

## "How Do I Know You're Not Bernie Madoff?" - Transcript

**Tom Mullooly:** In episode 241, we addressed the question that everybody in the industry should be ready to answer. And that is how do I know you're not Bernie Madoff?

Welcome to the Mullooly Asset Show. I'm your host, Tom Mullooly. And this is episode number 241. Thanks for tuning in. So how do I know you're not Bernie Madoff and you're going to steal my money? That is actually a real question. And it's a good question. And I would advise brokers and advisors who are watching this video never to blow that off. That's a serious question, and you should be ready to answer that. And if you're an investor, you should ask, if you don't know. It's important that you understand the mechanics kind of how the sausage gets made when it comes to things like this.

So Bernie Madoff owned a brokerage firm and he owned an investment advisory firm. By comparison, Mullooly Asset is an investment advisory firm. We work with a brokerage firm like TD Ameritrade or Charles Schwab. What Madoff though was very good at blurring the lines between where his client's money was actually going. Was it going in the brokerage firm? Was it going in the investment advisory firm? There's a lot of speculation that he never made a trade for some of these clients going back 25, 30 years.

So the short answer to how do I know you're not Bernie Madoff? The answer is one word, custody. Does your advisor or your broker have custody of the assets? It's important to know who does have custody. A brokerage firm will have custody of the asset. So a brokerage firm like TD Ameritrade or Charles Schwab. So your broker who has custody is going to send you statements on a quarterly or monthly basis. You can pick up the phone and call them and talk to someone about your account outside of the advisor. And you can access the account online so you can see what's going on. Unfortunately, some people log on too much and they look at the account and micromanage things.

Your advisor, however, won't have custody. They're the advisor on the account. They're merely advising on this. So question for you. Can your advisor withdraw funds from your account other than the management fees that you've agreed to? If your advisor or your broker can withdraw money from your account, they have custody. It's important to know when someone has custody of your accounts. So in 2008, TD Ameritrade came out with this new service called Move Money. Prior to 2008, when a client wanted money from the account, it was like, okay, we can wire money to your account, or we can mail you a check or send it by overnight mail or we can just send the money out physically to you.

I thought the timing on their rollout of Move Money was horrible because they started this in 2008. And that was the year that Madoff got arrested for his gigantic Ponzi scam. We're doing this because Madoff just died this week. The week that we're recording this video. He still had something like 147 years left on his prison term. So Move Money sets up a direct pipeline between your bank account and the brokerage account. This is really important. This is a secure way to move money electronically.

Think of it as a pipeline. There's only an opening at each end of the pipe. Money can't go anywhere else. It either goes to your bank or it goes to your account. There's nowhere else it can get siphoned off or misdirected. So if you wanted to send money to another bank account, or if you wanted to send it to another address that you're in Florida for a couple of months, or you wanted to send money from your account, your brokerage account to somebody else, that's technically what's called in our line of work, a third party check request.

So they don't send money electronically under those circumstances. It's always going to be a check and we need your written signature to send money to a third party. So it's important to know that money can only go to the person whose name is on the brokerage account at the address that's on the brokerage account. If it's going anywhere else, you need to sign for that. Look, if you're not sure about whether your broker or your advisor has custody, ask. There's never such thing as a dumb question or wrong question or a bad question.

That's something that I think a lot of people after Madoff got arrested, they just kind of waved it off. Like, of course not. But it's a serious topic. And I think it's important to know. I mean, it's a horrible thing that he did, but in the big picture, it was actually very good for people who are on the fiduciary end of the business. We've got a legal obligation to do the right thing for our clients at all times.

That's the message for episode 241. Thanks again for tuning in.