The Perfect Investment

We'd all love to find that perfect investment, the one that turns a modest outlay into a handsome profit. There is a stack of advice on offer for the potential investor, much of it, unfortunately, beyond the understanding of the average person whose financial expertise is often limited to the home budget and balancing the monthly bank statement. Unscrupulous wheelers and dealers play on this, presenting their get-rich-quick schemes in terms so simplified that anyone can comprehend them. Investment consultants warn us to see them first before parting with our cash, claiming they can steer us in the right direction. And the banks are always eager to make our money work for us in a safe, mutually beneficial way. Do we take notice of any, or none? Seeing these institutions and individuals on TV having their scams exposed would seem to suggest that investing in anything with anyone is for suckers.

That might be true if we jumped in blindly. But it doesn't take a mathematical genius to figure out how many beans make five. It's just a matter of taking time to fully explore an investment opportunity. If it suits the budget and appears to provide more at the end than the initial outlay, it might still be worth a closer look. The prospective investor just has to remember that nothing is for nothing. Then, the experience could be both exhilarating and profitable.

The most important fact about any investment is the risk. Be aware that, in most cases, you are giving your money to a complete stranger and expecting them to do the right thing by you. Before you hand over a single cent, open your eyes to the possibility of a rip-off. Do your research into the background of the person or institution you may be conducting business with. Are they well-known, a national icon, or a new boy on the block? Think about what attracted you to them – the presentation of their product, an endorsement by a familiar personality, maybe the encouragement of a friend who has already turned a profit. Did you receive a glossy prospectus in the mail outlining an offer you'd be a fool to refuse?

You'll only be one if you take the bait unthinkingly. Consider the options and make a "safer-than-most" list. Continue to bear in mind that there is no such thing as sure-fire. Any investment is a gamble. If someone tells you different, especially if they claim to be an expert, ask why they're bothering to advise you, a financial nobody, instead of laying back enjoying the millions they should have already made for themselves by being so money-making-marvellous! Whatever advice you take on board, or not, from whichever source, you must eventually make up your own mind and take responsibility for the outcome, win or lose.

There's that thought again – LOSING! Seriously, if the prospect of loss horrifies you and you know you can't afford it, don't bet! Assuming, however, that you still think it might worth a go, how much do you put up – all of your nest-egg? Please don't! Set some of it aside for that rainy day. It will certainly come if you don't cater for it. This will diminish your potential stake somewhat, and there's more to come. As with any investment, there are always the hidden extras involved – establishment fees, account-keeping fees, brokerage, Federal and State taxes which include those to be deducted from the profits, assuming you make any. Allow a contingency factor of at least 10% to 15% to cover unforeseen expenses.

Your total investment capital will now be considerably smaller. Because of this, some doors may already have closed and the resulting disappointment will tempt you to re-evaluate. Ignore it. Stick to your guns. Leave the rainy-day surety alone, and don't cut back the contingency. Just look at the remaining opportunities within your range and pick the ones that are best for you and your circumstances. And if they seem hardly worth considering, leave your money in the bank until something affordable comes along that is.

This last piece of advice applies especially to large sums of money accumulated for retirement. Often, these savings take years to amass, sometimes, as with superannuation and pension schemes, the best part of a working life. When the time to call on them arrives, extreme care should be taken not to squander even the smallest part. Just because there appears to be more than enough to play with, avoid being cavalier with your wealth. Be miserly – it's your money, saved for your future, not a charity dip for cheats and wasters.

There are many of these unsavoury characters around and they know exactly who to target. They prey on the ignorant, the vulnerable and the confused, which describes most of us when it comes to investments. Just remember that, if something sounds too good to be true, it probably is. And, above all, once your nest-egg has flown, you may already be too old to lay another. Sorry if that seems insensitive, but facing facts from the very beginning is the only way to proceed with reasonable safety.

So, what is out there worth consideration? Much depends on your country of residence. Simple cash and savings accounts with major banks are usually less risky, but they don't tend to pay much in terms of interest or dividends. Purchase of, or shares in rental properties, can provide a steady income, and well-maintained residences in growth areas rarely depreciate in value. Management by reputable agents will cost, but they know those pitfalls which a landlord renting out privately might not. If considering this type of investment, seeking advice from your accountant should ensure that you are aware of tax and other ramifications before making any commitment.

Then there are the development schemes. They can range from resort projects and shopping centres, to farming ventures and movie finance. No matter that a prospect takes your fancy and seems a good buy, don't chance anything that is sight-unseen. If you can't physically view it, stand on its proposed site and be reasonably confident in your own mind that it is a genuine deal, then forget about it!, Cultured pearl farms in Indonesia and pine plantations in Queensland Australia may be above board and destined to earn good profits; but unless you can verify their existence, you could find the high-flying entrepreneurs you've been dealing with are a couple of sharks with a laptop, a lot of gall and a fast car.

I cannot pretend to know anything about stocks and bonds, futures, or the money-market, so if you think this might be the way you wish to go, consult a professional adviser at your bank, or a known, reputable company. As for the share market, I have dabbled in this from time to time and will be talking on the subject in our next issue. For now, I'll just say that share-trading can be profitable when approached with the right mind-set and sufficient information. For the investor who knows little and doesn't wish to participate personally, there are plenty of managed portfolios and unit trusts available. Again, a good investment consultant can advise on the opportunities. BUT, none that I know of predicted the recent global financial debacle, or the one before that back in the eighties, so make sure that you ask about the risks and are happy with the answers before signing any agreements.

Finally, putting all your eggs in one basket may give you a bigger share in an investment of choice, but if it goes belly-up, you lose the lot. Building your own portfolio of various investments in different areas may reduce eventual profits, but could be the safer option. And, wherever possible, try to retain both control of your money and access to it, whether periodically, or at call. If a personal crisis eventuates that requires extra cash, you need to know it will always be available to you.

This article may seem to have told you nothing you didn't know and don't already practise. If that be the case, you are already thinking along the right lines and should continue to do so. Beware, however, of assuming that you know enough. Nobody does. Even the experts trip up from time to time. The fact that they seem to bounce back relatively unscathed is no mystery – they don't use their own money!

This brings me to another point. Often, when the perfect investment comes along, the time isn't quite right and the available cash falls a little short. Resist the temptation to borrow, even if the difference between the interest paid on the loan and the presumed end profit seems to be favourable. Things can still go awry. It already has for the Money Moguls who are now borrowing more to cover their recent short-sightedness. It's water off a duck's back for them, but how would you fare in a similar situation? Remember the old saying: neither a borrower nor a lender be. It's more often right than wrong.

Next issue: Investing InThe Share Market – EVERYONE's option