Globe Life

Sarah Hampson's Currency

We just hand them our money and shut our eyes

Kind, grandfatherly, trustworthy: those are some of the words that may just describe the Ponzi prince who bilked you of your life savings. The assumption that a stranger will act in your best financial interests is a stunning leap of faith

Sarah Hampson

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They always seem kind and grandfatherly.

It should come as little surprise that those are some of the words people use to describe Earl Jones, the Montreal financial consultant who has gone missing after allegedly operating a Ponzi-like scheme that bilked clients of close to $50-million. The personality sounds like that of the avuncular Bernie Madoff, the blackest Ponzi prince of all time, who was recently carted off to prison for 150 years.

Trust is part of what is being sold. And some people try to win it through the power of charm. But personality issues are not the only point of discussion in the scandal surrounding Mr. Jones. Many in the investment community highlight the need for greater scrutiny from regulators, more clarity about services – as well as more financial education for individuals.

That's right: You. Individual investors bear some of the guilt, too.

Many people – not just the vulnerable widows who are said to have been Mr. Jones's specialty – are so eager to be absolved of worry and responsibility of their financial well-being that they hand over their money to the first person who appears capable, experts say.

Money, and what to do with it, can be a burden.

Finding an investment counsellor, with a suit and a smile and a promise to do his best, is often a welcome relief.

“There is that emotion, that height of excitement for people. It's like an event, like getting a mortgage. They are relieved it's done, and they don't want to be bothered with it again,” says Kelley Keehn, a Calgary-based financial coach, speaker and author who ran her own investment firm for many years. “People have very quick convincers when it comes to a financial adviser. They may not trust a salesman. They may not even trust their spouse. But with doctors and financial people, they do.”

The immediate assumption that someone you have just met will act in your best financial interests is a stunning leap of faith. In other areas of life, we ask people to earn our trust. Parents tell teenagers that they have to build up a relationship of trust before they can have the family car on a regular basis. People reserve judgment about the competency of their colleagues until they see them handle a variety of events. They may not trust a hairdresser to touch their hair before a big social function until they have been a client for enough time to know that they aren't going to walk out with a hairdo from hell.

They should be just as wary of those who are willing to handle their investments. “When it comes to money, the rule should be ‘Don't trust, and verify three times,'” comments David Bach, a New York financial coach whose latest book is *Fight For Your Money, How to Stop Getting Ripped Off and Save a Fortune* . Several investment professionals report that some clients will only give them a small percentage of their money to work with at first, and then, only when they have proven themselves to be efficient and responsible, those clients hand over more.

Consumers should also be wary of independent financial advisers, such as Mr. Madoff and Mr. Jones, Mr. Bach says – there is more security in investing through nationally-recognized, publicly-traded firms. “If you work with a financial adviser at one of the top five banks in Canada and they do something unethical, the bank is going to have to make you whole. The bank has insurance. These firms have full-time floors of compliance officers, watching for things that are done illegally.”

And if you go with an independent adviser – they tend to take on smaller investors – ask where the assets are being held, Mr. Bach says. “If Bernie Madoff's assets had been held at Charles Schwab, for example, this would never have happened. He didn't have any checks and balances because he was his own broker. He was holding his own assets and having an accounting firm signing off on the statements.”

Mr. Jones, who is not licensed as a financial adviser, used a nebulous title for his firm: Earl Jones Consultant and Administration Corp. “I assume he chose those words when he spoke to clients,” says Daniel Thompson, president and CEO of MacDougall, MacDougall & MacTier, a 150-year-old investment firm whose head office is in Montreal. “When they see that on his door or on his letterhead, they don't question it.” It is easy to check out affiliations, he points out. Mr. Jones was not registered with L'Autorité des marchés financiers, the Quebec regulatory body, or the Investment Dealers Association.

That said, confusion over what financial professionals are licensed to do is understandable. “The financial services industry hasn't done itself any good by fooling around with these titles that have been bandied about – financial adviser, financial planner, investment adviser,” Mr. Thompson says. “There has been great discussion at the regulatory level and the government level as to what you can call yourself, but to Mr. and Mrs. Smith out there on the street, they probably don't understand the difference.”

To clarify what the titles connote, prospective clients need to ask their advisers what they are licensed to sell (insurance? mutual funds? stocks and bonds?), what their specific industry education is (are they a certified financial planner?) and what the investment profiles of their top three clients are. “If all of the clients are around 40 years old, and you're retiring and have complex estate issues, that may not be the right person for you,” Ms. Keehn explains.

With the diversity in the financial industry, sellers of products and services will often not volunteer detailed information. “They're hungry for your business, and they don't want to tell you why you shouldn't be dealing with them," she says. "If you come to a Mercedes dealership, I'm going to try to sell you a Mercedes, I'm not to going to say, 'Look, just so you know, a Toyota is best for you.' No. I want to make a sale, so I will try to sell you a Mercedes."

It's a matter of education. "I don't think it's complex," says Mr. Bach, who checks his investment and bank accounts daily online. "It's like a foreign language, and truthfully, you can't afford to not know that language. It's crazy that people work sixty or more hours a week to make money, and yet they won't spend one hour a week or one hour a month to be smart about money."

The best strategy may be to think of your financial life as a beloved child. Do not avoid him. Try to understand his problems and his opportunities. Check in on what he's doing regularly. You may have hired someone to help raise him into a mature and sophisticated man, but you have some crucial input into how he turns out.

The financial expert is a bit like a babysitter, actually. Make sure you've asked her how much she charges. Check her credentials and references. And remember this. When she knows you're watching and paying close attention, she tries to do a little better.

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