Seven Things to Know About Investing

Tim Paziuk
Posted: 06/30/2013 8:29 pm

There is a raging debate on how financial advisors are compensated for financial products, particularly how they receive commissions hidden in mutual fund fees. Advocis president and CEO Greg Pollock recently published a piece in the Financial Post against the idea of banning commissions, and the debate was then taken up by both the Globe and Mail and BNN, where Pollock appeared as a guest.

While mutual funds are what I like to describe as "Weapons of Mass Financial Destruction" let's take a look at mutual fund's evil cousin, the "exempt market security" and how they are awarding this investment opportunity to only accredited investors.

Do you know what an "accredited" investor is?

If you believe the investment community and their regulators, an accredited investor is someone who has a lot of money, and won't be too badly hurt if they lost some of it. It has nothing to do with what's right, or that no one should be exposed to bad people who sell bad products and give bad advice.

There are a lot of people who make over $200,000 per year, have over $1,000,000 of investable assets and are often encouraged to invest more than $150,000, without knowing very much about investing.

Just because you make a lot of money, or have a lot of money, doesn't mean it should be acceptable to have someone take it from you. This seems to be a recurring theme in the "exempt" market.

So what is an "exempt" market security? By definition, an exempt market security is one that is issued (exempt) without a prospectus.

So what's a prospectus?

A prospectus is a disclosure document that details all of the relevant financial information about an investment being sold to the public.

More and more people are qualifying as accredited investors and as a result more and more people are being approached about exempt securities. My advice is to say clear.
Besides being extremely risky, most exempt market securities are illiquid, meaning they're easy to buy and nearly impossible to sell. The carrot with these investments is usually higher rates of return; unfortunately, most investors never see them.

If you're going to invest in exempt market securities, be prepared to lose your money. If you're okay with that, then fine. Before you make such an investment I recommend you do the following:

1. Ask the person who's selling the investment how much of their own money they put into the investment.

2. Ask them how you can cash out when you're ready.

3. Ask them to show you any and all fees.

4. If you're investing in a private company, ask them for copies of their last two years financial statements (review these with your accountant).

5. Be very wary when signing forms that say things like "I understand that this is a risky investment and I could lose all my investment" (this is usually code for you will lose all your money).

6. Be aware that signing pages of disclosures and waivers is to protect the person selling the investment and the company they work for, it's not to protect you.

7. Never sign uncompleted forms, and never, I mean never, borrow money against your house to make such an investment.

As more wealth is transferred between this generation and the next, there will be more people and products trying to separate you from that inheritance. Be careful. If you don't understand the investment, and it can't be explained on one piece of paper, my advice is to stay away and keep what you have.

Remember -- a bird in hand...

http://www.huffingtonpost.ca/tim-paziuk/investing-tips_b_3510456.html