Wiseman & Burke, Inc.

A BUSINESS AND FINANCIAL MANAGEMENT COMPANY

HELPING OUR CLIENTS CREATE AND PRESERVE THEIR WEALTH

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Due Diligence *vs* Doo-doo Diligence

PART 2

PROMOTERS

Let's clear up another word here. What is a "promoter"? **Somebody who raises money for a financial or commercial undertaking.**

Promoters of investments come in all shapes and sizes. They can be good friends with some inside track, licensed brokers, business men or women raising money for their company, a friend of a friend of a friend who knows a sure thing, accountants, lawyers, brothers and sisters, moms and dads. They may or may not know what they are talking about. In any case, you will feel you can trust them because they seem so sure they do know what they are talking about.

They may or may not be getting compensation for bringing you into the fold. One thing is often certain; they need your cash to survive. I have been promised things by promoters that were absolute lies and based on nonsense. They simply didn't know the truth, never really did the homework and were just passing on what they were told because they were already in neck deep.

In some cases, it is purely greed-driven. This is highly irresponsible and it is up to you to figure it out.

Here's another great example: Last year there was a huge push from a young "promoter" to buy the Iraqi currency known as the "Dinar." This was the next guaranteed 20-1 play. As the story went, the Dinar was about to be revalued "any day." I was getting hit by client after client to jump in – couldn't lose – 20-1!

The promoter of this "investment" had absolutely no experience in the currency field. But he was known to be a good guy and sold the idea to a couple of very knowledgeable investors who had well-known reputations and he co-opted them into the story. That made it appear legitimate to many people.

He wasn't making money himself on the deal, just trying to help all his friends get rich. That lent a touching air to the story.

I looked over the "research" and shared the data with other professionals. We all came to the same conclusion: there was absolutely nothing there. It was all wild speculation based on a few good rumors.

I managed to keep most clients out of it, but one did go for a small piece. We are trying to sell his brick (yes, *literally* a brick of Dinar paper money) because he needs the cash. Oops – the guy who sold it to him is no longer buying Dinar back. It's currently down about 10% – if we could sell it.

continued on page 2

INTEREST RATES

MORTGAGE RATES

	This Month	Last Month	Last Year
Fixed (30 year)	**3.75%** (APR 3.810%)	3.5%	3.875%
Fixed (15 year)	**3.00%** (APR 3.104%)	2.875%	3.250%
Adjustable	**2.875%** (APR 3.028%)	3.125%	3.000%

TREASURY BILLS

This Month	Last Month	Last Year
0.28	0.30	0.47

PRECIOUS METALS

	This Month	Last Month	Last Year
Gold	1,615.10	1,690.90	1,637.50
Silver	29.10	32.12	30.20
Platinum	1,557.00	1,680.00	1,538.00

Promoters will tell you anything and insist it's the truth whether they have done any research or not. The research they do is often just enough to prove they are right. That's all the proof they need. Hey, keep the dream alive!

I drank Kool-Aid myself on a deal many years ago. I hyped it, pushed it, sold it and then struggled with it for years as it slowly sank with me and investors on board. I paid dearly with my own hard-earned money for years to make many of the investors whole. I was responsible for the research I did and, more to the point, the research I didn't do. It was the research I didn't do that would have kept me out of trouble had I done it.

DUE DILIGENCE

"Diligence is the mother of good fortune, and idleness, its opposite, never brought a man to the goal of any of his best wishes." – Miguel de Cervantes

What can you do about it? It's called *due diligence* or *thorough analysis*. Here is the definition:

a. the disclosure to potential buyers of all relevant information that applies to a security issue. b. the degree of care that a prudent person would exercise, which is a legally relevant standard for establishing liability.

OK! How do you do it? The balance of the information in this newsletter is here to help you do your *due diligence*.

How much time and money should I invest in qualifying any possible investment or speculative offer? Here are some basic rules that have been faithful to me. I will expand on them later on.

Basic rule #1: If it's too good to be true, then 99.99% of the time, it is. Save your time, money and heartache and just walk away.

2. The greater the percentage of your total net worth the investment demands, the greater and more thorough you must be in your analysis. If you have $1,000,000 saved up, a $5,000 risk should not need to consume too much time. But anything over 2-5% needs a good, hard look.

3. Keep digging and asking until you are satisfied. If you cannot get the information you need to qualify the investment as an investment, walk away. There are 100 more just like it coming down the road. Do not accept "explanations" from promoters. Get the *facts*. Don't just look for their information that only confirms what they are telling you. They will *never* tell you or show you the deficiencies, weak points, fabrications, etc. It's important to know that they *may not know them themselves*.

4. If you don't feel qualified to do the research, find some help. Do not get intimidated by fancy calculations, big investment concepts and fast-talking promoters promising you fantastic returns. Have someone you trust to be impartial and who is educated in this field side-check your research before you finally dive in. Listen to them! Even if you have to pay for an outside review, it is worth every penny if you cannot be objective yourself.

5. It is fair to ask any question and verify anything presented to you as fact. When someone gets mad or impatient at you for asking questions, most of the time that's a bad indicator. If it gets emotional or confusing and you can't unravel it, walk away. Don't be intimidated – it's your money.

6. Keep in mind that you are looking for a solid investment. The product is that you are secure, you will get your capital back, plus a return.

7. Keep everything in writing. Build a file. Keep all your emails, spreadsheets, papers, analysis, etc. No verbal guarantees or promises. If someone says, "I promise…," then get it in the contract.

Have your attorney draft correct legal documents. Do not try to be an attorney yourself. Correct wording and clear, complete concepts are vital to good agreements. I have mediated dozens of failed deals simply because the agreements were so poorly written (when written at all) and misunderstood.

8. Find out how much money they are trying to raise. If they need $1M to make it all work, you don't want to be the first $200K in the door. If they never raise the other funds, but spend your investment – you're screwed. I guarantee they will come back to you, "Put more in or lose what you already put in." Find out who else is investing and how much.

9. There is ALWAYS another deal. If it doesn't stand up to the full sniff test, let it go.

10. Never allow yourself to be rushed or pushed because of some time limits. If that is being pushed at you, walk away. Take the time you need or leave it alone. Do not be rushed.

11. Use the Investment Checklist to help direct you to the answers. (Contact W&B on how to obtain a copy of the Investment Checklist.)

The more of these rules you apply and the more thoroughly you apply each one them, the more well-informed you will be and the better your chances of making a rational decision based on research and not emotions.

VALUATIONS

"Price is what you pay. Value is what you get." – Warren Buffett

What am I paying for this deal?

Every investment comes with a price attached to it. You will have to give something to get something. Even if you are not putting in cash, but instead are asked for sweat equity, these rules still apply. If it's cash, you want to pay the best price possible for whatever you are buying.

Some pricings are simpler to understand than others. For instance, you decide to invest in a rental property. Since it is located in some specific geographical area, you can simply check comparable sales to evaluate a reasonable price based on the income and condition of the property.

Low-risk investments, such as money market and savings accounts, are valued by the rate of interest they will pay you. You expect to get 100% of your principal back at a specified time, plus your interest. The value is based solely on the rate being paid.

However, you should always check the health of the bank you are giving your money to in order to make sure they can be trusted to hold your funds and pay the interest. If a bank goes bankrupt, you could lose a substantial portion of your capital.

Your CDs and accounts are insured up to certain limits. You can get more data from the FDIC site: http://www.fdic.gov/deposit/deposits/insured/faq.html

On stocks that are publicly traded, there is a marketplace that also helps establish price. That market can be very easily manipulated, which can inflate and deflate stock values regardless of the company's financial health. Just look at the wild gyrations of the market in the last twenty years. Up – crash – up – crash. Hard to stomach the ride sometimes.

Even with publicly traded stocks, you must do some homework and not just buy the sizzle. If it is publicly traded, there is usually information you can gather online about their current business, revenues, profits, etc. However, in the case of some smaller companies, there is very little information other than what the company itself provides you, even though they are publically traded.

Some startup partnerships and small businesses offer you stock, or units, or a percentage of ownership for some price. Like $2.00 per share or 10% for $200,000. How do they arrive at that price?

Let's take the $2.00 per share example on a small company. This seems like a reasonable price for a share in Company X based on what you have seen or been told.

First, do the math. If the company has 5,000,000 shares outstanding at $2.00 per share, the company is valued at $10,000,000. How do you know this is a fair price?

Almost every investment I see is grossly over-valued. The value is very arbitrarily reached by the principals. They say, "we have all these patents and feel they are worth 'X.'" Or, "we feel we will make huge profits as soon as 'Y' happens and that makes us worth 'X' today."

You have to look at the patents, look at their financial projections, their market research, their executives, to see that it makes sense.

In my experience, marketing and sales projections tend to be highly exaggerated. Everyone thinks the revenues will go straight up and the public are dying for their product or service. If that were true, then the last hundred business plans I looked at would all be thriving businesses with millions in profits.

Sadly, the truth is that maybe one out of a hundred is a reasonable success. Even Wall Street has thousands of sad stories about big, well-financed companies going bust after a few years.

I do my own homework if I really like the story and think there is a real business. When I am done, if I think the company is worth $2M and not $10M, I will offer to buy in at my price. Take it or leave it.

Businesses are, generally speaking, either a going concern *(that is somewhat established and producing products/services)* or speculative. If they have been in business for a while, they may have already proved their product or service is needed and wanted and they are seeking additional capital to expand.

For example, one company I am involved with has recently had sales take off. One order from Amazon was for $1M worth of product. Great news! But Amazon needs the product in their warehouse before they will pay the invoice. The factory wants their money before they will ship to Amazon. So, they are busy raising money to finance delivery.

Another company is increasing revenues steadily but must add staff to keep up with demands of services. Their revenues have been up four years in a row and are finally showing profits. They are busy raising money for a big push, as well.

Another company I supported had a great idea but had never been sold before. So, after thorough market research on the perceived public, some seed money was raised because the response was favorable. This was highly speculative and not one person I spoke to was permitted to put in more than about 1-2% of their net worth.

All the above companies were priced fairly, in my opinion. However, as stats go up, the concept is proven, and profits are made, they will be priced higher for the next round of investors. Why? The risk has been reduced now that they are organized and making profits. Business has taken root. The longer it has been around and the better it is doing, the more expensive the investment.

Some of the greatest ideas I have heard were just not backed with enough skill, finance and drive to deliver the goods. It takes lots of hard work and persistence to make a viable, expanding business.

Moreover, if it is not really driven by a desire to produce that particular product, it is doomed to failure. If he doesn't love making widgets but just wants to sell them and make a million dollars, don't bother. Because when it gets really tough, who do you think will stay on the job? The guy who really loves making widgets and knows everything about them. The people who just want to be rich are gone after the first serious thunder and lightning strike.

Good luck out there. Feel free to contact me if you ever need help.

Business Opportunity

If you are an entrepreneur, a business owner, or just a person who keeps his options open to new and additional avenues of income over and beyond what you already are doing, then I have something you may be interested in.

I will hook you up to an elite group of very wealthy business people to get you the details of a very lucrative opportunity that I have vetted, joined and am now endorsing. It'll take about 10 minutes or so of your time and can be done either in person or online, depending on your location.

Please contact John Novello at:
John Novello Productions, Inc.
john@keysnovello.com
818-506-0236

This game may or may not be for you, but I assure you it's worth your time to get the details!

Kevin Burke

Head Scratchers

QUIZ:

The following puzzle consists of a proverb with all its vowels removed. The remaining letters have been broken into groups of four. Put back the vowels to find the proverb.

FLND HSMN YRSN PRTD

LAST PUZZLE ANSWER:
MA IS AS SELFLESS AS I AM;
RED RUM, SIR, IS MURDER.

LAST PUZZLE WINNER:
No winner.

First person who e-mails or faxes the correct answer will receive a $5.00 gift certificate and will be announced in the next newsletter.

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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.

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