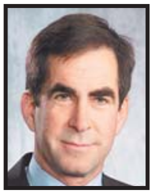
The Colorado Springs
BUSINESS JOURNAL

October 6, 2006

Trick or Treat Investments



ALLAN ROTH

A few weeks ago, I was perusing some Colorado daily newspapers when a couple of advertisements caught my eye. They looked something like these ads. So, I start thinking ... borrow at 3 percent, invest in certificates of deposits at 7 percent, equals a 4 percent spread in my favor — yahoo!

The squirrels in my brain started running like little Porsche's — I'll borrow $300,000 and with the four percent spread, I'll make $12,000 a year. That's $1,000 a month for doing virtually nothing. Sweet.

Then reality comes knocking and reminds

me that banks are in business to lend money at a higher rate than they pay so they can make those things called profits. Something didn't smell right. Darn, sometimes I hate reality.

Thank heavens that denial is reality's next door neighbor, and it says, wait a minute. These claims were made in writing, and the mortgage quotes the annual percentage rate (APR), which is supposed to be calculated according to the Federal Reserve Board's Regulation Z.

So it could be for real, I could actually make a bundle. And if I had a crown, I could be the king of England.

A 3.158 percent APR 10-year fixed mortgage

Well, I called the mortgage company. The sales rep I spoke with knew slightly less about loans than my 8-year-old son.

The manager called me back and I told him I wanted to get this loan so I could then invest in a CD earning 7.12 percent. He stated that this loan would be "perfect" for this. In my usual tenacious style, I kept asking more and more questions and eventually learned that this was a negative amortization loan.

The trick with this treat was that I'd be paying 3.158 percent annual interest, but my mortgage principal would be going up at between 4 percent and 5 percent annually.

I was told, however, that I shouldn't worry about this because the value of my home would be going up at an even greater amount. I mentioned that it seemed like I was actually paying 7 percent to 8 percent, and that my home's change in value is not dependent on how I finance it.

The call terminated shortly afterward.

An FDIC insured 7.12 percent bank CD

OK, maybe I wasn't going to make a free thousand bucks a month. At least I could earn the 7.12 percent on the CD, which is greater than the 6 percent rates I've been sending clients to.

So I called the number and was called back the following day from a licensed representative. The trick with this treat was that he tried to sell me an equity indexed annuity, which I've found is a really expensive way to indirectly buy bonds. The safety net's a safety not!

Back to that tenacious style, I pushed and pushed and told him I wanted the 7.12 percent CD. He admitted he didn't actually have such a product, but showed me where I could find the Web site that advertised it. The CD had terms such that no one in their right mind would actually buy. In fact, he didn't even know of any 6 percent legitimate CD rates.

Advertising FDIC bank CDs to sell annuities seemed like a "bait and switch tactic" to me, but he disagreed. Go figure.

Scary finance

Financial trickery is even greater when it's not in writing. For example, I received a call from a large national precious metals dealer "guaranteeing" me that the price of gold was going to continue to go up.

He was attempting to play on my emotions of fear and greed by making me afraid to miss out on this huge gain. He declined my request to put this guarantee in writing.

The moral of this story is that there are a lot of financial "tricks" cleverly disguised as "treats." These tricks are not limited to the Halloween season, and many are bold

Continued

Proactive investing?

I love listening to a very entertaining local financial guru.

In July, he noted that the market had given up all of its gain for the year — implying that he had "proactively" moved his clients out before the decline. While it seemed to me that he was predicting the past, he also repeatedly said that he had his clients' money on the sidelines because August and September are historically bad months for the market. He was very pro gold, however.

Well the market had a great August and September while gold went down. He was really unlucky. This type of proactive investing is known as market timing and is nothing more than gambling.

In the long run, it will increase your risk as it decreases your return.

Listening recently, I heard no mention of the guru's prior predictions, though he did note that October is historically a good month.

My advice — if you just can't ignore the gurus, try doing the opposite!

The Colorado Springs
BUSINESS JOURNAL

October 6, 2006

enough to put the trick in writing. Do people really fall for them? Absolutely!

Don't get spooked

I decided to go to some credit unions, which I've noted have some great legitimate rates, to get some advice for consumers. One reason they can sometimes give better rates is the fact that they are not-for-profit businesses and do not have to pay income taxes or dividends to shareholders.

Greg Mills, CEO of Colorado Springs Credit Union, notes the importance of understanding everything you sign. He says that if you don't understand it, find someone who does. That person should have no vested interest in you buying the product.

Although it can be very painful, it is critical to read the fine print, says Margaret Szeliga, vice president of marketing at Pentagon Federal Credit Union. I've found some of the most important terms in that fine print.

In getting a mortgage, always get a good faith estimate so you can compare with other options, said James Moore, senior vice president at Ent Federal Credit Union.

As I am quick to remind my readers, and myself, there is no shortage of people trying to separate you from your money, and never underestimate our ability to believe what we want to believe.

Mills, Moore, and Szeliga all noted the adage — "if it looks too good to be true, it probably is."

Allan Roth is a CPA and certified financial planner. He is the founder of Wealth Logic LLC, an hourly based financial planning and licensed investment advisory firm, and is an adjunct finance faculty member at the University of Colorado at Colorado Springs. He can be reached at 955-1001 or at ar@DareToBeDull.com

Finding great rates that aren't just tricks

Here is some information about rates as of the time of this writing.

Mortgages

According to Bankrate.com, the average 30-year mortgage is 5.80 percent while a 15-year mortgage is 5.52 percent. Use Bankrate.com to find rates lower than average and be prepared to negotiate because brokers have the option of lowering the cut they take from the lender. Look at the APR and make sure it's calculated according to the Truth-in-Lending act. An interest only loan may have you owing more than your house is worth.

CD's

Credit unions have some of the best rates around and, for some reason, usually don't show up in national lists like Bankrate.com. Credit unions are insured by the NCUA which is similar to the FDIC and have the same insurance limits. Security Service Credit Union has a 15-month CD paying up to a 6 percent APY.

Money markets

Banks rule here. I've found that Capital One is nearly always near the top and is currently paying 4.80 percent APY. Citibank Direct is paying 5 percent APY. I stay with Capital One as I'm familiar with their track record of staying among the highest.