Wiseman&Burke, Inc.
A BUSINESS AND FINANCIAL MANAGEMENT COMPANY
HELPING OUR CLIENTS CREATE AND PRESERVE THEIR WEALTH
NEWSLETTER • ISSUE 250

Due Diligence
vs
Doodoo Diligence
PART 1

"A fool and his money are soon parted."

The purpose of this newsletter is to give you a few vital tools so that you keep your hard-earned or inherited money in actual, solid investments.

The focus is on smaller, private investments, not the technology of picking publicly traded stocks or bonds. Don't be fooled by all the nonsense that passes as investments – 99.9% of them are junk. However, there is a way to find the one deal that might have a chance. It requires rolling up your sleeves and doing some research. This newsletter tells you where to look and what to ask.

INVESTING

"If you are in a poker game and after 20 minutes, you don't know who the patsy is, then you are the patsy." – Warren Buffet

What is an *Investment,* anyway?

In the 30+ years I have been in the financial industry, it's amazing to me that, despite much history about financial scams and bad investments, people still fall for the same old garbage investments year in and year out. And it's not just people who lack any real education in the field of investing. People with considerable education and experience in business and life get bamboozled regularly.

I know of dozens of stories about people who have watched as their hard-earned money was "invested," never to be seen again. I am talking about hundreds of millions of dollars just in my little corner of the market.

The big world of investing gave us such icons as Bernie Madoff, Reed Slatkin, and everyone involved in selling the Credit Default Swaps which handed out losses in the trillions of dollars. On a smaller scale, I have seen speculative real estate deals, phony gold mines, fantastic inventions that "couldn't lose," currency deals, high-tech ideas, Internet startups, and more. While these losses are far less than Bernie Madoff-size losses, the pain from losing your life savings is just as bad. Not to mention all the conflicts these bad investments spawn when they fail, which can cost fortunes in legal fees and tear up old friendships. Broken relationships between friends and family, lawsuits and arbitrations and financial hardship are very common when some "sure thing" falls apart.

continued on page 2

INTEREST RATES

MORTGAGE RATES

	This Month	Last Month	Last Year
Fixed (30 year)	**3.500%** (APR 3.557%)	3.375%	3.875%
Fixed (15 year)	**2.875%** (APR 2.976%)	2.750%	3.250%
Adjustable	**3.125%** (APR 3.146%)	3.500%	3.000%

TREASURY BILLS

This Month	Last Month	Last Year
0.30	0.36	0.56

PRECIOUS METALS

	This Month	Last Month	Last Year
Gold	1,690.90	1,778.60	1,637.50
Silver	32.12	34.76	30.20
Platinum	1,680.00	1,654.00	1,538.00

750 Fairmont Ave., Suite 100 • Glendale, CA 91203 • 818-247-1007 • FAX 818-247-1861 • www.wiseman-burke.com • E-mail: info@wiseman-burke.com

People, in most cases, worked hard and were diligent in saving up money. Then one day – *Pfffft!* – it's gone? And they get nothing but sad excuses and justifications to explain why the deal fell apart. How can that be? It was a sure winner! Who is to blame? Could anything have been done to prevent it? Fortunately, there are many things you can do to prevent these losses if you will take a little time to do them.

DEFINITIONS

"'When I use a word,' Humpty Dumpty said in rather a scornful tone, 'it means just what I choose it to mean – neither more nor less.'" – Humpty D.

Many people in the investment field think they know what they are talking about. Truth is – they don't. It's not surprising to find that most people don't know what an "investment" actually is, so they are easily confused by the "finance speak" and high-gloss brochures passed out by some really nice guy. Let's look at some specific definitions that may help you understand the game you're getting involved in.

Let's go over this one definition (I have abridged Merriam-Webster's full definition to relate it to the financial arena and make it more clear):

in·vest

***v.* in·vest·ed, in·vest·ing, in·vests**

v.tr

1. a. To commit (money or capital) in order to gain a financial return: *invested their savings in stocks and bonds.* b. to deposit money in a bank or other financial institution in an account that pays interest.

v.intr.

2. To make investments or an investment: *invest in real estate.*

[From Italian *investire* and from French *investir*, both from Latin *investre*, to clothe, surround: *in-*, in; see *in-* + *vestre*, to clothe (from *vestis*, clothes; see *wes* in Indo-European roots).]

From Wikipedia: "**Investment has different meanings in finance and economics. Finance investment is putting money into something with the expectation of gain that, upon thorough analysis, has a high degree of security for the principal amount, as well as security of return, within an expected period of time. In contrast, putting money into something with an expectation of gain without thorough analysis, without security of principal, and without security of return is *speculation* or *gambling*. As such, those shareholders who fail to thoroughly analyze their stock purchases, such as owners of mutual funds, could well be called speculators.**

"To avoid speculation, an investment must be either directly backed by the pledge of sufficient *collateral* or insured by sufficient assets pledged by a third party. A thoroughly analyzed loan of money backed by collateral with greater immediate value than the loan amount may be considered an investment. A financial instrument that is insured by the pledge of assets from a third party, such as a deposit in a financial institution insured by a government agency, may be considered an investment. Examples of these agencies include, in the United States, the *Securities Investor Protection Corporation, Federal Deposit Insurance Corporation,* or *National Credit Union Administration*, or in Canada, the *Canada Deposit Insurance Corporation.*

"Promoters of and news sources that report on speculative financial transactions, such as stocks, mutual funds, real estate, oil and gas leases, commodities, and futures *often inaccurately or misleadingly* describe speculative schemes as investment.

"Investment: thorough analysis and security. Speculation: analysis and some risk. Gambling: lack of analysis and lack of safety."

Thus, based on the above definitions, it is only an *investment* if after a thorough analysis there is a high degree of certainty that your principal is secure and that you will actually receive the expected return. Anything less is speculation or gambling. Ninety-nine percent of the "investments" most people get involved in are, in fact, speculation or gambling. They will put a chunk of their life savings in some deal solely because someone they trust said that specific deal was hot. They "invest" with not much more research than that. It is important to name highly speculative deals exactly and not lump them in with safe, conservative investments, to avoid giving them an air of safety they do not deserve. Mislabeled *speculation* gives *investment* a bad name.

How can it be that a seemingly promising deal can flop so miserably? After looking over many failed "investments," the most common mistake is believing that it is an investment and not a gamble per the above definitions. Somehow, "this one is different from all the rest" without careful assessment of all the facts. Far too many investors refuse to do the analysis to determine if it's an investment or a gamble. They just cut out the work and take someone's word that THIS really is an investment – this time. This is, of course, usually fatal to your capital.

As an example, in May of 2011 I had a long discussion with a client who was being promoted an *investment* that promised a 17X return in just a matter of weeks. It was being promoted by people with significant experience and good reputations. Who could possibly pass it up? It was virtually guaranteed!

I actually laughed out loud when I was told about it. My client was slightly offended at my response, so I had to agree to take a careful look at it to make up for my crass behavior. They were ready to invest nearly a million dollars and the prospect of losing out on a $15,000,000 return was just too much to let it pass by without so much as a sniff by me.

I looked at it carefully as agreed, and it was garbage of the highest degree. I refused to let my client near it. One of the trusted sources, upon careful investigation, was found to have had a terrible reputation for rip-off investments and a long history of failed deals. The promoters somehow missed that.

The details that proved it was bogus were right in the very documents I was sent to convince me it was real.

I shared these with other professionals and they all had the same opinion as me: "Stop! Red alert!" "DANGER WILL ROBINSON, DANGER!"

As of today (more than 20 months later), one of the promoters is still expecting and professing their payout is days away! They truly believe it is still coming, and if I say otherwise, they consider me the nutcase. If I told you more you'd laugh, too.

I tried my best to get it shut down immediately and show them some facts, but they had already cornered enough *"investors"* who had swallowed the bait whole. Well over two million dollars went down the drain.

After looking over many failed "investments," the most common mistake is believing that it is an investment and not a gamble.

Interestingly, one investor (who was a seasoned investor) in this deal, whom I did not know, called me about nine months later because he had heard I researched the deal and had come out against it. He wanted to know what I knew about it. He confided in me that he went into it without knowing anything about the deal, that in fact he was refused any details on what the investment was and had to take it on the word of the promoters.

He was shocked to hear what the deal was all about when I told him. I was even more shocked that he put such a large amount of cash in with no more research than "trust me" from a reliable source who didn't have the cash to actually guarantee the deal.

There is an important lesson here. ANYONE, regardless of experience and education, who skips taking a good hard look at all the important details, significantly increases the likelihood they will lose their money. Too often, anyone with a good story and an honest face is pushed to the front of the line. I think most people don't look because they have no idea what to look for and consequently just accept the story.

This brings us to another important factor when investing.

GREED

"Three great forces rule the world: stupidity, fear and greed."
– Albert Einstein

I'm not sure which factor is worse in this triangle of misery. I do know with certainty that once greed sets in, all rationality departs. Intelligent, honest, hardworking, principled people, once blinded by greed, start babbling facts and figures with their eyeballs rolled up in their heads.

This has been common to every scam or bogus investment I've come across. Promoters know full well that you will almost never challenge the offering at risk of losing your special invitation to participate in the most secret deal of all time that will make you rich!

In a pure scam, it is intended from the outset that you will get nothing for your money. I consider an "investment" a rip-off if, despite seemingly honest intentions, there never was enough knowledge, responsibility, intelligence, or capital to make the business a success.

Look at this definition:

greed

an overwhelming desire to have more of something, such as money, than is actually needed.

"Overwhelming" is the key word here. It truly does become overwhelming in the sense that people shut down analytically and willingly hand over huge sums of money to people they hardly know to achieve a "virtually guaranteed" colossal return. The allure of turning $10,000 into $500,000 or $500,000 into $15,000,000 in weeks does impair some people's faculty to sort data. Some investor's greed kicks in so hard that nothing can be said to sway them. I have had people fight with me because I wouldn't go along and could prove the deal was complete nonsense.

Watch for signs of greed "overwhelm." First comes the offer of something too good to be true. That is followed by the exhilaration about how much richer you'll be because of this special offer. Then comes the jubilant agreement with all the so-called "facts" presented to you. The exhilaration continues peaking – YOU'RE GOING TO BE RICH! Justified thinking starts answering all your questions. Other people you know are getting in on this! They'd never fall for a bogus deal. You can almost smell the money!

Someone says, "Maybe we should check this guy out…"

"BAH!! This is solid!" Finally, a bank wire is signed.

As an investor you are responsible for doing the thorough analysis that separates investment from speculation. It is up to you to turn over every stone to ensure your capital is safe. Sadly, many investors have representatives that are supposed to do this for them but they simply don't do it. Driven by some desire to get that mystical 20-1 return, they take risks with others' funds they wouldn't take themselves. They often have no skin in the game but are playing with your money. They have canned excuses when it fails and expect a pat on the head if it ever succeeds.

Continued in next issue: *Learn what promoters will tell you to get you to invest! Plus, how to actually **do** "due diligence"!*

If you are not currently on our mailing list and would like to be, simply mail us your name, address, and how you found out about our newsletter. Your name will be added immediately to our files.

DISCLAIMER

The firm of Wiseman & Burke, Inc. works primarily in the business management area. While articles, comments and opinions published in this newsletter convey the company's views on topics that we believe concern our clients and friends, they are not intended as legal or investment advice. Legal and investment advice requires full disclosure to a professional of a client's circumstances and that professional's opportunity to analyze those circumstances.