when you succeed"

However, some slogans like "We only make money when you make money" can be misleading if the advisor charges fees regardless of portfolio performance. These claims must be clearly disclosed to avoid implying no fees are charged or that clients cannot lose money while the firm profits.

Investment Advisors' advertising must clearly disclose fee structures and that fees, e.g., asset-based fees, flat retainer fees, commissions, account maintenance fees, may apply regardless of portfolio performance to avoid misleading clients.

CONFLICTS OF INTEREST, HIDDEN FEES AND DECEPTIVE PRACTICES

Common Conflicts of Interest to Watch For

- **Compensation Conflicts**: advisors earning commissions, asset-based fees, or hidden payments.

- **Proprietary Products**: recommending in-house mutual funds or affiliate products that earn them more.
- **Dual Roles**: acting as both broker and advisor, pushing trades that benefit the firm.
- **Sub-Accounts and Sub-Advisors**: hidden layers of fees or referral rebates by farming out investment decision making to a third-party.
- **Insurance Products**: Sale of high-commission annuities or insurance policies when lower-cost alternatives are available.
- **Reciprocal Business Deals**: relationships with third-parties influencing recommendations.
- **Trade Allocation Issues**: certain clients favored over others in investment opportunities.
- **Soft-Dollar Arrangements**: research perks to the Investment Advisor from a third-party paid for by your commissions.

Some Investment Advisor Shenanigans Require Expertise to Detect

Certain deceptive practices by Investment Advisors are not obvious to most investors and often require specialized legal or financial expertise to uncover. Examples include:

- **Taking Unauthorized Fees:** Advisors may charge fees they are not entitled to under the governing documents. Legitimate fees should be clearly disclosed and consistent with client agreements.
- **Cherry-Picking Investments:** An advisor might allocate profitable trades to their own accounts while assigning less favorable or losing trades to clients. For instance, an advisor could purchase securities in a master account and delay allocating them until after seeing whether prices appreciated, then benefit by allocating gains to themselves.
- **Failing to Secure Group Discounts:** An advisor might select more expensive mutual fund share classes for clients despite eligibility for cheaper institutional classes via aggregated investments, thus generating higher revenue-sharing fees for itself at the client's expense.

- **Inflating Asset Valuations:** To increase management fees, advisors could overvalue illiquid or distressed assets. Examples include misrepresenting internally derived prices as independent valuations or valuing loan assets at acquisition cost despite borrower defaults.
- **Inadequate Conflict Disclosure:** Sometimes advisors fail to clearly disclose relationships between client investments and the advisor's own interests, causing clients to unwittingly invest millions in affiliated companies.
- **Misrepresenting Investment Risks or Strategies:** Advisors may wrongly claim their strategies are low-risk or guarantee profits, while actually investing in speculative, volatile securities.

Detecting these sophisticated forms of misconduct often exceeds the capability of average investors and may require consultation with specialized lawyers or forensic experts to review fee structures, transaction histories, disclosure documents, and investment valuations for signs of wrongdoing.

Hidden Fees and Expenses: Common Occurrences in Investment Advisory and Fund Products

Investors often face a variety of hidden fees and expenses that can substantially reduce investment returns over time. These costs are sometimes obscured in disclosures or embedded within product structures, making it crucial for investors to perform thorough reviews. The following is a list of such hidden fees and expenses, ranked by how commonly they occur in practice.

The October 9, 2025 Wall Street Journal, in "Congress Thinks Hiding Fund Fees in Good for You," commented about hidden fees, in part:

> Asset managers and financial advisers have concocted a zillion ways to disguise their fees. … This is the latest of all Street's never-ending efforts to hide, complicate and obfuscate fees. … "People don't understand how much fees will eat away at their returns," says Christine Chung, a securities-law professor at Albany Law School. … Despite overwhelming evidence to the contrary, many individual investors still want to believe higher fees are associated with higher returns. Professionals may be just as prone to fee blindness. In survey after survey, fewer than one-third of financial advisers cite high fees

and expenses as their chief obstacle to investing in alternative funds. Instead, they're worried about complexity and "high levels of administration and paperwork." But costs matter, even if the financial industry wants you to *think* of (say) a 1% fee as being only 1% of the money you invest. That's bogus. … Let's assume a portfolio of stocks returns an average of 8% annually. Invest $10,000, and you'll have more than $100,000 after 30 years. Incur 1% in annual fees, though, and you'll end up with barely $76,000—one-quarter less. No wonder it's called “a 1% annual fee." That sounds a lot better than "a quarter of your wealth." Fee blindness is a plague that never goes away. ... [L]ots of investors simply didn't know or care about the fees they paid. The first question on most investors' minds is usually: How much can I make on this? Instead, their first question should always be: How much will this cost me? Until we all pay attention to what matters, the fee hocus-pocus will never stop.

Hidden Fee or Expense	**Description**
Management Expense Ratios (MERs)	Annual fees on mutual funds and ETFs, commonly ranging from 0.5% to over 2%, including high-fee active funds and "closet index" funds.
Assets Under Management (AUM) Fees	Percentage-based annual fees (typically 0.5% to 1.5%) on portfolio value that compound over time, eroding long-term growth.
Account Maintenance, Inactivity, and Transaction Fees	Various fees such as account maintenance, inactivity, wire transfers, minimum balances, and trading transactions, often overlooked.
Commission Fees (Front-end and Back-end Loads)	Charges when purchasing or redeeming investments, typically 3% to 8.5% of the investment amount.
Revenue Sharing Arrangements	Payments from fund companies to advisors for directing clients toward certain funds, often undisclosed but embedded in costs.

Performance or Incentive Fees	Charges based on profits above benchmarks, mainly by hedge funds or some advisors, which may incentivize risk-taking and add costs.
Wrap Fees	All-inclusive fees covering advisory and transaction costs bundled into one charge, sometimes less transparent or higher overall.
Custodial Fees	Fees charged by brokerage or custodian firms for holding investments, sometimes hidden within other fees paid by clients.
Fund Trading and Redemption Fees	Fees charged for frequent trading or redeeming shares within specified periods, reducing returns but often buried in fund documents.
Administrative and Paperwork Fees	Charges for account setup, statements, legal documents, or paperwork handling with unclear upfront disclosure.
Hidden Advisory Fee Structures	Fees or conflicts disguised in advisory services, which may lead to recommending more expensive solutions without clear client notice.
Embedded Commissions or Markups	Commissions hidden within recommended products that investors may not be explicitly informed about.
Overly Complex Portfolio Costs	Costs escalated by holding many high-fee funds or excessive trading, increasing transaction costs hidden from clients.
Fee Offsets or Credit Failures	Situations where external payments to advisors are not offset against client fees, resulting in double charges to the investor.
Differences in Share Classes	Extra costs arising from varying fee structures, sales charges, and expenses across mutual fund share classes.

In his October 23, 2025 newsletter entitled “CalPERS Wants You To Believe ‘Private Equity Is Important to Your Pension’ --- Why is the nation's leading public

pension misleading unsuspecting pensioners globally about private equity risks and fees?," Edward Siedel writes, in part:

> [C]alPERS repeats unsubstantiated, oft-cited industry arguments, including claims that the "best deals" demand secrecy and private equity portfolio holdings are somehow exempt from disclosure under applicable law. In short, says CalPERS, full transparency hurts and secrecy strengthens, pensions. … *Private equity fees are* ***astronomically (600xs) greater*** *than traditional public equity investments.* … [C]alPERS … total fees disclosed to the public … **124 bps**. CalPERS does not disclose that the private equity *all-in* fees (including, but not limited to, management and performance fees, fund level expenses, portfolio company monitoring and transaction fees, transaction costs and financing expenses, fund of funds or secondary investment fees, and organizational and setup costs) are exponentially greater—often **in excess of 6 percent.**

Investment Advisor Fees and Conflicts in 501(c)(3) and Pension Funds

Pension funds for corporations and governmental entities, as well as 501(c)(3) nonprofit organizations, hire Investment Advisors who may engage in excessive fees, hidden costs, and conflicts of interest that detract from the fund's value. The processes and arrangements differ significantly from individual investors:

Key Differences in Hiring and Fee Structures

- **Institutional Mandate & Consultant Role**: Institutional investors (like pension and 501(c)(3) funds) often employ investment consultants or specialist advisory firms to design portfolio allocations, select asset managers, and oversee performance. The hiring process typically involves formal RFPs (Requests for Proposals), board-level decisions, and reliance on consultant input, rather than personal selection by an individual client.
- **Complex Fee Arrangements**: Fees charged to institutions are often multi-layered, involving asset-based fees to consultants, additional management fees to underlying asset managers, and performance/incentive fees. These layers create opportunities for excessive or hidden costs, which may be obscured by lengthy contracts and limited direct oversight. Unlike the individual context, where fees are more transparently stated and regulated, institutional fee arrangements can be bundled with undisclosed "soft

dollars," revenue sharing agreements, or indirect compensation to consultants and managers.

- **Conflicts of Interest & Access to Alternatives**: Large funds may face pronounced conflicts—consultants often recommend managers with whom they have business relationships or who incentivize them through non-client compensation. Consultants may also encourage allocations to "alternative assets" such as hedge funds or private equity, where fees and opacity are greater, while smaller or first-time managers may be overlooked due to lack of consultant connections.
- **Oversight & Governance**: Institutional funds generally have committees or boards responsible for oversight, but these gatekeepers rarely have the expertise or resources to monitor every fee and potential conflict. By contrast, individual investors make more direct choices, usually governed by fiduciary duty enforced by personal recourse.

Practical Implications

- Pension and nonprofit funds pay out significant advisory and management fees, which are typically passed onto beneficiaries in the form of lower returns, yet many trustees, board members, and plan administrators do not fully perceive all fee layers and conflicts.
- The hiring process for funds often prioritizes access or "track record" over cost control, resulting in persistent underperformance when compared to more transparent, low-fee models.

In summary, while individual investors can examine advisor relationships more simply and often see disclosed fees, institutional investors, including pension and 501(c)(3) organizations, face complex fee structures, convoluted selection processes, and greater risk of conflicts—leading to higher costs and diminished fund value for beneficiaries.

For those seeking more detailed information, one might read *Who Stole My Pension—How You Can Stop the Looting* by Robert Kiyosaki and Edward Siedle. This book serves as both an exposé and a call to action to stop pension looting and protect retirement security amid systemic financial risks and institutional abuses.

At the request of a prospective legacy donor, I investigated a prominent §501(c)(3) charity. My findings included: (1) more than 70% of its assets were tied up in high-risk, high expense, illiquid alternative investments; (2) it paid excessive advisory fees and evidence suggested self-dealing by Board members; (3) the

organization refused to provide its investment policy despite claiming transparency in IRS Form 990 filings and Annual Reports.

Alternative Investments Embody High Risk, Hidden Fees and Expenses, Illiquidity, Lack of Transparency and Conflicts of Interest:

An Investment Advisor's Part 2A of Form ADV -- The Brochure states, in part:

> Where appropriate, [Investment Advisor] presents certain clients (i.e., Accredited Investors or Qualified Clients or Qualified Purchasers) with opportunities to invest in alternative strategies through limited liability companies and limited partnerships. These investments include, among other things, real estate equity, real estate debt, private lending, and private equity….

Those investors are legally described, in part, as follows:

- Accredited Investor: Defined by the SEC under Rule 501 of Regulation D, as having a net worth exceeding $1 million excluding primary residence.
- Qualified Client: Defined under the Investment Advisers Act for performance-fee charging eligibility, a qualified client usually must have at least $1.1 million assets under management with an advisor and have a net worth of $2.2 million or more excluding primary residence.
- Qualified Purchaser: Defined by the Investment Company Act of 1940, a qualified purchaser has $5 million or more in investment assets individually or jointly with a spouse.

Meeting the criteria is necessary but not solely sufficient to establish appropriateness. An additional suitability assessment applies.

Investing in alternative investments poses significant challenges for individual investors, largely due to their illiquidity. Many alternative investments, such as private equity, hedge funds, or real estate, often lock up capital for extended periods—sometimes spanning years—without opportunities for early redemption.

In addition to illiquidity, alternative investments typically come with high costs, high risks, and a lack of transparency. The managers of these investments

often charge substantial management and performance fees that erode returns. Furthermore, many alternative assets lack standardized reporting and public disclosure, making it difficult for investors to fully assess the true value and risks involved.

Significant conflicts of interest arise when an affiliate of the Investment Advisor manages the alternative investment, as this situation may lead the advisor to interpret “appropriateness” with considerable flexibility to serve its own interests. Further, investors may feel they are being offered special investment opportunities exclusive to a select few. This perception can create a powerful psychological bias, increasing their willingness to accept risks or overlook potential conflicts of interest.

Suitability

Brokers and advisors must perform reasonable due diligence before recommending non-traded alternative investments, such as non-traded REITs or private placements, under FINRA Rule 2111 (Suitability) and related guidance like Regulatory Notice 10-22. This requires investigating the issuer, management, business prospects, assets, use of proceeds, and offering claims to ensure a reasonable basis for suitability. Firms must also maintain records of this diligence, typically for at least three to six years under FINRA books-and-records rules like 4511 and SEC Rule 17a-4, including communications, research, and analyses.

Prospective buyers can probe the advisor's compliance by asking targeted questions to verify diligence and alignment with personal goals. Key inquiries include: What specific due diligence did your firm conduct on this investment, such as reviewing the issuer's financials, management background, and assets? Can you share records or a summary of your investigation, including any red flags identified and how they were addressed? Why is this suitable for my risk tolerance, liquidity needs, and objectives, and how does it fit my portfolio? What are the fees, redemption terms, leverage, and past performance, and have properties or uses of proceeds been fully specified?

Conflicts on Conflicts

A conflicted Investment Advisor may recommend investments that have their own internal conflicts, creating what is called "conflicts on conflicts." This means

the Investment Advisor's financial incentives, such as commissions or bonuses, may push them to suggest investments that are not in the best interest of the investor. At the same time, these investments themselves may have costly features, hidden fees, or policies that favor the investment manager over the investor. When both the advisor and the investment product have conflicting interests, it significantly raises the risk that the investor will face unfair treatment, excessive costs, or poor returns. This layered conflict undermines the fairness and suitability of the investment recommendation and can lead to substantial financial losses for the investor over time.

For example, a significant conflict of interest arises when Investment Advisors recommend alternative investments primarily because they receive higher fees, rather than unbiasedly selecting the most suitable, traditional non-alternative investments for their clients. This conflict is particularly acute when the alternative investment targets opaque asset classes such as distressed mortgage loans, where valuation complexities and lack of transparency increase the asymmetry of information between investors and managers. The higher fee structure creates a financial incentive for Investment Advisors to steer clients toward these alternatives despite potentially greater risks or misaligned risk-return profiles.

In such scenarios, the alternative investment manager who controls the portfolio of distressed mortgage loans also faces a conflict tied to valuation and reputation. Since their compensation and performance reputation strongly depend on the reported value of these illiquid, complex loan assets, there exists an inherent pressure to overvalue or manage valuations conservatively to maintain positive returns and attract future investor capital. Inflated or overly optimistic valuations benefit the manager through higher fees and bolster their track record, thus serving both compensation interests and reputation enhancement, potentially at the expense of investor transparency and protection.

Many private funds' reported net asset values overstate what investors can actually get, as shown when these vehicles list publicly and immediately trade at steep discounts to NAV. NAV is supposed to stand for "net asset value." For some, however, it's turning out to mean "not actual value." The structure of private funds let managers lock up capital in commercial real estate or private credit, use leverage, and earn high fees, while offering only limited redemption windows or

promising a future “liquidity event.” As returns weaken and investors demand their money back at NAV, funds and their fee streams shrink, pushing some managers to list the vehicles publicly as a defensive move, even if it exposes the gap between NAV and market. Many newly listed funds tend to trade significantly below NAV because of the complexity, riskiness, and leverage of the underlying assets, as well as the costs of managing them. (WSJ, 12/19/25, "When Your Private Fund Turns $1 Into 60 Cents; As nontraded funds go public, the market is deciding they aren't worth as much as managers say")

Awareness of these dynamics should encourage investors to maintain vigilance about how incentives shape recommendations and valuations.

The Cantor Equity Partners II, Inc. and Cantor Equity Partners IV, Inc. distressed mortgage loan funds have historically delivered returns of 10-15% annually. These returns were generated through a combination of investor capital and significant leverage obtained via borrowings from banks. By borrowing against the value of their underlying distressed loan portfolios, the funds amplified their purchasing power. While leverage can increase potential gains, it also magnifies losses, making fund performance highly sensitive to changes in the valuations of the distressed mortgage loans.

Recent allegations by banks, including Zions Bancorporation and Western Alliance Bancorp, suggest the possibility of fraud and inflated valuations related to these underlying distressed loans. If these allegations are proven true, it would indicate that the returns reported by the funds were artificially inflated and may not reflect the true economic value of the assets.

COMPLAINT AND DISPUTE RESOLUTION, TYPCIAL ADVISOR DEFENSES, AND A REAL CASE EXAMPLE

Complaint and Dispute Resolution Procedures

Many investment-advisory agreements require disputes to be resolved through arbitration before FINRA panels, rather than in court. Unlike court trials where judges oversee proceedings and juries—composed of laypersons—deliberate based on specific legal instructions from judges, FINRA arbitration panels

consist of arbitrators who may lack formal legal qualifications and do not follow the law or the same rules of evidence or procedure. Arbitration decisions are final and binding with very limited rights to appeal, and agreeing to arbitration means waiving the constitutional right to a jury trial.

Since 1976, I have served as a securities arbitrator and represented both claimants and respondents before arbitration panels. I have written extensively about the numerous negative aspects of securities arbitration, as detailed in *Securities Dispute Arbitration*.

Typical Investment Advisor Defenses to Complaints About Investment Losses

When clients raise complaints concerning investment losses, Investment Advisors commonly present a range of defenses, including the following:

- **Disclosure of Risks and Suitability:** Advisors will often emphasize that all investments inherently carry risk, including loss of principal, and that these risks were clearly disclosed in advance. They will assert that the recommendations were suitable for the client's financial objectives, risk tolerance, and investment timeline as communicated during the advisory relationship.
- **Market and External Factors:** Many advisors contend that investment losses were due to broader economic conditions or market downturns beyond their control. Losses may be compared against appropriate market indices or benchmarks to demonstrate that portfolios performed within expectations given prevailing conditions.
- **Fiduciary and Best Efforts Standard:** Advisors typically claim that they acted in good faith, with reasonable care and diligence, consistent with their fiduciary duty to act in the client's best interest.
- **Client-Directed Decisions:** Defenses may include evidence that the client authorized particular investment choices or strategies, accepting the associated risks knowingly.
- **Contractual Terms and Disclaimers:** Advisory agreements often contain provisions specifying that no guarantees of investment performance are made, and clients acknowledge inherent risks and limitations of liability.

- **Communication and Reporting:** Advisors may assert that clients were provided with regular reports detailing portfolio performance, fees, and strategy changes, offering opportunities to discuss and alter plans.
- **Third-Party and Custodial Relationships:** If sub-advisors, custodians, or affiliate firms were involved, liability for certain outcomes may be limited or transferred according to contractual terms.

A Real Case Example

I served as Chairman of a FINRA arbitration panel in a case brought against an Investment Advisor by a high school graduate who had sold his family business for $25 million, requested *conservative* investment guidance and was assured a straightforward total annual expense of 1% of assets under management. In practice, his portfolio was divided among multiple sub-accounts that charged him undisclosed fees and speculative investments. Some sub-advisor materials—seen by the claimant for the first time at the arbitration hearing—explicitly warned that his entire principal could be at risk. The Investment Advisor had also been receiving undisclosed referral fees from the managers of these sub-accounts. The matter was promptly settled after the panel requested a complete accounting of all expenses charged to the claimant's account and all revenue-sharing rebates paid to the Investment Advisor.

FINRA Arbitration Awards Online

Clients seeking information on arbitration outcomes related to particular Investment Advisors can use FINRA's Arbitration Awards Online database. This free resource allows users to search for arbitration awards by case ID, dates, parties, and other criteria, providing access to awards issued since 1989 from FINRA. https://www.finra.org/arbitration-mediation/arbitration-awards

It is important to note that some disputes settle before an arbitration award is issued, so not all cases will be found in the database. Thus, the absence of an award does not necessarily mean there was no dispute or complaint.

THE INVESTMENT ADVISORY GAME AND INDUSTRY DYNAMICS

The Investment Advisory Game

"Who should you trust for investment advice? ... Surely they'd be investing their own money in their ideas ... and ideally their wealth would derive more from their own personal investing returns [rather] than from selling their ideas to people like you." [Bloomberg - Money Stuff, 5/22/19, "Who should you trust for investment advice?"] "Most people on Wall Street don't make money by investing—they make money by helping others invest, charging a hefty fee for their service. Warren Buffett called these people the 'helpers,' and warned investors to avoid them at all costs. The reason: very few people have the skill to beat the market. … The helpers, of course, are well aware of this. So, in order to try to be one of the chosen few who beat the market, they take more risk, swinging for more home runs instead of more reliable singles and doubles. That's what can lead to big losses…. The lesson: Stay away from money managers who charge hefty fees for complex strategies." [NextBigIdeaClub, 6/12/23, "Chaos Kings: How Wall Street Traders Make Billions in the New Age of Crisis"] "[W]hile many people believe that the essential skill of being a hedge fund manager is picking good investments, in fact the essential skill is continuing to run a large hedge fund that pays them a lot of money. ... Building a robust institution with high fees, loyal investors and long lockups is a deeper and more fundamental skill than picking the right stocks." [Bloomberg - Money Stuff, 7/2/20, "Farewell John Paulson"] "[A]s funds get bigger, their income from management fees, which is based on the amount of assets they have, grows. That gives managers fewer incentives to improve performance." [Wall Street Journal, 12/8/20, "Some Small Hedge Funds Reap Big Gains in Tough Times...."] "Fund investors… [have a] chronic compulsion to chase hot performance and flee when it goes cold. Such buy-high-and-sell-low behavior tends to flood fund managers with cash at times when stocks have already risen in price—and to force the funds to sell stocks after a decline. The managers can perform only as well as their worst investors allow them to. … If fund managers could stick to only their best ideas, they might do better. But owning just a handful of stocks could create tax and regulatory headaches—and would expose the managers to massive withdrawals (and loss of fees) if returns faltered. So, most portfolio managers own too many stocks to focus

on their best ideas…. " [Wall Street Journal, 4/14/23, "Want to Beat the Stock Market? … Professional fund managers labor under handicaps that individual investors don't face. …"]

For those who wish to learn more, I recommend *How to Steal A Lot of Money Legally -- Clueless Crooks Go to Jail, Savvy Swindlers Go to Vail* by Edward Siedle. He writes, in part:

> I could easily live with the fact that doing the right thing will never pay as well as stealing. What really stings is the acrimony and thanklessness of the herculean effort required to remedy wrongdoing. … [P]eople rarely appreciate the messenger who tells them that the advisor they have entrusted with their savings is a cheat. Lying hucksters are generally well-liked by their clients—at least initially—or they wouldn't have been granted access to client money to later steal. … [S]o much of what passes as financial advice is, in fact, a bogus money-grab. … [I]n virtually every profession, there is a host of bogus certification or credentialling schemes that exist purely to enhance credibility. Pay a small fee, take an online test, and voila…. If a money manager makes millions or billions for himself, all will agree he's a success. They will ask no further questions—such as whether he's really a successful investor. … There is never any excuse for a scammer to conceal potential wrongful doing from clients. There is absolutely nothing worse you can do to abuse clients that the guys on Wall Street haven't already done/disclosed/gotten away with -- legally. Do not hesitate to disclose the dirty rotten scoundrel you are. … Only a small percentage of frauds are ever detected by clients. And only a fraction of detected frauds are [sic] prosecuted. … [I]nvestors … are paying a so-called 'professional' 1% fee to actively pick stocks for them…. [The Investment Advisor] can even hire an established money management firm as a sub-adviser, or subcontractor, to manage the money…. Learning to manipulate your investment performance results is easy…. It's a simple as doing what you're not supposed to do but with appropriate disclosures. … The business of managing other people's money is like driving a taxi. The goal is to keep the passenger in the car as long as possible … with the meter running. … His investors are

> happy—satisfied customers. …[N]one of the investors is complaining about having 'lost money'…. [H]is fund has underperformed … for nearly ten years … his clueless investors have, in fact, suffered significant underperformance losses. … [Y]ou must act under the assumption that *every* financial adviser you encounter is a crook pursuing his own personal financial gain…. Whenever an adviser discloses, he 'may' engage in activity which is not in your best interests, assume he will.

One is amazed by a system that permits fiduciaries to utilize excessive and unnecessary fees to enrich themselves and their friends at the expense of those who mistakenly think they are protected by honorable people. A better argument for learning investment self-defense, and making informed decisions for yourself, has not been written. (See, e.g., Financial Statement Analysis.)

BEHAVIORAL AND PSYCHOLOGICAL FACTORS

Why do investors often stay loyal to Investment Advisors with conflicts of interest, even when lower-cost, conflict-free advisors are available?

The answer lies less in rational financial analysis and more in the psychology of decision-making. People stick with advisors they know, even if there are better choices, because change feels risky. They trust the advisor like a friend, don't want to admit mistakes, or focus more on past wins than hidden problems.

- **Status Quo and Familiarity:** Most people favor what is already familiar, even when better options exist. If an advisor has "done well" in the past, clients feel comfortable continuing the relationship. Switching feels uncertain and risky, even when the alternative is more transparent and cost-effective.
- **Cognitive Dissonance:** Admitting a current advisor may be conflicted requires admitting a past mistake. To avoid this discomfort, clients rationalize: "My advisor has been good to me." This preserves self-image consistency but prevents objective change.
- **Outcome Bias:** Investors judge decisions by results, not by process. If portfolios have grown, they attribute success to the advisor, even if

performance could have been higher without conflicts of interest. Positive outcomes mask hidden inefficiencies.

- **Trust and Relationship Value:** Advisors often serve as more than financial guides—they are confidants and trusted figures. That sense of loyalty and personal connection outweighs technical arguments about fees or conflicts.
- **Hidden Costs and Inattentional Blindness:** The price of conflicts can be invisible. Investors rarely know how much compromised recommendations reduce returns over time. In contrast, trust and familiarity are easy to "see," so the invisible costs go unnoticed.
- **Loss Aversion:** Psychologically, people fear losses more than they value gains. The idea of leaving a known advisor creates anxiety about losing results or security. Remaining with the current advisor feels safer than facing the unknown.

PRACTICAL GUIDANCE FOR INVESTOR PROTECTION

Practical Ways to Protect Your Assets

- **Get everything in writing** — including how you're charged and if they're legally required to act in your best interest.
- **Work with a fee-only advisor** — they charge for advice, not product sales.
- **Use independent custodians** like Vanguard Funds, Fidelity Investments, or Charles Schwab, Inc. to hold your assets.
- **Read all documents before signing** — take them home and review carefully. Consider using trusted tools, including artificial intelligence-based services, to help simplify and understand complex investment information.
- **Ask direct questions to the Investment Advisor about fiduciary duty** — and walk away if the answer is vague or evasive.

Getting a Second Opinion: What to Know

A second opinion is a smart way to verify the recommendation and gain a fresh perspective, but be sure to evaluate the advisor's motivations and keep records of all advice received. Many Investment Advisors offer free or low-cost second opinion reviews that examine your portfolio, fees, and strategy.

Be aware that advisors providing second opinions—especially competitors—may have a financial incentive to win your business, which can create conflicts of interest. Always ask about their compensation and watch for pressure to transfer your accounts.

Fee-only fiduciary advisors generally offer more objective advice, as they're legally required to act in your best interest without commission-based incentives.

Artificial Intelligence Engines as Your Second Opinion: Smarter Investing with Lower Fees

AI can serve as a valuable second-opinion tool for investors who want to make smarter, more cost-efficient decisions. By feeding in structured, non-sensitive details such as ticker symbols, asset allocations, and fee data, you can prompt AI to evaluate portfolio strengths and weaknesses, project risks and returns, and highlight how fees may eat into long-term performance. Using targeted questions—such as asking for diversification analysis, risk-return tradeoffs, or line-item fee breakdowns—helps translate raw data into clearer insights. This extra layer of analysis supports more informed judgment, especially when comparing or double-checking advisor recommendations.

The process works best when approached systematically. Organizing holdings by asset class, benchmarking against relevant indices, and requesting simplified explanations makes complex financial concepts more digestible. AI can even help identify decision-making biases and improve critical thinking about portfolio choices. Importantly, the goal isn't to replace advisors but to reduce blind reliance on them, spot hidden costs, and sharpen investor awareness. By integrating AI into your investing workflow, you gain a low-cost way to improve portfolio performance, question assumptions, and take greater control over financial outcomes.

AI may be used to explain in plain English disclosure statements written opaque legalese. For example,

> The undersigned, without admission of liability or acknowledgment of specific conduct, hereby notifies prospective contractual participants that antecedent managerial and custodial procedures may have, at indeterminate intervals, reflected departures from standard fiduciary conventions or other prevailing norms of asset stewardship, encompassing but not restricted to the recharacterization, reallocation, or non-reversible sequestration of property interests originally conferred in trust. Consequently, it must be contemplated that, whether through inadvertent administrative variance, discretionary reclassification, or exogenous exigencies beyond the undersigned's deterministic control, certain pecuniary assets under custody may undergo diminution in value, unanticipated redistribution, or other adverse realignments substantially inconsistent with their initial allocative intent.

Perplexity.ai translates this to mean, "I might have mishandled or taken people's money before, and it could happen again, even if I don't mean to."

COMPARING MAJOR FINANCIAL INSTITUTIONS AND MONEY MANAGERS

Choosing Between Vanguard Funds, Fidelity Investments, Charles Schwab and Independent Money Managers: Key Considerations

Choosing between Vanguard Funds, Fidelity Investments, Charles Schwab & Co., or independent money managers involves weighing advantages across cost, service, and flexibility. Vanguard is often favored for its industry-leading low fees and client-owned structure that aligns its interests closely with investors, making it ideal for cost-conscious, long-term investors seeking straightforward, fiduciary advice. Fidelity offers a vast product selection and advanced digital tools, appealing to investors seeking personalized service and a wide array of active and passive investment options, though often at a higher cost. Schwab strikes a balance with competitive fees, strong technology platforms, and flexible advisory services, catering well to investors who want both low costs and sophisticated trading tools.

Independent money managers provide highly customizable and often more personalized portfolio management tailored to unique financial goals but may charge higher fees and create potential conflicts of interest if compensation depends on asset gathering rather than pure fiduciary duty. Ultimately, investors should consider their priorities in fees, service level, product choice, and trust transparency when choosing their financial partner.

Feature	Vanguard	Fidelity	Schwab
Cost	Lowest fees with Admiral Shares	Competitive, varies by product	Low to moderate, competitive ETFs/funds
Advisory Fees	~0.30% for core advisory	~0.30%-0.50% typical	0% (robo) to ~0.50% (human) advisory fees
Investment Options	Focus on proprietary low-cost funds	Wide range active/passive	Wide range active/passive, direct indexing
Technology	Basic digital tools; solid	Robust digital and research tools	Strong digital platforms, trading tools
Fiduciary Standard	Fee-only fiduciary model	Fiduciary depending on service	Fiduciary standard on advisory accounts
Best For	Cost-conscious long-term investors	Investors desiring choice & advice	Investors wanting low cost + tech + flexibility

REFERRALS: LEGAL AND LIABILITY CONSIDERATIONS

Legal Risks and Practical Guidance for Recommending an Investment Advisor

When recommending an Investment Advisor, it is essential to avoid making any guarantees or misrepresentations. Full disclosure of any compensation or financial interest related to the referral must be communicated clearly. Additionally, exercising reasonable due diligence to verify the Investment Advisor's credentials and reputation is crucial to protect all parties involved.

If the recommended Investment Advisor causes financial loss to the referred party due to negligence or fraudulent behavior, the person who made the recommendation could face civil liability, including potential damages claims.

By following these best practices—avoiding false assurances, disclosing interests transparently, and performing due diligence—one can significantly reduce the risk of legal consequences associated with recommending an Investment Advisor.

SUMMARY AND FINAL TAKE AWAY

Final Takeaway

- **Check** your Investment Advisor's background carefully. Not every advisor has the same skills or experience, so make sure they're right for you.
- Always **ask the hard questions**.
- Always **work with a fee-only fiduciary**.
- Always **trust but verify** by carefully reviewing Form ADV, including the brochure disclosures, and other publicly available information.

If you take these steps, you'll strengthen your financial self-defense and ensure that any Investment Advisor you work with is truly working in your best interest.

DISCLAIMER: The information presented on this website was obtained from sources believed to be reliable, but its accuracy and completeness and any opinions based thereon cannot be guaranteed. It is presented for general interest and educational purposes. It should **not** be interpreted as: (a) advice; (b) recommendation; or, (c) analysis. Those seeking such advice should consult with their personal advisors. The opinions, findings and/or conclusions expressed herein are not necessarily politically-correct and are subject to change without notice. Past results should not be interpreted as a guaranty of future performance.

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INVESTMENT LITIGATION/ARBITRATION,
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