Investments to Avoid

If we can avoid making big investment mistakes that lose money, we've almost won the investing game. And while that's not always easy to do, here's a simple list of investments or service providers to avoid (you should only consider these after doing lots of homework and educating yourself). Some of them have the potential for great returns, but only if you know what you're doing. And you have to be honest with yourself – are you really an investment expert? Remember the car-and-driver analogy from *The Quest* DVD?

- Commodities, stock options (unless given to you by your employer), and buying stocks on margin or debt. If they decrease in value, which they often do, you can easily end up losing more than your original investment.

- Collectibles, antiques, art, vintage cars. Buy these for entertainment, but don't count on them as an investment. Often they decrease in value, and they can have high upkeep costs.

- Advisors or sales people who make a lot of money when you buy the investments they are selling; they may not bother to investigate all the options. It's better to work with unbiased financial advisors who learn about your goals and select among all the possible investment alternatives. Typically these are professionals who don't make a commission from the sale of investments, and work for a fee or hourly rate. Ask how your advisor is paid.

- Whole life insurance policies. These usually make good money for the insurance agent and the insurance company -- but not for you. If you need protection, buy term life insurance.

- Deferred annuities. Most of these have high expenses and mediocre track records. Possible exceptions to consider are annuities from no-load mutual fund companies, which typically have lower expenses and better track records than most deferred annuities. Don't consider a deferred annuity until you've maxed out your savings plan at work, such as a 401(k) plan. One of the advantages of deferred annuities is the tax treatment of investment returns; if this is a concern to you, investigate other simple investments with favorable tax treatment, such as index funds, tax managed

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mutual funds, and municipal bonds. Do your homework before buying a deferred annuity!

- Stock brokers and money managers who put together a custom portfolio for you, unless you have lots of money. Most of the time, they can't beat highly paid professionals who run successful mutual funds. The really good pros won't bother with 'small fry' with less than $500,000 to $1 million to invest.

- Individual real estate investment properties, vacation homes and time-shares. You've heard plenty of get-rich-quick stories when it comes to real estate, and some of them happen. But the fact is, if you're buying investment properties other than your primary residence, you're really running a small business, and these only work with significant time and effort. Be honest with yourself - do you have the necessary time and expertise? Consider vacation homes and time-shares as consumption items, not investments. Don't count on them to fund your retirement.

- Anything that's sold to you by a telephone solicitor, at a 'free' dinner or by anybody who puts pressure on you to buy.

- Anything you don't understand. It's critical to take the time to understand how investment vehicles work.

- Anything you must invest in immediately or the opportunity vanishes. If it's a good investment, it'll still be there tomorrow – after you've done your homework.

- Anything that sounds too good to be true – usually it isn't true, or it has restrictive conditions in the fine print. And learn what constitutes "too good to be true." Here are some guidelines:

    - Avoid any investment, institution or advisor that *guarantees* returns that are much higher than high-grade corporate bonds or U.S. government bonds. In late 2007, anything that *guarantees* more than 7 percent per year should be investigated carefully. The higher the guarantee, the more you should be suspicious.

    - Avoid any investment, institution or advisor that gives you the impression they can beat long-term averages in the stock market without taking significant risks. The higher the expected return, the higher the risk of losing your money. Over long periods of time, stock returns have averaged about 9 to 10 percent per year; you can expect about 7 or 8 percent per year from a portfolio invested in a mix of stocks and bonds. Anybody who gives you the impression they can beat these returns is taking risks that you usually don't want to take, or is being overly optimistic.

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There's no need to take risks that might generate high returns but might also lose a lot of money. You can meet your goals by averaging from 7 to 8 percent per year over your lifetime. Based on past history, this goal is realistic over the long run with carefully selected no-load mutual funds invested in a mix of stocks and bonds.

Become a student of investing for your *rest-of-life!* It doesn't need to be hard!

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