There are all kinds of scams out there. Knowing where you are investing and how to avoid swindlers are important for your financial future. Here are 10 warnings and recommendations to help keep your savings and investments safe.

Red Flag #1: Variable Annuities

Consumer Reports Money Adviser commented in a recent "Red Flags" article:

They're sold as a way to achieve financial security – and they also promise a nice, fat commission for advisers… significant expenses can include surrender charges as high as 8.5 percent of your investment if you take your money out early in the holding period.[1]

Sheryl Garrett, CFP and founder of the Garrett Planning Network, said in "Ten Scams to Avoid":

If anyone suggests you invest your retirement funds (tax shelter) or IRAs (tax shelter) in an annuity (another type of tax shelter), that recommendation is either going to make him a lot of money, or he doesn't have your best interests at heart (or both)… The excess annual costs, surrender penalties and inflexibility never make buying an annuity contract with your tax sheltered retirement dollars a good investment strategy.[2]

1. *"Red Flags for Investors," Consumer Reports Money Advisor, Nov. 2012, 9, 11, pages 1,4.*
2. *Sheryl Garrett CFP, Personal Financial Workbook for Dummies, Wiley Publishing, Inc., Hoboken, NJ, 2008, 263.*

Consumer Reports, Garrett and many others have advocated for years to steer clear of investments with commissions and/or high expenses. Also, to place a tax-deferred entity within another tax-deferred entity defeats all reason. Please be very careful, docs, of any investment that involves an insurance product or is being sold by an insurance company.

Red Flag #2: Exchange-Traded Notes

These are not ETFs! ETFs track a market benchmark and are quite similar to index mutual funds. ETNs are unsecured debt obligations that don't pay interest as bonds do. They also have lack of liquidity. ETNs aren't backed by assets and don't represent shares. The Financial Industry Regulatory Authority (FINRA) warns that ETN prices can deviate sharply from the value and performance of the indexes they track, which is different than ETFs.[3]

Red Flag #3: Non-Traded REITs (Real Estate Investment Trusts)

These are different than traded REITs in that they are very hard to sell; there is no public market for them. Non-traded REITs might tout high dividends, yet that is often offset with front-end loads of up to 15 percent!

Red Flag #4: IPOs (Initial Public Offerings)

Facebook was the dud of 2012. Remember its opening prayer of $40 with grand schemes of moving quickly to $100? Opening day, May 18, 2012, ended at $38.23. After three weeks, the stock was selling for $25.87, working its way down to $17.73 in September 2012. It never did get back up to $38.23 and as of February 8, 2013, stands at $28.55. Such a deal!

How about Trulia, the online real estate site? It debuted at $24 on September 20, 2012, falling to $15.15 on November 9. It is now in the $25 range.

History shows us that very few IPOs hold their value for the first year.

Red Flag #5: Free Seminars with Meals Attached

Content, beef-fed dentists are favorite prey for annuity, commodity partnership and time-share salesmen. Be sure to get a second opinion from a neutral third party before "investing" in something presented with any freebie.

3. *"Red Flags for Investors," page 4.*

Red Flag #6: Day Trading

Jim Cramer and his gang might be fun to watch on CNBC, yet any type of market timing is anathema to your savings. And it looks so easy! Yet there are countless illustrations of PhD mathematicians and engineers diving headfirst into trading, followed quickly by an unremitting plunge. It's a no-win game, docs.

Red Flag #7: Vacation Timeshares

The maintenance, special assessments and taxes are normally higher than the rental rate at the *same* resort. And dare I mention depreciation? It's higher in the first year than the purchase of a luxury auto. Yes, I know that you can trade for other resorts whenever you like. Yet, I'll normally find a better price through AAA or Kayak for the Grand Hyatt next to your condo without the trading hassle.

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Red Flag #8: Spending Too Much for Investment Management

Annuity salesmen often hide three to four percent per year expenses. They will not tell you the truth about the expenses because they don't know. They *do* know their up-front and ongoing commissions. Normally, private money managers and financial planners will charge anywhere from 0.75 to one percent per year above fund expenses. That's a total of one to 2.5 percent for all expenses. And these people *will* disclose their fees.

You should not pay more than one percent for advice, and then for specific tax-reduction assistance. For those who invest on one's own, total expenses shouldn't be more than 0.5 percent.

For dentists who don't own practices or those with limited tax-reduction strategy, there are many new online investment advisers that offer financial plan setups in the $200-$250 range and use discount broker products. LearnVest, NestWise and Plan & Act are examples. With most, you will be assigned a real adviser who provides a real financial plan and full financial planning. You may execute and monitor the plan on your own, or have it managed and rebalanced by the

continued on page 52

 continued from page 51

investment adviser. Fees to manage your account are one percent or less.

Wealthfront (WealthFront.com) does not have full financial planning services – only investment management – yet its fee is only 0.25 percent of assets. And it has a free do-it-yourself online software tool to design your portfolio.

Discount brokers, such as Schwab, Fidelity and Vanguard will also offer a detailed financial plan for fees less than $1,000 and often free-of-charge with larger portfolios.

Or, as indicated in the savings/investment article, simply use lazy portfolios or Vanguard target-date funds.

For dentists who own a practice who wish to employ more sophisticated tax-reduction strategies, a dentist-specific management team is recommended. Thomas Wiring Doll in the Bay Area at 877-939-2500 or McGill and Hill in Charlotte at 877-306-9780 might be appropriate. Compare these to tax strategies and fees from a discount broker.

Confer with a tax attorney. Find listings at the National Association of Tax Professionals (www.natptax.com).

The bottom line is online forces are quickly overrunning financial advisers, much like travel agents in the past. A dentist might need to spend $5,000+ for a comprehensive financial plan with tax strategies and estate planning. Yet many might do as well with a Vanguard small business investing plan or an online adviser, as mentioned. Do your due diligence and use common sense in evaluating which type or whether to use an adviser.

Red Flag #9: College Investment Advisers

"This policy will lower your college costs" is a common come-on. This new scam, involving selling insurance products for college funding, received definitive treatment in January 2013 *Money Magazine*.[4] College Funding Advisers, Certified College Planning Specialists and other fancy titles hide the fact that 90 percent of these con artists are insurance agents with flimsy college-planning credentials.

The game is to convince parents that they can "hide" investments from financial aid offices. This "repositioning" rarely gathers an increase in aid, yet builds the agent's funding for *his* children!

For professional college investing help, go to SavingforCollege.com. The same URL offers a myriad of ways to save, including 529-plan information for each state.

For actual college admission assistance, consultants from the National Association for College Admissions Counseling (www.nacacnet.org), the Independent Education Consultants Association (www.iecaonline.org) or the Association of Independent Certified Education Planners (www.aicep.org) assist in finding affordable schools. These professional consultants charge about $135 per hour.

Red Flag #10: Insurances You Don't Need

Insurances you don't need include:

Cancer Insurance – Instead, have a proper amount of term life insurance. Cancer insurance is costly and your chances of receiving a benefit are low.

Accidental Death and Dismemberment – This is a waste of money. Have proper life insurance.

Extended Warrantees on Electronics – Items usually have one or two years of automatic coverage. Commissions are huge on these warrantees. Only two percent of extended warrantees are utilized.

Pet Insurance – This is another profit center for the insurers. Instead, budget for your pets.

Spend your money on the insurance you do need. *[Editor's Note: For insurance advice refer to Dentaltown Magazine "DIY Finance, Part V: Insurance" by Douglas Carlsen.]* ■

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4. Kim Clark, "College Aid; Don't Take the Bait," Money Magazine, January, 2013, pages 139-145.

Author's Bio

Dr. Douglas Carlsen has delivered independent financial education to dentists since retiring from his practice in 2004 at age 53. For Dentists' Financial Newsletter, visit www.golichcarlsen.com and find the "newsletter" button at the bottom of the home page.

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