

## RECOMMENDED READ: How to Smell a Rat – The 5 Signs of Financial Fraud

Ken Fisher has published numerous bestsellers and is widely known for his practical advice columns on finance and investments. This book is no different - written in 2009, just after Bernie Madoff's Ponzi scheme came to light - Fischer aims to give readers a practical guide to choosing a money manager or financial provider. The framework he provides, although based on US examples and legislation, is still applicable in the South African context.

From the many real-life examples that Fischer mentions, a common theme seems to be that investors don't ask the difficult questions. People are blinded by high returns, even – as it turns out – if those returns aren't real. Although the scale and relative simplicity of the Madoff fraud now seems almost unthinkable, no amount of regulation will ever eliminate the risk of such schemes being set up – it is therefore up to investors to ask the right questions to avoid the risk.

Fischer provides some practical ways of “smelling these rats” when looking at investment performance and processes. His biggest focus is on custodianship (as was the problem with Madoff, investor's assets were transferred into the company account, rather than being held in their own names).

Although a lot of time is spent reiterating the importance of custodianship as the biggest risk, “How to Smell a Rat” is an enjoyable read full of useful anecdotes and practical advice – a recommended read for anyone choosing an investment manager or advisor.

