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Investing in the Wake of the Bernie Madoff Scandal

By Peter Eberle

Peter Eberle is a Vice President at SB Capital in Lafayette. He can be reached at (925)283-2500 or peter@sbcapital.com

With almost every asset class having suffered extreme losses recently and interest rates near historic lows, it is not surprising that savvy investors are looking towards "alternative investments."

However, in light of financial scandals such as the recent Bernie Madoff scandal, many investors are rightfully wary and more than a little skeptical. They know they are losing ground to inflation by parking money in cash accounts but they cannot stomach the volatility of the stock market, nor do they want to be swindled. What can investors, especially seniors, do to insure they are making a sound investment?

"Due Diligence" refers to the care a reasonable person should take before entering in an agreement or transaction with another party. This is true for all types of investments.

Investment funds are a popular choice as they offer diversification of risk, often with a minimal investment. Before investing in a fund, consider the following criteria: investment objectives, track record, transparency, liquidity, fees, testimonials, and investment diversity, as well as your own investment objectives. Here are some due diligence tips when evaluating investment funds:

Do you understand the fund's investment objectives?

Having a basic understanding of the fund's objectives is of primary importance. Read the offering circular or prospectus carefully and know where your money will be invested. If you can't understand what the fund does, you should avoid investing regardless of the promised return or yield. Successful investors such as Peter Lynch and Warren Buffett invest only in companies and products which they understand. With so many investment choices what benefit is there in an investment that is overly complicated or counter-intuitive?

What is the fund's track record and who is managing your money?

A track record speaks for itself, and should be available in the offering circular, prospectus or on the fund's website. Legitimate funds include background information on their management team.

What is the fund doing with your investment?

A trustworthy fund should provide transparency by way of documentation. Can you independently verify results and audit performance? Investors have a right to request copies of financial documents. Most legitimate investments will provide Audited Financial Statements by Certified Public Accountants.

Is there liquidity? How long is your investment commitment?

In order to return higher yields alternative investments will often require a minimum investment term. Similar to bank CD's, an investor may receive a higher interest rate for committing to a longer term. The time frame could vary from a few months to several years. Be certain that the term restrictions agree with your investment objectives and monetary needs.

How is the fund manager compensated?

A fund manager should be willing to answer the question, "How do you make your money?" Stay away from the manager who avoids discussing its compensation. Are the management and investors interests aligned? A fund manager should earn a profit share but it should be based on the performance of the fund. Be aware of funds with excessive front-end fees as they will affect performance significantly.

Can you speak to current investors?

Speaking to current investors is an often over-looked avenue in gaining insight to a fund's integrity. Ask the fund manager for a list of investors in your area who share your investment objectives.

Diversify, diversify, diversify!

Diversification is the golden rule in investing. No matter what investments you ultimately choose, it's wise to follow the old adage "don't keep all your eggs in one basket."

Reach the reporter at: info@lamorindaweekly.com