



Investor Beware!

It often starts with an ad, an email, a phone call, a leaflet in your mailbox or a comment from a friend or acquaintance.

Before you know it, you're considering transferring your savings, increasing your mortgage or borrowing from the promoters – whatever it takes to raise money to:

- invest in something that offers high returns but with little risk, or
- buy a computer program, CD or video or take a course that will give you the skills to earn – there it goes again! – high returns but with little risk.

Often, you must act fast. There are only a few places left...or it's cheaper if you enrol now...or the market is about to turn against you.

Mayday! Mayday! Mayday! You are almost certainly about to be ripped off.

Occasionally I hear of a genuine person – as opposed to the promoter's sister-in-law – who does well out of such activity.

They were probably just lucky. As they say, if you put enough monkeys on typewriters, one of them will eventually type "Hamlet". But most monkeys type rubbish. And most investors in these schemes end up losing.

In some situations, even the winners succeed only because it's a pyramid scheme. The early "investors" receive money put in by the later investors, who end up with nothing.

Some scams are obvious to all but the gullible. Others entice even the sophisticated, who may be too embarrassed to do anything about it. Recently, a retired judge admitted being ripped off in several property schemes.

WARNING SIGNS

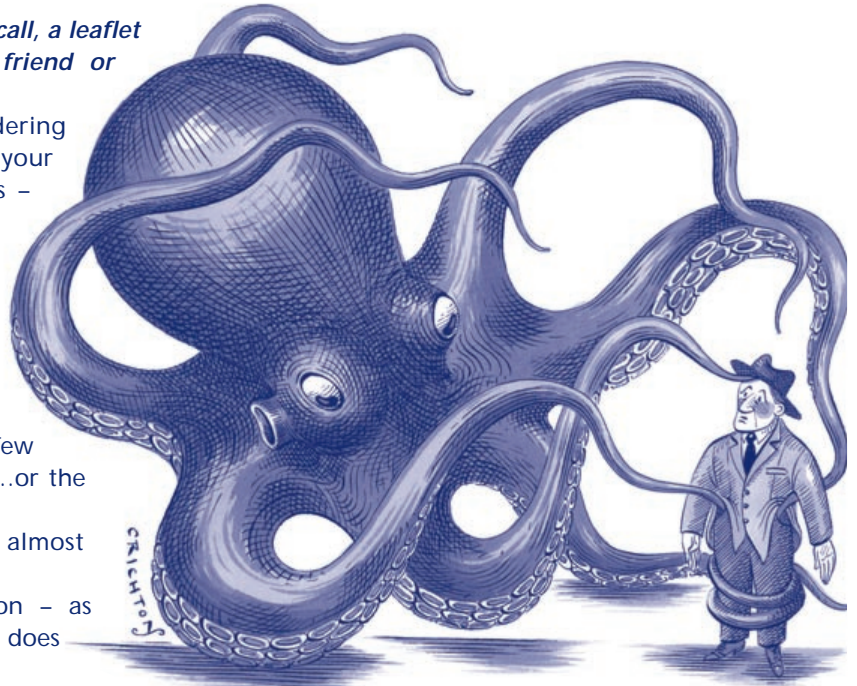
Look out for the following:

- **The expected return** is higher than, say, 12% a year.

DON'T PROCEED...

...unless an investment has:

- *A prospectus and an investment statement. Read, at least, the investment statement, particularly the section on risk. If there's anything you don't understand, seek more information or give it a miss.*
- *A physical address, not just a PO Box number.*
- *A New Zealand phone number. Ring it to make sure it is correct.*



Such investments must be highly risky. Also be wary of any investments predicting returns of more than the bank deposit rate that don't warn you that you should be in for the long term.

- **Very high past returns.** Promoters sometimes simply lie about past returns. Or they select an abnormally prosperous period and present that as typical, or select the few past investments that did extremely well and present them as typical.
- **Pressure to commit quickly.** Promoters don't want you to have second thoughts or ask others' advice. Sound investments will be as good next month as they are today.
- **An approach by phone.** I have never heard of a sound investment being offered in a phone call from a stranger.

(CONTINUED PAGE 2)

(INVESTOR BEWARE!, CONTINUED)

Hang up on cold callers.

- **Free seminars or courses.** The promoters must be planning to sell you something. Note, too, that “education” programmes that charge fees can be just as bad. Be wary of any programme not run by a legitimate educational institution.

- **Promoters that offer properties or shares** that are “below value”. Who are all the sellers that provide these bargains? And why don't the promoters simply re-sell at a profit, rather than involving you? Often, in fact, the properties or shares are over-valued.

- **A strategy you don't fully understand.** Of course, many legitimate investments are complex. But you shouldn't invest anyway if you can't see how returns are generated, tax deductions are justified and so on. And some scamsters deliberately make their product confusing, in the hope you will concentrate on expected returns and not question how they are generated.

- **Requests for info** such as PIN numbers, passwords, usernames or credit card details, even if they seem to be from your bank or similar. Banks never ask for this information.

- **Notification that you've won a prize,** but you didn't enter the competition. You'll be asked to send cash for processing. That's the last you'll see of it all.

- **A request** to keep an investment opportunity private or secret. What is there to hide?

- **Claims** that you'll “learn the trading techniques many don't want you to know”, or be let in on: the secrets of the rich; a portion of a Nigerian official's millions; or high-return investments with “the world's prime banks” or “top world banks”. How did you get so lucky?

FALSE FRIENDS

People sometimes take comfort from features of an investment when they shouldn't. Some to watch for:

- **Advertisements** in reputable publications or electronic media. The media don't routinely check the credentials of advertisers.

- **Wording** such as: “It's completely legal”, which is sometimes simply a

lie; or “mortgage”, which doesn't necessarily mean an investment is safe and low-risk; or “Approved by (a government agency or the Consumers' Institute)”. These do not give endorsements.

- **A money-back guarantee.** That's no use if, when you go to claim, the company no longer exists, or it says you've past an expiry date you were never told about, or you didn't follow all instructions to the letter.

- **A recommendation** that you check with your own lawyer or accountant. Some people assume that means the investment is legitimate, and don't bother to actually make the check.

- **Testimonials.** There's a good chance the person giving the testimonial is connected to the investment promoters, or non-existent. Question even endorsements from famous people. According to *Consumer*, one New Zealand promoter recently claimed that Queen Elizabeth and Muhammad Ali were involved with his company.

- **Referrals** to “independent” offices or websites that aren't independent, or to reputable companies. A while back, promoters of share-picking computer software kept dropping the name of a major stockbrokerage firm. When phoned, the firm's principal said he liked to get business from all share traders, but in no way endorsed the software.

- **Classy-looking** literature on high-quality paper. All this may mean is that the promoters are willing to spend a bit to rip you off a lot.

- **A recommendation from a friend** or community or church leader. “Affinity fraudsters” gain the confidence of such people, and may promise some profits from their scheme will go to the organization. Often these are pyramid schemes.

- **Guaranteed rent.** Some sellers of rental properties guarantee a certain level of rent for several years. The rent is well above market rates, subsidised to make the property look more attractive. When the guarantee ends, rents plunge.

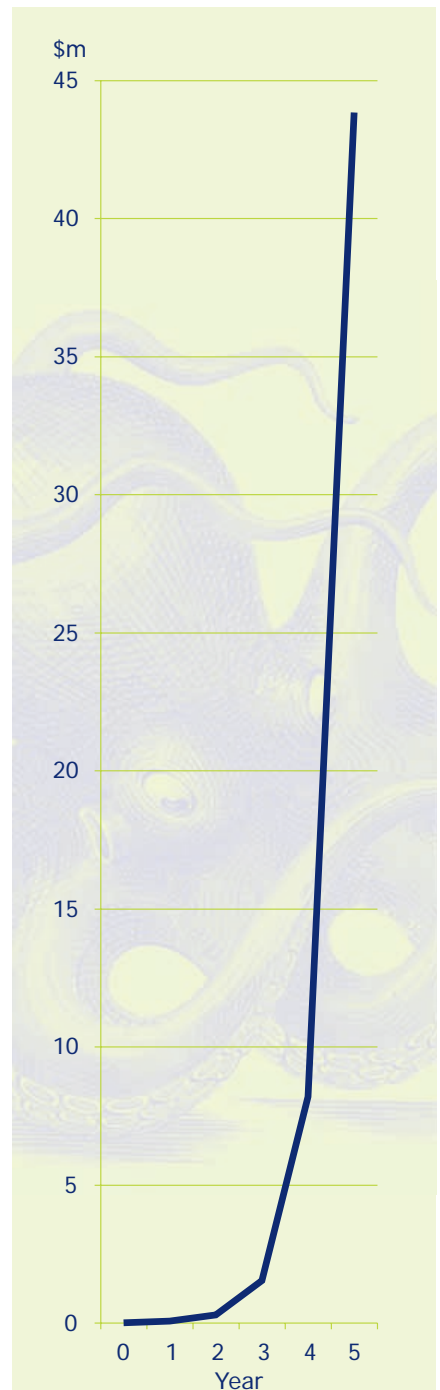
Remember, the “If it looks too good” cliché is not hackneyed for nothing.

See page 4 for Scam info online.



“Ninety per cent of the victims were men.”

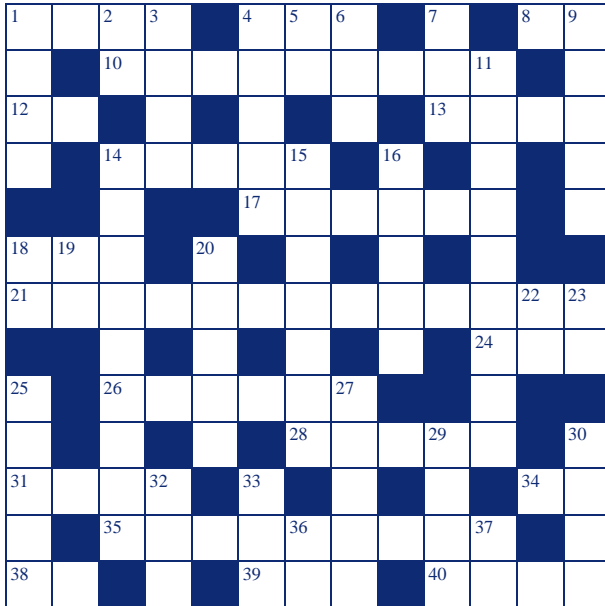
Australian Securities and Investments Commission chairman David Knott, discussing 80 overseas telemarketing scams. This suggested, he added, that women were less active in financial markets and more cautious.



IF ONLY!

Some advertisements tell of investments that are expected to bring in returns of 15% a month. That's ridiculous.

If you put \$10,000 into an investment that did, in fact, pay such returns, your money would grow to almost \$44 million in just five years. After 10 years, it would be \$192 billion.



Solution: Back page

HOLM TRUTHS CROSSWORD SPRING 2004

ACROSS

1. Team sport event (4)
4. Secret agent (3)
8. Modern recording (initials) (2)
10. Too menial (anagram) (9)
12. Drivers' club (initials) (2)
13. Letters and parcels (4)
14. Profits (5)
17. Tightness (6)
18. Actress ___ Thurman (3)
21. Type of scam (7,6)
24. Male sheep (3)
26. Jotting down (6)
28. Fashion (5)
31. Region (4)
34. Act (2)
35. Schooling (9)
38. NZ 'Mainland' (initials) (2)
39. Poem (3)
40. Midday (4)

DOWN

1. An aim (4)
2. Myself (2)
3. Girl's name (4)
4. Knocks out (5)
5. Greek letter (2)
6. By ___ bonnie banks (3)
7. Pig meat (3)
9. Postpone (5)
11. Washed (9)
14. Warranty (9)
15. & 30. Borrowing for education (7,4)
16. Slapstick comedy (5)
18. Not down (2)
19. Of me (2)
20. Items (anagram) (5)
22. Mother (2)
23. Printer's measure (2)
25. Ripoffs (5)
27. Shred into bits (5)
29. Type of light (4)
30. See 15 down
32. Count, total (3)
33. Environmental (prefix) (3)
36. After year 0 (initials) (2)
37. Not yes (2)



Dear Mary:

Can you advise me on the best way to structure my finances please? Ultimately, I want to become debt-free, and provide for my retirement and my children's education.

I have two children aged 2 and nearly 5, and I'm separated, aged 41. I work 24 hours a week on \$35 an hour, but do additional work that earns me about another \$2,500 a year.

My ex-husband gives me \$125 a week for each child, which is to run until they reach 19. This nearly covers my current childcare costs.

I have a house worth about \$330,000, and my mortgage is \$209,000 (I'm two years into a 25-year loan, currently at 8.1%).

I owe my ex \$14,000 from our settlement to be paid "as and when" I can afford it, with interest payable at the rate of a one-month term deposit at Westpac.

I have no other debt, and my car is worth around \$3,000 (I'll need to replace this in a couple of years), but no other assets.

My ex and I put \$25 a month (\$12.50 each) per child in a savings account for their education and have done so since they were born. I have a gold credit card but maintain a zero balance.

I'm considering increasing my mortgage by about \$55,000, to pay out my ex and add a fourth bedroom, ensuite and lounge to my house, and taking in an adult boarder.

✉ **Paying off a mortgage is a great first step.**

✉ **Simplicity is good for busy people.**

✉ **Earning 4% while paying 8% is not smart.**

Each time a child goes to school, I'm about \$100 a week better off because of savings on childcare, after allowing for school costs and holiday care.

Things are tight financially, but I'm conscious of the need to get debt-free, but still consider retirement and the kids' needs.

Dear Reader:

You've got three sound goals, but they're pulling you in three different directions. Let's consider each goal.

• **Becoming debt-free.**

This is the one you should concentrate on now. More on that in a minute.

• **Providing for your retirement.**

Getting rid of debt is an excellent first step. Once you've done that, you can start saving.

While many people save while repaying their mortgage, that involves taking on risk and it's more complicated. You've got enough else in your life right now.

• **Providing for your children's education.**

Numerically speaking, it's not clever to earn perhaps 4% after tax on a bank account while paying off a mortgage at 8%.

You'd be better off putting the lot into paying off the mortgage sooner, and then saving for education – or perhaps, by then, helping to pay off student loans.

But we don't want to mess with an agreement with your ex-husband. So stick with the \$25 a month, but limit yourself to that.

If you get an average return of 4% after tax, it will grow to about \$8000 over 18 years. True, that will be eroded by inflation. But it will still be more than many other kids get.

And as your financial situation improves, you may be able to contribute more later.

OK, so let's look at your debt.

Firstly, good on you for keeping the credit card balance at zero. The high interest charged on credit cards is a financial crippler.

What about the debt to your ex-husband?

The interest you pay, at the term deposit rate, is always going to be lower than the floating mortgage rate. Otherwise, banks would go broke.

The financially smart thing to do, then, is to ignore the loan until you've paid off all your mortgage.

I suspect, though, that you might want to be rid of the loan for

(CONTINUED PAGE 4)

SCAM INFO ONLINE

Some websites to check out:

- “Scamwatch” at www.consumeraffairs.govt.nz includes information on recent scams and on how to spot a scam.
- “Invest Prudently” at www.sec-com.govt.nz includes brochures on “How to spot a scam” and “You can help stop fraud”.
- “Scams” at www.consumer.org.nz includes a directory of scams, “How to spot a scam”, “What to do if you’ve been scammed” and more.



RIP-OFFS HAPPEN IN THE BEST OF FICTION, TOO.

On page 91 of 2003 Booker Prize-winning novel *Vernon God Little*, by DBC Pierre, 15-year-old Vernon's mother tells him about the new man in her life.

“He already told me about an amazing investment company – over ninety per cent return, virtually guaranteed...”

“Yeah,” (says Vernon,) “like we have money to invest.”

“Well, I can take out another loan, I mean – ninety percent!”

By page 131, things have changed.

Crying, Vernon's mother tells him,

“I went to cash the investment this morning, and the company was gone... (Our) power's being disconnected tomorrow.”



(FROM THE MAILBOX, CONTINUED)

emotional reasons. Given that it's not a huge amount, adding it to your mortgage won't make a great deal of difference – as long as you then concentrate on getting the mortgage back down as soon as possible.

How about borrowing \$41,000 for the extension? Although this is increasing rather than reducing debt, it might be a good idea.

Check with your lender, but it seems it will boost your mortgage payments by roughly \$80 a week.

Find out what you can charge a boarder in your area, and subtract food, electricity and any other costs.

Currently, you don't have to pay tax on income from one boarder, although you do with more than one. Note, though, that Inland Revenue is reviewing the tax rules about boarders. It hopes to finalise this by the end of the year, so you might want to wait until then.

Let's say your net income from the boarder, after expenses (and tax if it applies), will be about \$50 a week, or \$2,600 a year.

Divide that into \$41,000, and you come up with a return of 6.3%. That's less than the interest you're paying for your mortgage, so the investment doesn't look great. And if interest rates rise further, or you have a period without a boarder, it would look worse.

But wait! You've added to the value of your house, and your higher

mortgage payments are boosting your equity. When you eventually sell, hopefully you will get enough extra to compensate for your added outgoings now. That's not certain though.

If, however, the net income from the boarder is more like \$100 a week, or \$5,200 a year, the return on the \$41,000 is 12.6%, well above the interest on the loan. The extension is clearly a good idea.

You will lose some privacy, but if you pick the right person you may gain security, and perhaps even a babysitter sometimes!

Two other points:

- Ask your bank if you can finance your new car, when you need it, out of your mortgage. In the meantime, save for the car by putting any money you can spare into the mortgage. That gives you the equivalent of the mortgage rate on your savings.

- When you get new income or lower expenses, such as from the boarder or when your younger child goes to school, put that into repaying the mortgage.

You're welcome to send questions to From the Mailbox. Email them to maryh@pl.net, or mail them to P.O. Box 8520, Symonds Street, Auckland, and please include your phone number. Unfortunately, Mary can't answer all questions in Holm Truths, and cannot correspond directly with readers.

Holm Truths Crossword Solution

G	A	M	E	S	P	Y	H	C	D
O	E	M	O	T	I	O	N	A	L
A	A	M	U	N	M	A	I	L	
L	G	A	I	N	S	F	U	A	
	U		S	T	R	A	I	N	Y
U	M	A	S	U	R	D			
P	Y	R	A	M	I	D	S	C	H
		A	I	E	E	R	A	M	
S		N	O	T	I	N	G	E	
C	T	E	T	R	E	N	D	L	
A	R	E	A	E	A	E	D	O	
M	E	D	U	C	A	T	I	O	N
S	I	D	O	D	E	N	O	O	N

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