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Weekly Financial Article for the Week of April 21, 2008

IS THERE ANY SUCH THING AS A FREE LUNCH?

Financial opportunity ... or scam?

Here are a few tips to help you avoid making a costly mistake.

Legitimacy is in the eye of the beholder. When someone invites you to a lunch or dinner financial seminar, are they trying to sell you something? Probably. Is it a scam? Not necessarily. It all depends. Often someone (for example, an insurance agent) will sell a product via a seminar or an invite-only lunch or dinner gathering. Sometimes they will hold a “meeting” or even come to your house. This could be a very well-meaning person with ideas that could really help you, or it could be someone who just wants to make a quick buck. The products they try to sell you may be totally legitimate, but that doesn’t mean that buying that product is the right move for you.

What don’t you need? Often, the “scam” is simply pushing you to buy a genuine product that’s simply not right for you. For example, if you have hardwood floors, do you need a carpet cleaning device? No. But that doesn’t make the device defective. It could be a perfectly good carpet cleaner, you simply don’t need it. If the person trying to sell you that device knows you don’t have carpet, then they may be trying to swindle you in order to make a quick buck. The legitimacy of the product isn’t always the concern, it’s whether or not you need that product.

It may work for you, but how well? Sometimes the product being offered would work for you, but that doesn’t necessarily mean it’s the best fit. For example ... let’s say your house is too hot during the summer months, and you’d like to cool down. Someone might encourage you to buy some lemonade. While that might cool you down in the short term, wouldn’t a fan work better? And to take it a step further, someone else could offer you a central air conditioning system. While this may keep your house much cooler than the fan, you’d want to be sure you fully understood the costs of installation, maintenance and any ongoing costs before making that purchase.

Ask questions. Many, many questions. A good rule of thumb with investing is ... if something sounds too good to be true, it probably is. When it comes to financial products or vehicles, there is no such thing “easy” money. A scam artist might tell you an investment is “risk-free”, but that is often a stretch. For example, many “guaranteed” investments are not actually guaranteed by the FDIC, only by the company that is pitching them. Try to think rationally, maintain a healthy amount of skepticism, and ask any and all questions that may come to mind. Some important questions to ask may be ... What are the specific risks involved? What are the actual costs? How long-term is the investment, and/or how long until you might see a return?

The fear factor. Often, skilled salesmen will use emotion as a tactic to help them sell something to you more quickly. The emotion can vary, but often it involves instilling a fear of some kind. Fear of financial ruin, for example, or fear of leaving loved ones unprotected. The fear can be very real and often very valid, but the solution they offer might not be. If you feel you're being steered into something based on emotion, or if you feel a great deal of pressure, it may be best to wait and decide later. The next day, the next week ... take your time. Someone looking out for your best interest shouldn't be offended if you'd like to learn more or "sleep on it" before making a decision.

Speak with someone qualified. It's not always wise to make decisions based on what a friend, relative or colleague has done. While that person may be very intelligent, and/or while the investment may be doing very well for THEM, it still may not be a wise move for YOU. Your friend may be well-meaning, but that doesn't mean they are qualified to give you financial advice. If you are unsure, feel free to give me a call so we can discuss what you've heard.

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