

If It Sounds Too Good to Be True...

A friend gave me a book a few months ago to get my opinion on the investment strategy it was selling outlining.

I gave it a read and didn't get the best first impression.

I'm not going to name the book because the name isn't important. This could have been hundreds of different books or investment pitches.

The words and phrases used throughout are things I've heard countless times in my career. The red flags go up for me immediately when I see things phrased a certain way.

I'm sure this particular strategy could possibly be suitable for the right person in the right circumstances.

But here are some of the comments from the book that made me skeptical along with some thoughts on each:

When I discovered a secret, high-yield account used by more than 3,500 banks, I was a little shocked. The strategy is so underground, the only way you'd ever hear about it is if you stumbled onto it by accident. Top bankers and Fortune 500 executives in the know have quietly been taking advantage of opportunities like these for years now. Making an investment idea sound like some sort of secret club that's only reserved for the rich is an easy way to grab people's attention. We would all like to believe the normal rules don't apply to us. I hate to be the bearer of bad news, but there are no secret investments that are exclusively available to bankers and rich people.

Fund your own worry-free, 100% tax-free retirement. Financial advisors are privy to an odd behavior from many clients -- they react with equanimity whether they earn hundreds of thousands of dollars through their investments or save a few thousand dollars on taxes. In many cases, saving a little money on taxes will bring people much more joy than earning a lot of money on their investments. I'm a huge proponent of deferring or avoiding taxes whenever possible but you never want to make an investment decision based purely on the tax benefits.

The income for life strategy. Retirees love anything with the word 'income' involved. And if said income is promised for life, what could possibly be better? Income is great and all but you always have to look at these things in terms of total returns.

Completely avoid principal loss. I've had a number of conversations over the years with family members, friends, readers and prospects who claim, "my advisor promised me I'll never have to touch my principal." This makes people feel all warm and fuzzy inside because they never want to

see their capital go down. Few ever look at the opportunity costs, risks or fees involved to gain that "protection."

Have a contractual guaranteed minimum growth rate of 4%. Financial consumers would kill for a guarantee these days. Granted 4% is not exactly an enormous guarantee but if you can take away the uncertainty that's inherent in the performance of the markets, people latch onto that idea quickly. Most don't realize, however, that you're always trading one risk for another, not eliminating it.

How to instantly protect your money forever. Promises, promises, promises. Why would you ever wait if you could gain protection for your money and do so instantly and forever?

The safest place on the planet for your money. Safeguard your money in a place with a century-long track record of safety. We know that our money is in the hands of the most conservative and prudent investment managers on the planet. Safety is good, right? Conservative and prudent? Also good. These are the types of words that put people at ease.

The only disadvantage is it isn't easy to put more money into it. Scarcity can be a wonderful sales tactic. Do you ever wonder why the most popular restaurants in your city don't expand to add more seating capacity? Why would they want a line out the door or make it impossible to make reservations? Scarcity sells.

One of the biggest determinants in any investor's ability to maximize returns on an investment opportunity, strategy, or portfolio comes from setting realistic expectations up front. After an investment is chosen, performance boils down to behavior and expectations play a huge role in shaping behavior.

The difference between expectations and reality is where the behavior gap comes into play.

I'm not saying the description of this investment idea is necessarily wrong. Anything is possible I suppose. You could always thread the needle and find everything you ever wanted in an investment structure.

But I'm wary of investments where the sales pitch sounds too good.

If an investment sounds too good to be true, it's probably is.

Further Reading:

[How to Sell Finance Books Like Harry Dent](#)