Don’t Throw Your Retirement Savings Down the Drain

From the Office of Minnesota Attorney General Lori Swanson

Financial regulators throughout the United States report an uptick in investment fraud against middle-income Americans who are looking for creative ways to earn interest on their money.

An elderly woman withdrew money from her bank account and invested it in a movie production studio. A farm couple gave a chunk of their retirement savings to an investor who promised to pool their money with other peoples’ to invest in an out-of-state energy project. A retiree loaned money to an acquaintance, who was supposed to use it to start a new business and pay him back interest at 8.5 percent. All of these investments flopped, and the people lost a significant portion of their retirement savings.

About 10,000 Baby Boomers reach retirement age each day in the U.S. Experts report that some of them have turned to complex alternative investments, in part due to low interest rates on bank accounts and government bonds and uncertainty about the stock market. These alternative investments are unproven and risky, and some people have had their savings wiped out by them.

What is an alternative investment?

Alternative investments may involve anything from high-risk investments in start-up companies to loans to acquaintances. In almost all cases, the sales person markets the alternative investment as a way for you to make more than you would with a mainstream investment, like a certificate of deposit, a Treasury bond, or a mutual fund. Examples of alternative investments include:

- **Startup companies.** Some promoters encourage people to invest tens of thousands of dollars in new, startup companies with no track record. The customer is told that buying in early will enhance their rate of return on their investment. Many of these new companies are duds that soon fail. When they flop, the investors usually lose all their money.
- **Pooled investments.** Other promoters encourage people to put their money into an “investment pool,” which will then collectively invest a group of people’s “pooled” money in a particular venture, such as a real estate project, an energy project, a mine, a movie production, or a gold coin enterprise. The investments are often sketchy concepts led by people without appropriate experience or credentials. When the projects crash, they often crash big.
- **Promissory notes.** A promissory note is an IOU. A person loans money to another person for a set period of time. The person receiving the money promises to pay the investor a specified rate of return. These loans often never get repaid. Promissory notes are risky and unsafe investments for most people.

Consider this advice to protect your hard-earned money:

There is no easy way to make money.

Above-market rates with little or no risk do not exist. Higher returns come with higher risks. This generally means that the more somebody promises to pay you for your investment, the more likely you are to lose a portion of that investment. This age old advice proves true with investments: “if it sounds too good to be true, it probably is.”

Don’t ignore that feeling in the pit of your stomach.

When you evaluate whether an investment is a good idea, start by trusting your instincts. Time and time again, victims of financial fraud regret not listening to that gut feeling telling them to run.

If you question an offer, take time to talk it over with a trusted family member or other advisor before you let go of your money. Don't be pressured by sales people who push you to sign up on the spot at the risk of losing the "opportunity of a lifetime." If an offer is legitimate, it'll be there in a week.

Don't invest more than you can afford to lose.

The billionaire investor Warren Buffett once said about investing money: "Rule No.1: Never lose money. Rule No.2: Never forget rule No.1."

Before you make an investment, ask yourself whether you can afford to lose the money you are investing. You shouldn't turn over more money that you can afford to lose. If you are counting on this money for your retirement, you should only put it in a safe and reliable place.

Check with outside agencies before you invest.

Prior to investing, research as much as you can about the person or company. Check with regulatory agencies, such as the Minnesota Department of Commerce, the Securities Exchange Commission, the Financial Industry Regulatory Authority and the Commodities Futures Trading Commission, to see if the seller is properly licensed.

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