# The Cost of Not Paying Attention

I'm constantly amazed by the number of stories I read each year about wealthy people getting swindled in a Ponzi Scheme or being taken advantage of by a shady financial advisor. The wealthy are by far the biggest targets for fraud and scams and yet they are still far too trusting and nonchalant about who they give their money to and what they allow them to do with it.

The most recent case that caught my eye occurred right in my own backyard in West Michigan. Here's the summary From Mlive:

*The man entrusted with investments for philanthropist Elsa Prince Broekhuizen and her living trust admitted Wednesday, March 16, that he stole $16 million - but said he cost her much more.*

*Robert Allen Haveman, 68, said he spent most of the money he took on bad investments.*

*He also made poor investments on behalf of Prince Broekhuizen and the trust. He pegged total losses at $50 million to $60 million.*

*"Unfortunately, your honor, I was given a whole lot of latitude in determining what private investments to do or not do," he told U.S. District Judge Robert Holmes Bell in Grand Rapids.*

The Prince family is one of the wealthiest in West Michigan. Elsa's now deceased husband, Edgar Prince, founded a manufacturing company that was eventually sold to Johnson Controls for more than a billion dollars. Obviously they didn't have the best judgement when it came to selecting an advisor to oversee their money for them. Not only was this guy stealing from them but he wasn't making any money for them either.

It gets worse:

*"I had a lot of latitude in making those decisions and I was the one that wrote up the reports. I made misrepresentations on some of those reports," he said.*

*"Unfortunately, your honor, I was given a whole lot of latitude in determining what private investments to do or not do," he said.*

*He invested in an environmental technology company that "certainly did not do as well as I anticipated," and a rubber-recycling business that "didn't do as well as it was supposed to," he said.*

*Haveman, who stole money from 1999 to 2014, admitted he misled an investment committee at quarterly meetings. Once investment losses were discovered, he was given "a very firm directive" by the investment committee to obtain its permission before making further investments.*

There are so many issues with this fraud that I don't even know where to begin.

The investment committee was negligent in all of this because there's no way they were actually doing their job of overseeing this fund or the advisor. At a minimum, a good investment committee should perform the following tasks:

- Establish investment policies
- Prepare a written Investment Policy Statement and document the investment process
- Monitor the results
- Ensure the portfolio is diversified according to the specific risk/return objectives of the participants and beneficiaries
- Control and account for all investment-related expenses
- Avoid conflicts of interest

They obviously weren't monitoring the results and it doesn't sound like there was much of a plan in place at all. Plus there's the fact that this "advisor" got away with this fraud over a 15 year period. Was anyone ensuring that he was doing what he said he was going to do? Were they even paying attention? The lack of oversight here is unbelievable with such a large amount of money at stake.

I recently commented on the pitfalls of benchmarking and how it can be taken too far, but this case shows why some kind of performance measurement will always be necessary. Had there been even the simplest of benchmarks or performance reporting the investment committee would have been able to see that things weren't copacetic.

But beyond the investment committee this blunder is really on the family. Just because you're wealthy and outsource the management of your money doesn't mean you can stop paying attention altogether. The problem is so many people are drawn to the most confident advisor they come into contact with. Hucksters and charlatans speak with such an air of certainty that the people who invest with them assume they can deliver on all of their false promises.

For wealthy individuals outsourcing your money management makes a lot of sense. Taxes, portfolio management, estate and financial planning can all be overwhelming and time consuming. Legitimate experts in these areas can make your life easier and save you time and money.

But you can never outsource the understanding of what's going on with your finances. You will always be the biggest expert on your own situation and goals. You still have to ask questions. You still have to pay attention and understand what's happening and why.

Source:
$50M loss for philanthropist mother of Erik Prince, Betsy DeVos, swindler says (MLive)

Further Reading:

Lessons for the Wealth from Tim Duncan

Now here's what I've been reading lately:

- The problem with average (Irrelevant Investor)
- Why do we bother writing about finance? (Evidence-Based Investor)
- Today's current investor concerns look oddly familiar (Fat Pitch)
- How to build a good investment team (Research Puzzle)
- Why investors should combine value and momentum (Alpha Architect)
- Not all stock markets are the same (Fortune Financial)
- An investor's income tax checklist (Big Picture)
- When process and performance disagree (Newfound Research)
- Eating your own cooking (Irrelevant Investor)
- There are a lot of lies out there about the fiduciary standard (Bason)
- The misuse of aggregate active vs. passive comparisons (Severian)
- Alternatives to being an evidence-based advisor (Above the Market)
- A dozen lessons from Benjamin Franklin about money (25iq)