

The Lessons From the Tom Petters and Bernie Madoff Scandals? Must read for safe investing practices!

Tom Petters investment scheme is reckoned to have cost his backers \$3 bln in losses. The \$50 bln Madoff losses are the biggest fraud-related financier losses in history by a wide margin. What lessons can speculators learn from these current giant crime schemes to guard themselves in the future so they are not fooled as well? If it seems too good to be true, you better run. Returns that are well above the market or that are incredibly consistent thru any kind of market demand plenty of queries. That is simply not pragmatic and does not make common sense. Why didn't he just give financiers a steady 12% return each year (or borrow at 6%-8%) and keep the rest for himself if it was such a great business / investment? Madoff apparently produced equity returns that were incredibly consistent at +1% every month without regard for how much the market rose or slid during the month. You are likely late if you are chasing great current historical returns. Risk is always highly correlated to returns. Be cautious of warranted returns and / or guarantees of above market returns. If your boss is manufacturing great above market returns, he is possibly taking greater than average risk to get there. Made folk are usually not any smarter or more moral than regular folks. Both of these financier crimes had heaps of well off, smart folks and corporations as backers. Greed is a universal emotion that could even be stronger for rich folk. The more you have, the more you would like even more. Some folks who did their homework on Petters and Madoff decided not to invest. Do your due diligence to test things out or have a counsellor you trust do it for you. Petters was paying his associates million buck bonuses to keep them ecstatic and going together with the scheme. Bernie Madoff had his sons working for him and his brother-in-law was his accountant. Madoff owned the investment firm and the brokerage firm that was doing all of the trades so it was way easier to fudge the numbers. Is the monetary inducement of your investment boss / aide aligned with your interests? Always? Ask the question. Guarantee your investment manager is employing a separate, independent, and well known broker / dealer as the custodian for your assets. Confirm your assets are at a custodian firm who is independent of the investment chief. Is it a custodian firm you have heard of? Madoff owned and ran both and so there wasn't any outside party to determine things. Madoff's customer statements failed to come from an independent custodian like Fidelity, Schwab, or TD Ameritrade. They were from Bernard L Madoff Investment Stocks , LLC. Madoff himself controlled what the statements asserted.

Did Petters even use a custodian? Ensure you get regular statements from the independent custodian investment firm, not simply from your investment counsel. Never write checks or send deposits at once to your investment aide. They'll be written to the investment counsellor's firm or ideally without delay to the custodian firm that is holding the assets. Don't put a hundred percent of your investment in one hedge fund system like a lot of Petters and Madoff stockholders did. They likely did this as they were getting such great returns (for some time) there. Again plenty of stockholders had most or all of their cash invested with just one hedge fund system (Petters or Madoff). It is smart to have an Investment Policy Statement (IPS) that outlines your investment methodology and parameters in writing. You need to also have the investment agreement between you and the investment manager in writing. Hedge funds can be risky. They are mostly unregulated, regularly secretive, costly, and customarily not clear. You regularly do not know how much risk they're truly taking.

Don't invest with a money-manager simply because of their reputation. Understand their methods and guarantee they make sense for you. Business success and social prominence does not guarantee safety or soundness in investments. They also don't make sure the highest moral standards. Did it make sense that Petters could buy electronics from Sony and then sell it to Wal-Mart and make giant returns? I don't believe so. Wal-Mart is a smart company with giant purchasing power and smart buying agents. Petters was in some of the hardest companies in the world (electronics, airlines, Polaroid) and was presumably making large money in them? Madoff made 1% each month in stocks when the market was down big or up. Does that make sense? How does he do that? Ask the queries. Don't invest in things you do not understand. This is an example of the best rules of investing. You must understand the structure of the firm you are working with, the investment philosophy, and the investment process. I am sure the majority of Madoff's speculators had no concept what his "split strike conversion" equity plan was. How many investments do you own that you do not understand? Read thru your brokerage statements conscientiously to make certain you understand what is occurring. Petters and Madoff were both secretive about how they were manufacturing these great returns and daunted backers from asking about their "proprietary" strategies. Madoff would toss financiers out who asked too many queries. The Petters / Madoff scandals are one more reason for financiers to lose confidence and trust in the financial markets.

About the Author

You will find more and more information on this website, soon we will be opening a unique investment club coached by highly succesfull trader in the stock market.

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