

Scam Artist or Ethical Stock Broker?--How You Can Tell the Difference

The quickest way to tell if your stock broker is a scam artist, using your account for broker profits rather than yours, is to look for evidence of "churning."

Say you have just opened a stock brokerage account and your broker puts you into Fast Buck Industries as your very first "investment." You get your first statement and see that she has traded Fast Buck three times. You also note several stocks listed that you had not discussed. It's only unethical or illegal if you get caught, is often the rationale.

You ask a few knowledgeable people, who know a little something about the stock brokerage business as well as stock scams, and they feel that your new broker is a scam artist who is "churning," buying and selling for your account--frequently--in order to generate more income for herself through increased commissions. A shark is the only fish that can blink with both eyes, you might note, as you try to fit applicability to scam artists.

This practice--"churning"--occurs more often than you might think. Many people succumb to their broker's appeal to give them "flexibility" so they can react quickly to take advantage of fast-rising opportunities, for the benefit of their customers. Whereas you could have easily avoided all this in the beginning by simply refusing to sign the discretionary papers giving your broker authority to trade on your behalf, without your prior authorization. "Experience" is a socially-accepted word people often use to explain accumulated mistakes. This mistake would have to be classified as a substantial contributor.

O.K., so you had granted your broker--or scam artist?--such unilateral authority. Losses to you occurred, while commissions to your broker mounted. What to do now?

You have multiple avenues of recourse. First you must protest, in writing, immediately. (Failing to do this could be deemed tacit approval, on your part, for what your broker has done.) Conflict of Interest is a possible complication to check out. Suitability Claims is another. (Has the broker fitted the trades to your "risk profile?") Misrepresentation is a good one. (Failure to disclose important information to you involving the trades.) Unauthorized trading. (This brings the focus right back to where you started: what exactly does the document say--in what words--which gave your broker authority to trade for you in the first place?)

In self-defense, a broker will commonly sell off the winners to show, at least, a small profit. Don't be fooled by this. This could still be scam artists' activity. The losses were most likely retained.

In business, stocks are the basis of essentialism. In the beginning your broker may have played herself up as the greatest authority on free enterprise stewardship since J.P. Morgan. But, to counter the hype, you must consider all angles. In many ways, stock scams are now a whistle blower's delight. So many new tools have been made available to the stock-buying consumer (including, even, the infamous Sarbanes-Oxly Act) that you now have every chance of getting justice over any stock "churning" dispute. Nobody cares if you can't dance; just get up and dance. Fast, decisive action on your part is key.

About the Author

The [Con Man's](#) Blog, and first two chapters of Jack Payne's [legal thriller](#) book, Six Hours Past Thursday, are now available online. Both readable for free. You are invited. www.sixhrs.com

Source: <http://www.articletrader.com>