

## Trendy investments tragically seductive

By Perrie CroshawNEWS.com.auMay 26, 2009 07:59am

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- Investing seen as trendy
- Check the fine print first
- **Money & Me:** Find out more

FINANCIAL investments were as popular as Friends and Seinfeld during the nineties and naughties. We all had to have more and better than our neighbours.

Seduced and bedazzled by the glamour of products offering the moon, many of us just don't read the fine print.

Take for example the seemingly low risk "Capital Guaranteed" investment, a "safe" investment specifically marketed to those of us who are scared of losing our capital.

However, often these products are more risky than their marketing material initially reveals.

"Capital Guaranteed" generally means that 100% of the money you invest is guaranteed by the provider to be returned to you at a future date together with any earnings. But this guarantee may not cover fees and these will come out of your initial investment.

Often these products are leveraged, which means you borrow to increase your exposure and your returns. You are charged interest on these borrowings. This interest is sometimes rolled into the fees. The interest rates are usually quite high – often as much as 16 per cent, so you would expect that your returns on this investment reflect that. With some capital guaranteed investments, both the capital and the interest are guaranteed.

If the underlying investment performs badly, you may never see any returns on your money and at maturity of the product, may end up with less than you initially invested (after fees and interest are deducted) despite the product being "capital guaranteed".

"Financial product information needs to be open and honest communication," says Kevin Sherman from [www.myrate.com.au](http://www.myrate.com.au).

"One clear sign for investors is, if it sounds too good to be true, you can bet it is! Everything



Be carefull ... making sure you check the fine print first could save you a mountain of cash and worry / File

should be made clear upfront.

“When you see those tagline interest rates but no other details, an alarm bell should go off.

“When you have to dig through 18 pages to find further details, then it is suspicious. Ask yourself, ‘Why do they try to hide this information?’”

“The real joke is that these investments have been around for decades and if they really worked, we’d all be very wealthy!” says Paul Squires, financial expert and author, of *Wealthier Than You Think*. “But in Australia, for every dollar we earn, we spend \$1.03.

Talking about your diversified portfolio, margin loan, or capital guaranteed fund may have made great dinner party conversation before the crash, Squires says, but while there is nothing “savvy” about setting up a savings account, those people who squirreled away cash before the market fell have turned out to be the most savvy investors.

“The reality is that these financial products are sold by people in business to make money. There are brokers’ fees, commissions, trailing fees.

“For too long, people have had the attitude that you need to spend your way to wealth. If you spend a dollar to make a dollar, you get nowhere. If you spend a dollar you want \$5. But this is high risk with high returns. Too many people don’t understand that high returns equals high risk.

### **Tips to remember:**

If it sounds too good to be true, it is.

If you are offered a return higher than 8 per cent on your investment, it’s high risk.

Take time to read the fine print.

Ask about fees and what they contain.

Diversify your investment – don’t put all your eggs in one basket.

You will be told about the rewards, but ask about the risks.

Don’t buy into it if you don’t understand it.



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