

## **Are Your Investments Safe?**

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All investments consist of two basic components: risk and reward. The higher the risk, the greater the potential reward. In the financial services industry, professionals are required to provide “suitable” investments for their clients. A suitable investment is an investment that is appropriate for the client given his or her risk tolerance, time horizon, and individual needs. In order for the broker to properly assess the suitability, he or she must have information from the client as to how much risk the client wants to take, how long it will be before he or she will need the money, and what kinds of goals the client has for the investment. The client has to know what the risks are, how the investment works, the tax ramifications, any special features or restrictions, what it can reasonably be expected to achieve and, obviously, what it costs.

All investments in this country are measured against the “risk-free rate” which is the rate of interest that U.S. Treasury Bonds pay. Bank accounts, savings accounts, and CDs pay less than the risk free rate, but they are also much more liquid and they are usually guaranteed by the Federal Deposit Insurance Corporation. Money market funds pay a bit more than savings accounts and they are not guaranteed by the federal government, although no one so far has lost principal invested in a money market account. The risk in these types of investments is called “inflation risk”, that is, the value of your money shrinks faster than the interest it earns. And you have to pay tax on the interest while it shrinks in value.

Then there are securities, including stocks, bonds, mutual funds and the like. Each of these has its own risk/reward profile and relative safety factor. However, there are no guarantees, no standardized measures of safety, and no way to know with any significant degree of certainty just how safe they are. There are many kinds of risk inherent in these investments. However, over the long term (meaning 20 years or more), U.S. stocks have done well relative to other more conservative types of investments. In the short term, they can be extremely volatile, as they have been recently.

Options are a whole separate category. They are perhaps the highest risk product that exist in the financial markets. The volatility can be thousands of percent in minutes. To give one extreme example, the April 500 Google call option sold for less than fifty cents two days prior to expiration and went up to fifty dollars a day later. The only investment riskier than options is betting on basketball.

There is an exception to the option rule, however. It is that you can actually reduce the risk of owning stocks by selling “covered call options” against positions you own and thereby earn an income without any additional risk at all (except the risk that you might have to sell the stock at the option strike price).

Commodities are actually more risky than options, because they carry the additional risk that you could lose more than your initial investment, and you might not

even be able to sell your position.

Real estate has traditionally been considered one of the safest and most conservative investments. However, anyone who has owned real estate during the past several years would have ample cause to question just how safe or conservative real estate really is.

An investment in a business can be very risky, moderately risky, or relatively conservative, depending on the situation. But it is often a risk worth taking as much for the personal satisfaction and autonomy as for the potential returns.

Other investments such as precious gems, collectibles, art, antiques and the like have traditionally been considered very high risk investments for many reasons, not the least of which is the fact that you might not be buying what you think. But many collectors couldn't care less about the potential returns, as they get pleasure from collecting and showing off their collections. In that case, risk is just about irrelevant.

Most investment advisors counsel that a well-diversified portfolio is critical to long term appreciation of assets and financial well-being. They may or may not be right. What **is** important, however, is that you have someone you trust and who knows something about investments actually sit down with you every so often and review what you have to see if it makes sense in light of your current circumstances.

People absolutely hate to do this. I know. I sold life insurance and securities on almost a full time basis for seven years. No one ever wanted to review their policy until it was too late. No one ever wanted to examine how their investments were doing once they were in place. There is just something about it that people find unpleasant or frightening. But what you don't know **can hurt you**. So please take this advice: if you have assets to protect, find a good financial advisor and pay him or her a few hundred dollars to review what you have and make some recommendations. It might be the best investment you ever made.