

Proper planning is necessary to avoid investment rip-offs

Editor's note: The following article is submitted by Steven Zimberg, a Farmington Hills resident and President of Asset Advisory Services, Inc. in Franklin. By Steven Zimberg special writer

There are tens of thousands of investment opportunities available to us everyday. Some come to our attention through the mails, some over the telephone, some through conversation, and by far the most come just for the asking. How can you determine which investment opportunities, if any at all, are the good ones, and which should be added into your financial plan?

You must begin this selection process by first developing a personal financial plan. This plan should include your family's financial wants, needs and goals. It must include available capital, tax considerations and risk parameters. Likewise, it must weigh the preference for cash flow, tax benefits and asset appreciation. The actual investment is secondary to these criteria because without a plan the best investment could cause financial ruin.

Types of investments generally fall into two main categories: stable and unmarketable securities. The most common are marketable securities such as the stocks, bonds, annuities, and similar investments which you would acquire through your broker or licensed agent. These investments can generally be converted into cash within a few days.

The less common investment category is the unmarketable security. This type of investment has no public market for easy selling and has less governmental monitoring, and therefore

contains a greater risk of financial loss. Naturally, it is this area which causes the most abuses.

One thing that all investments have in common is that a detailed description of the offering will be furnished upon request. For unmarketable securities, a complete offering memorandum is required by law to be given to the prospective investor before an investment can be transacted.

IN TODAY'S environment, investments must have economic substance, or else there is a good chance the investment will be construed to be a fraud or a sham by the IRS. In such cases, some or all of the tax benefits derived from the investment may be disallowed and have to be repaid, usually with interest and penalties.

There are still criminal and monetary penalties imposed by the Securities and Exchange Commission, the Internal Revenue Service, the Department of Commerce, as well as other federal and state agencies for syndicators of illegal investments. Therefore, you can be pretty certain that most every investment will have a favorable legal and tax opinion. And, that the numbers will be accurate.

However, just because an investment is considered legal and the numbers are accurate, does not mean that the investment is economically sound, nor that it is suitable for your unique financial situation.

The real problem today is that often these investments will offer a significant upfront commission, and the selling broker, or financial planner will become influenced by this attractive commission and want to put everybody into the investment without really appraising the validity of the investment

with those unique goals and objectives of the client.

How does one evaluate the economics of an investment? Much of it will be written in the actual offering memorandum. Perhaps the best place to begin is where it shows the amount you are expected to invest. If this amount is out of your parameters, then stop and find another investment. Otherwise, grab a pencil and proceed to the next step which is to read all of the BOLD print.

USE THE pencil frequently. Underline phrases, circle paragraphs, make question marks, and write questions in the margins. Unless you use the pencil, a lot of thoughts will run through your mind, and out the window.

As you proceed through the memorandum, carefully read the subjects covering experience of management, conflicts of interest, risk factors, solvability factors, possible changes in tax and other laws, allocation of income and expenses, and similar economic details.

You must also read between the lines. Feel free to call collect to the managing partners and ask questions. Be blunt. Ask things like, "Have you ever done this before?" and "Tell me about your track record."

The time value of money is a critical factor in computing the return from an investment. Simply stated, a dollar invested today is worth more than a dollar invested tomorrow because tomorrow you can earn interest on interest too. For example, an investment which projects to return your money after 30 years may not be as good as money sitting in the bank earning interest.

OFTEN ONE is reluctant to partici-

pate in an investment which provides significant tax deductions for fear of having the IRS come back several years later to disallow the previous deductions, or perhaps, to charge for phantom income.

One remedy is, after deciding to participate in an investment with significant tax deductions in the early years, set up a side fund. This is usually a money market fund. As you generate tax savings, place a portion into the fund and use it towards the payment of future taxes. Or roll the savings into another tax-favored investment. This will reduce the down side risk in your tax sheltered portfolio. If you wish, just spend the interest it earns.

The ultimate profit potential of the proposed investment may be unnecessarily reduced or eliminated going after just taxes. Therefore, you will find that you may be wise to accept less tax shelter in favor of higher economic return. Likewise, investments which have greater risks, should typically offer investors a higher return. You should be both conservative and flexible in your projections.

If you are unable to review the investment on your own then a competent investment adviser must be retained. After you have determined that the investment meets your economic objectives, then the legal and accounting professionals should complete the analysis.

Due diligence, for one's own or others' interest, is called for in any venture or either life or capital investment. A careful review of your own financial objectives and the economic review of the actual investment can lead to a highly personalized, and potentially rewarding, investment program.

Bel Canto Choir in concert Dec. 22

Led by the award-winning Dr. Sergio Pezzetti, the Bel Canto Choir and Chamber Orchestra invites Metro Detroiters to a Christmas concert at 3 p.m. Sunday, Dec. 22, in Holy Redeemer, a Catholic Church and school at the corner of Junction and

West Vernor that ministers to Hispanics and 39 other nationalities.

Eighteen soloists and 12 instrumentalists who have appeared on television at home and abroad, will help put shopping-weary Detroiters in the holiday

spirit with a medley of Christmas carols and Bach's Magnificat during a 90-minute performance.

Tickets may be purchased at the doors of the acoustically pleasing church for \$3. Children under 12 will be

admitted free.

Holy Redeemer, a 105-year-old parish in the shadow of the Ambassador Bridge, ministers to 1,500 families, more than one-third of whom subsist below the poverty level.

AAUW seeks women helping women

Farmington Branch of American Association of University Women is seeking nominations for its first "Women's Community Enrichment Award."

The award will honor a woman in this community for her contributions to the enrichment of women.

"We are looking for a recipient whose efforts promote fairness and impartiality for women, encourage continuing education and self-development, and cause positive changes in at-

titude toward women in the community," said JoAnn Cline, who is a co-chairman of the AAUW's Women's Award Committee with Betty Frankel. All women who live and work in the Farmington area are eligible for the

award, except members of the sponsoring AAUW branch.

Nominations will be accepted Jan. 1-31 addressed to JoAnn Cline, 32263 Heathstone Road, Farmington Hills 48018.

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