Many money managers are confronted by an unhappy investor at some point – usually after a downturn in performance. Investor claims could have a big impact on your bottom line and your peace of mind, but an attorney experienced with investor claims can help you avoid or, if necessary, defeat such claims.

Our firm consults with hundreds of investment advisers about many aspects of their business, and we have handled a wide variety of investor claims and disputes over the years. We are particularly proud of recently winning an arbitration proceeding that involved a claim for $50 million. Based on our experience, here are a few practical suggestions on how to protect yourself from a disgruntled investor.

BE PREPARED

Don't be surprised to find that, if you lose money, one or more of your investors will claim to be "shocked" by the losses and insist that they were promised that there was no such risk. Your best defense against such "fraud" claims will be your marketing materials and client agreements. Make sure that these documents are up to date and that all material risks are explained and accepted. Also, make sure that you follow any limitations or other descriptions of your investment strategy that are in the materials you give to investors.

Unhappy investors also sometimes complain about "mismanagement." To defend against such claims, it will be important to show that your interests were aligned with your investors. One of the best ways is to "eat your own cooking" by investing your own money along with your investors (whether in a hedge fund or a separate account). Clients are usually reassured if they learn that you lost money too, and, even if they aren't, your losses will be undeniable evidence of your good faith belief in your investment strategy.

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