

# *The* INVESTMENT LETTER

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## The Dirty Dozen: 12 Financial Products to Avoid

**A**s with many things in life, it's not only what you do right, but also avoiding mistakes that leads to success.

At Investment Counsel we focus strictly on managing investments and doing so in our clients' best interest. We attempt to minimize costs, taxes and transaction fees, leading to better results. Not all financial products and services are designed to do the same – many simply attempt to maximize sales commissions and fees – behaviors that are most certainly not in your best interest.

In the spirit of helping you avoid these pitfalls, we've included our list of the dirty dozen financial products you should avoid.

**Annuities** – Annuities make a lot of sense for a very limited group of people and only in very specific circumstances. Even in these cases their high costs and termination fees make annuities an expensive proposition.

Because of the high costs, they should be avoided, as the same or better results can be achieved without the high price – assuming you can stomach some volatility.

Annuity products are popular among financial sales people because they pay a hefty up front sales commission. Because of this, they are frequently sold even when they are not appropriate and better options exist.

**High Cost Mutual Funds / Loaded Funds** – There is always a cost to investing in mutual funds – don't believe anyone that tells you

otherwise. However, you have the option to invest expensively or inexpensively.

Higher cost funds are not necessarily of superior quality and therefore 'better.' In fact, on average, the relationship of cost to performance is actually inverse – that is, lower cost investments beat higher cost investments more often than not.

Loaded funds should be avoided at all times as the load, often as high as 5% of assets, is nothing more than a sales charge and does absolutely nothing for you other than hurt performance.

**Reverse Mortgages** – Reverse mortgages sound like a great idea in theory. In reality a reverse mortgage is nothing more than debt and a fairly expensive form of credit at that, with high up-front closing fees.

Many mortgage brokers may not fully understand all the drawbacks to reverse mortgages and may be driven to offer them by profit motives instead. This vehicle should be considered an option of last resort when other avenues are already exhausted.

**Whole Life Insurance** – Whole life insurance is often sold as an investment product, which it is not. This is done to make it appear more attractive relative to a Term policy.

Even if we consider Whole Life as an investment, it still has many drawbacks. Among its shortcomings are illiquidity,

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unguaranteed returns, high fees, lack of transparency and limited flexibility.

Term life insurance is more affordable in many cases – particularly for those that are younger and in good health.

**Extended Warranties** – Extended Warranties on consumer product are an interesting financial product. Some are downright silly, such as a \$20 warranty on a \$30 item. Keep in mind that if this were not a profitable revenue stream, companies would not offer it.

In most cases warranties go unused or forgotten. In other cases there are onerous limitations which hardly anyone reads beforehand and may not cover the most likely failure points of your new microwave or vacuum anyway.

**Interest Only Mortgages** – Interest Only Mortgages are a dangerous way to finance a home purchase. Look no further than the recent housing crisis to see how some people fared with these types of loans.

Interest Only Mortgages encourage buying more house than you can afford and may require the house to be sold before principal becomes due if you can't afford the increased monthly payments. If housing prices fall and you are forced to sell you may have to come to closing with cash as well. All told these types of home loans are a very risky proposition.

**Pay Day Loans** – The absolute last resort for anyone should be a Pay Day Loan. These loans have unconscionably high fees which helps debt grow fast making it easy to get on the repeat cycle with the lender.

**Time Shares** – Time Shares have long been lampooned as a horrible investment - and for good reason. This is a case where it's cheaper to rent than to own. Selling a Time Share can be difficult and resale value is usually poor.

Additionally, one of the supposed benefits – being able to trade for another location – is often quite difficult.

**Credit Repair Clinics** – If you've found yourself with poor credit it may be tempting to hire a credit repair clinic to help you improve it. These companies can legally only do what you can easily accomplish yourself except for a steep price. Additionally, some have been known to use unsavory tactics or in some case do nothing for their clients.

**Bi-weekly Mortgage Payments** – Paying off your mortgage early is a great goal. You can make extra principal payments at any time and even set up your own bi-weekly payment schedule if you'd like.

What you should avoid, however, is services that offer to do this for you - for a price. You'd be better off avoiding the service altogether, making your extra payments yourself (this is usually easy to set up) and putting the savings towards your home loan. This guarantees an even faster loan payoff!

**Gold and Silver** – For some the touch and feel of precious metals is an irresistible draw. In reality, these 'investments' are sometimes speculative, often expensive and rarely anywhere near as profitable as late-night infomercials would have you believe.

If this is something that is a must-have in your portfolio, stick to small positions relative to your entire portfolio and reputable companies, otherwise prepare for disappointment.

**Speculation** – Advertisements and commercials abound for various speculative strategies in real estate, the stock market, foreign exchange markets, options, commodities, beanie babies, baseball cards and countless other things.

Some of these strategies are even (supposedly) based on research and back-tests. You'd best be wise to avoid these schemes altogether or

treat them as you would playing the lottery – a source of entertainment, not a serious investment strategy.

With these types of products, the too-good-to-be-true test should be applied liberally and taken with a large grain of salt.

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### **Buyer Beware**

One thing that all of these products/services have in common is that they are all sold, not bought. That is an important distinction. Hardly anyone ever decides they want or need an extended warranty on their new coffee maker - but if it's offered, particularly if done skillfully, it can be a tempting impulse purchase and may even seem like a good idea at the time.

At Investment Counsel we don't sell products or offer get rich quick schemes or speculative investments. What we do is provide customized investment solutions to grow and protect your wealth utilizing time-tested strategies that have been proven to work consistently over our 85-year history.

In most cases, products such as those described here don't effectively solve any needs and often they come with high costs and other limitations that make it unattractive to everyone but the sales people.

When considering financial products of all types, don't fall for the sales pitch, be critical of costs and carefully weigh the merits of each product on its own. Often, you'll find that the math just doesn't work in your favor.

If you have any questions or concerns about these or any other products or services, we are always here to help and offer our guidance and expertise. Our primary focus is, was and always will be, looking out for the best interests of our clients. That means helping them, in part, steer clear of hazards.

## INVESTMENT COUNSEL NEWS

### *Inside the Office*

*There are less than three months left to take your Required Minimum Distribution for 2015. We can help you determine how much the IRS mandates you take and answer any other questions you may have.*



### *Outside the Office*

*Chris is looking forward to heading up north to get duck hunting season officially underway.*

