InvestorOne

Traps to avoid when investing

1 – Get rich quick schemes

Australians over the years have had an appetite for get rich quick schemes. Whether it has been Nigerian scams or some property deal we all love the idea of making quick profits. Get rich quick schemes aren't always restricted to dodgy promoters offering 10% per month returns. They also include what can look like on the surface as normal investments.

The following should be treated with caution:

- Offshore cash windfalls especially where you had no entitlement to the funds,
- Using your house to secure debt to fund a share acquisition in a bull market,
- Entering a property development with little or insufficient documentation and independent data,
- Entering a investment that relies on high tax refunds that don't have ATO approval,
- Investments that return 3, 5 or 10% per month usually sold by unlicensed advisors.

2 – Expensive education products

Many promoters of "how to get rich" or "what the wealthy know" use expensive education packages or seminars to make money. They claim the packages are worth 10 times what the investor is paying and for a one time only offer they are selling it cheap. The truth is all of these promoters don't know where the wealthy invest and actually make their money from selling the education packages. In more recent times they are usually involved in selling property investment with no money down packages or how to become a property developer. Most of these packages sell ideas and concepts that have no practical application.

Examples of these include:

- How to become a property developer with no experience,
- Securing a development site with $1,000 option fee,
- Acquiring investment property with no money,
- How the rich use trusts to avoid tax,
- How to protect your assets because everyone is getting sued,
- How our trademarked trust does things others can't.

3 – Spruikers and shonky promoters

Spruikers and shonky promoters have been around for years and as a particular market starts experiencing an upward trend they come out of the woodwork. A lot of them actually promote the mindset of becoming rich, whatever that means, however many are moving into more traditional markets like property, shares and self managed superannuation.

Most of them hold seminars and all of them know the keys to large amounts of wealth that requires little capital investment or knowledge. If they sell you the key you will then know what wealthy people do and you will become rich. Just remember the Packer and Murdoch family lost $1billion on their investment in One Tel and Kerry Packer was well known for a string of bad property investments.

Getting educated is a key to successful investing, however attending a 2 day boot camp or acquiring a $5,000 package is not going to turn you into a savvy educated investor.

4 – Poorly documented investments

Many investments, especially where someone is getting an investor to contribute to a project (i.e. a property development) have poorly drafted or very little in the way of documents. If for example a unit trust is being used as the investment or development vehicle then a unit trust deed should be provided to the investor, a unit certificate, a register of unit holders as well as a unit holder's agreement.

Many people who invite friends and family into joint investments rely on the fact that due to the prior association the investor won't be as diligent in ensuring all the documentation is in order. Many don't seek advice from a lawyer or accountant and end up discovering they are an unsecured creditor in an unlicensed managed investment scheme.

5 – No research or independent data

Many investments offer a wide availability to independently check whether what you are acquiring is overpriced and if there is a market for the particular investment. This is particularly the case if it is a property in a capital city, shares or managed funds.

A case in point was where some promoters were advising investors to acquire property in country towns where the yield was very attractive. There was little in the way of comparable data as there wasn't a large number of sales. Many investors were stuck with the investments as there wasn't a market for the sale of the properties when the investor wanted to sell. Also the capital growth wasn't high as the population remained stagnate.

It is important to look at research when investing and where possible gather as much data as possible that supports your decision to invest.