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How Wealthy Families Can Protect Against Financial Predators

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Norb Vonnegut

Before I turned to writing novels, I worked on a team at **Morgan Stanley** that managed \$2 billion in assets. I observed all the glitz of big money. But more importantly, I witnessed behavior we read about in the financial press today, from exotic derivatives to investment bankers cooking up the toxic securities.

I often use my experience in private-wealth management in my fiction to ponder big-picture questions. One question in particular keeps me up at night:

Why don't wealth management firms do more to protect families from financial predators?

For instance, have you thought about what would you do if a drug lord tried to infiltrate your family's finances?

Yikes. You might be asking yourself, Where did that come from? I'll tell you. During my time at Morgan Stanley, a man called one of my partners and said he wanted to open a \$50 million account. "More to follow if you do a good job."

Nobody in the brokerage business ever gets a call like that from a legitimate source. Stockbrokers chase money. Not the other way around.

Stranger yet, our \$50 million prospect had gone to the same business school as another one of our partners, a few years apart. But the two didn't know anyone in common. Something didn't smell right.

We submitted the man's name to our legal department – in those days I regarded Morgan Stanley as a law firm with a very large financial subsidiary – and sure enough, our prospect was on the bad guy's list. He was Pablo Escobar's first cousin, knee-deep in the family's drug business. Needless to say, we cut off all contact.

As a rule, however, families don't employ legions of lawyers to shut down bad guys. They rely on Google and the other tools of amateur sleuths. The more sophisticated the criminal, the better they are at eluding these kinds of checks.



I explore this issue in "The Trust," my **new novel** about a fictitious organization based in Charleston, S.C., the Palmetto Foundation. Palmetto is similar to the large family foundations that some of my former clients maintained, which did plenty of good work but always ran on shoestring budgets. No lawyers. No compliance departments. No lists of bad guys.

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The Trust, Norb Vonnegut

Family foundations, I thought, might be the perfect vehicles for laundering money.

I'm sure "The Trust" will alarm many who work in the not-for-profit sector or have close ties to philanthropic organizations. But you don't need to be charitable to be a target. All you need are money and weak defenses.

What can high-net-worth families do to protect themselves from financial predators?

I discussed this question with L. Burke Files of Financial Examinations & Evaluations, a firm that specializes in fraud prevention for both companies and individual investors. He said HNW families need more than attorneys, accountants, and money managers to protect their wealth. They require "operational security."

Burke says families need to develop an infrastructure to perform background checks on money managers, nannies, and anyone or anything that weaves into the fabric of their lives. It also helps, he added, to maintain an active defense against computer attacks: identity theft, reputational assaults, and whatever gets invented next.

Money management, in other words, is more than an asset allocation plan with charts and diagrams illustrating the what-ifs of a market meltdown. It should also include a written game plan for keeping predators at bay.

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Goldman Sachs, Morgan Stanley, and the other biggies should help clients shore up their defenses against fraud as a matter of standard operating procedure.

How can families shield themselves if they can't afford "operational security"? Here are three quick pieces of advice that actually find their way into my novels:

Investigate your financial representative on BrokerCheck. This free online tool shows whether stockbrokers have had problems with their clients or with the Securities and Exchange Commission.

The service isn't perfect. You won't find everybody in the database. But BrokerCheck once saved a good friend from an investment scam orchestrated by his neighbor, a money manager he had known for 20 years.

Through a quick background check on the website, we learned that the SEC had disciplined the neighbor years ago for forging a colleague's signature. My friend passed on the deal, which was a good thing — he can still retire someday. The Department of Justice recently brought charges against the neighbor for running a Ponzi scheme.

Embrace Ronald Reagan's signature phrase—"trust but verify." If you're working with an independent money manager, insist on two sets of financial statements: one from the money manager and one from the custodian where your securities are actually held. Bernie Madoff duped his victims by controlling the information they saw. A third-party custodian can confirm the results your money manager is reporting.

Beware the "money porn." Big lifestyles often hint that things aren't right. When I see outrageous spending, I sound the alert. Here's a riddle. What comes first? The predatory behavior or the over-the-top yacht?

You won't find any checklists about money management in "The Trust." You'll just read about the travails of Grove O'Rourke, my fictional hero who gets sucked into a world of financial fraud and deception that he never sees coming.

Norb Vonnegut is the author of "The Trust," "The Gods of Greenwich," and "Top Producer." Learn more about Norb and his books at norbvonnegut.com

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