

Recognizing—and Avoiding—Bad Investments

By [John W. Hardy](#), Ph.D., C.P.A.

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1. Serious family and personal problems are often caused by financial reversals. Sociological studies have shown that many marriages fail because of financial problems in the home. Often Latter-day Saints have to be even more careful than others in managing their finances. They characteristically have larger families, which sometimes results in more financial stress. They sincerely desire to make financial contributions to the Church for the building of the kingdom of God on earth. Indeed, if Latter-day Saints are to succeed in having sufficient for their needs as well as having some savings set aside for times of emergency, they must manage their resources extremely well.
2. One resource that has been used for both good and evil is financial investments. As members of the Church, we are encouraged to save and invest money wisely. (See N. Eldon Tanner, *Ensign*, June 1982, pp. 2-7.) This is good advice, but too often we succumb to investment programs that are fraudulent. The cost of such unwise investments is not only financial; often those who get into tight financial situations reduce or eliminate tithing, budget, fast offerings, or other contributions as a way to get out of debt, and thus quickly lose needed blessings. How can members of the Church recognize bad investments and avoid them?

Why Do We Make Bad Investments?

3. Most fraudulent investment programs offer high returns in a short time. They are highly speculative, but offer a quick road to riches. Why do Latter-day Saints sometimes invest in such ventures? One reason is that greed often subverts our good sense and caution. The truth is that greed is one of the major problems of humanity and will continue to be until each of us learn to control such desires.
 4. Few individuals are immune to the temptation to make a fast dollar. We often are affected with a desire to “keep up with the Joneses.” The Lord described some of the inhabitants of Zion in the early years of the Church as persons who “seek not earnestly the riches of eternity, but their eyes are full of greediness.” ([D&C 68:31](#).) The Lord has counseled us not to set our hearts upon the things of the world, but to seek first the kingdom of God. If we do this, all else will be added to us.
5. ***To avoid investment fraud, we must first avoid greediness.***
 6. Another reason Latter-day Saints succumb to fraudulent investment schemes is that many of us think, some quite falsely, that we are good judges of people and their intents and can easily judge between good and evil. We tend to be very trusting of other people.
 7. In investment matters, many Latter-day Saints have a certain amount of naivete. Perhaps their missionary attitude and desire to love all men causes them to be overly trusting. Even so, the Savior teaches us that we must be as wise as serpents in conducting our affairs. (See [Matt. 10:16](#).) When we make an investment, we are not playing with play money. We are investing hard-earned dollars.
 8. We need to go the extra mile in identifying the credentials of the individual taking our investment dollar. We need to carefully study out in our minds the nature of the investment. If we feel uneasy or feel we lack the ability to analyze an investment, it may be worth the cost of paying a financial expert to give us independent advice about the investment *before* we invest.
 9. A third possible reason why we make poor investments may be the feeling that if we are righteous, God will bless us with riches. In other words, if we are good Latter-day Saints, our Father in Heaven is bound to bless us financially with more than just sufficient for our needs.
 10. Although God does promise to bless us if we are faithful in keeping his commandments, the promise isn’t necessarily one of financial gain.
 11. Our Father in Heaven blesses us in many ways, and his blessings come as we obey the laws upon which those blessings are predicated. (See [D&C 130:20-21](#).) For example, we receive certain blessings as we keep the Word of Wisdom. (See [D&C 89:18-21](#).) He promises to open to us the windows of heaven and “rebuke the devourer” if we pay tithing. (See [Mal. 3:10-11](#).) Above all, our Heavenly Father blesses us with a celestial inheritance if we are faithful in keeping his

commandments and the covenants we have made with him. Financial abundance, at best, is a mixed blessing; it is certainly not the greatest gift God has for us. (See [D&C 14:7](#).)

12. While it is true that God can bless us financially, these blessings will probably come only after we have obeyed the laws upon which financial success is based. We will not get something for nothing.
13. Some people make one-sided promises with God when they invest in “fly-by-night” investments. They promise to pay their tithing or repent of certain sins if the Lord will bless their investments. Furthermore, if their investments fail, they often blame God for their own bad decisions. We need to be more careful that we do not mock God by such thinking!
14. Another reason we sometimes make bad investments is that we have a notion that if an investment opportunity is presented by a “good Latter-day Saint,” then it must be a “sure thing.” Sometimes we believe it is even a surer thing if the Latter-day Saint investment adviser is a stake president, bishop, or other church leader.
15. Latter-day Saint investment counselors, like other investment counselors, have no crystal balls revealing the future of the economy next week or next month. At best, they can only make a professional guess about the future. He may be an excellent bishop or stake president or Sunday School teacher, but he still is capable of making errors in judgment when giving financial advice. Do Latter-day Saint doctors, janitors, lawyers, teachers, clerks, or accountants sometimes exercise bad judgment even though they may have a church calling? Of course they do.
16. We also need to be aware that there have been instances when Latter-day Saints have perpetrated investment frauds. Surely such people have traded their birthright for a mess of pottage! They will someday account for their theft; in the meantime, we must be wise and protect ourselves from them.
17. There are undoubtedly other reasons why Latter-day Saints get involved in risky speculative investments. Whatever the reason, it is unfortunate that we do.
18. Ultimately, we must bear the responsibility for what we do with our financial resources. It would be nice to be able to blame someone else if failures occur, but typically, when it comes to investments, we do so of our own free will and we must bear the consequences of our choices.

19. In fact, we cannot even count on the law to protect us in every instance from our misjudgments. Victims of fraud often find that lawsuits are fruitless because the investment money is already squandered and no recovery is possible. We must analyze all our potential investments carefully before signing a contract.

Things to Think about before Investing

20. How can you recognize and avoid highly speculative or fraudulent investment schemes? Here are a few guidelines you might follow:
 - A. ***Look for investments that have a reasonable as opposed to an exorbitant return.*** Cornelius Vanderbilt, the American capitalist who became a multimillionaire, was once asked how he became so wealthy. His response was that he was satisfied with a *little* profit. He was not looking for an unreasonably large profit.
21. Vanderbilt’s approach is a wise one, especially for new investors. Certainly, all investments have an associated risk, but some are safer than others. The higher the possible return on an investment, the higher the potential risk for failure. The lower the rate of return, the lower the potential risk for failure.
22. We know that banks pay a certain amount for passbook savings, and U.S. money market certificates pay a certain range. If you are offered rates of return which are considerably higher than these cited, you should be aware that the risks involved are high. You should identify what those risks are before investing. There *are* high-risk, high-return investments that aren’t fraudulent. If you are willing to take the risk, you could make a lot of money. On the other hand, you could lose a lot of money. If you contemplate such an investment, the least you should do is seek professional advice from two or three sources.
23. When offered an investment which claims an exorbitant rate of return, you may find it helpful to ask yourself: “Why doesn’t Exxon or IBM, or local strong firms who are getting perhaps a 12 percent return on their present investments, liquidate their assets and take advantage of this investment?” Some of these companies spend literally millions of dollars studying investment opportunities. Perhaps these companies do not invest in investments with exorbitant rates of return because these investments are too

speculative, because there is too much risk involved.

B. Ignore investments opportunities that are presented as having a secret approach to making money that cannot be disclosed to you.

The news media has cited bankruptcies for companies in which even the salesmen of the investment were unsure of how a return on the money was generated.

C. Be aware of the liability you must assume in connection with a potential investment. Do you have to sign a promissory note in addition to making your initial cash investment? While you may be told the promissory note will not be called because the success of the investment will pay off the note, if the investment fails, you will be liable. The note can be called. If it is called, can you afford to pay off the liability? Do not take a chance.

D. Beware of cosigning notes in connection with investments. Sometimes an investment may require cash investment plus a cosignature on a promissory note. A cosigner assumes the liability on the note in the event of failure to pay by the initial signer.

24. You need to recognize that by cosigning a note, you are assuming a liability. Can you afford to pay off the liability if called upon to do so? If not, do not cosign the notes.

E. Obtain a full disclosure of information regarding the investment. Audited financial statements by a certified public accounting firm and a private placement memorandum prepared by a reputable law firm usually disclose the associated risks of an investment. Insist on being able to review such documents. If disclosure is refused, pass up the investment.

F. Don't be intimidated by the investment salesman. The use of fancy words and language about the investment may make you feel embarrassed to ask questions. If the salesman tries to "put you down" for being too inquisitive, perhaps he is trying to hide something; and if he tries to interpret your questions as an insult to his integrity, perhaps he has none. Do not be afraid to ask enough pertinent questions to obtain a thorough understanding of the investment.

G. Seek professional assistance if you feel unqualified to analyze a particular investment.

It is well worth the money to pay a CPA or other reputable financial adviser for an independent opinion about the risks of the investment.

Remember, it's your money that you are risking. Take the steps necessary to be well informed.

H. Do not borrow money to invest. Sometimes the exorbitant returns promoted by speculative investments lure us to borrow money for the investment. Borrowing money at 18 percent to invest at 30 percent or better may sound like a good investment; but if the high-risk investment fails, you are left with a debt. You have lost the investment funds and may be unable to pay off the debt you have incurred from your regular earnings. If you do choose to invest in highly speculative investments, do not invest money that you cannot afford to lose. Money which is normally used to buy food, clothing, or shelter should not be used for investments, especially highly speculative ones. The records are full of families who have lost lifetime earnings through speculative investments.

I. Beware of investments presented to you as the last chance for you to buy. Why is the salesman in such a hurry? Do you know the whole story? If you feel you have to hurry into the decision, maybe you should let the salesman hurry on to someone else.

J. Don't be afraid to say no. If, after all your analysis, you do not feel the investment is right for you, then do not make the investment. You worked hard to earn your money; do not give it up for fear of hurting the salesman's or a friend's feelings. Instead, manage your money wisely.

25. There are other ways to avoid losing your financial resources. We have considered here only how to avoid bad investments. The Church has given us other guidelines, and it would be well for us all to review them. Among them is the counsel to pay a full tithe, a generous fast offering, and other offerings; properly budget our money; live within our income; plan major purchases, avoiding credit purchases; work toward home ownership; get out of debt; have a savings plan; provide financial security for times of disability and advanced age; and take better care of our possessions. (See *Choose You This Day*, Melchizedek Priesthood study guide, 1979, pp. 13-14.) Each of us needs to take stock of our current financial situation and try to implement in our lives wise guidelines for financial management and success.

Let's Talk about It

26. Now that you have read "Recognizing—and Avoiding—Bad Investments," you may wish to discuss the following with your family:

- *Why do members of the Church sometimes make unwise investment decisions? What can you do to safeguard yourself against such attitudes?*
- *Suppose someone who asks you to invest has many good credentials and what seems to be a sound plan for investing your money, what further counsel should you seek before becoming involved?*
- *How can you distinguish between wise and unwise investments? When is it safe to invest money in speculative investments?*
- *Spend time discussing your attitudes about money and your plans for your financial future. How can you best sensibly use your financial resources to meet your family's needs and help build the kingdom of God on earth?*

Gospel topic: financial management

John W. Hardy, father of five children and high councilor in his Provo, Utah, stake, teaches accounting at Brigham Young University.

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