A Banker’s Dozen

Charles E. Davis, “A Banker’s Dozen,” *Ensign,* Sept. 1991, 64

One way to achieve financial security is to invest our money and let it work for us. But, blinded by impatient hopes or greed, we sometimes commit our funds before we carefully examine offers of plenty. The resulting disruption of our financial affairs may breed bitterness that can damage family relationships, lifelong friendships, and even testimonies.

From my experience as a business attorney, I have discovered a number of guidelines for wise investing. Here are twelve.

1. If you must speculate, speculate only with money you can afford to lose. Something that looks like an investment may really be a gamble. How do you tell the difference? Search for the risk. The more the advantage of an investment depends on the up-and-down cycles of markets, unproven methods, or untested products, the more it starts to look like gambling. The more an investment resembles gambling, the fewer the resources you should put at risk.

2. Invest in familiar things. When you want to invest in something new or unfamiliar, become well informed first. If necessary, get a second or third opinion from experts so you have a full understanding of the risks.

3. Opportunities that seem too good to be true are *too good to be true.* Investments that show unreasonable returns generally falter—but only after the promoters have money from lots of investors.

For example, one investment manager touted a new, safe investment strategy and promised a spectacular 85-percent return per year. He kept his promise, too—for awhile. His method was simple. He paid returns to old investors from new deposits. Mesmerized by their success, the old investors reinvested their returns and recruited new investors—usually family members and friends. When the manager’s stack of cards crumbled, the investors lost everything they had entrusted to him.

4. Avoid investments or schemes that promote tax savings as a primary selling point. If the promoter emphasizes tax savings first and adds as an afterthought that the investment might make some money, beware. Many of these schemes don’t save taxes, nor do they make money. In fact, not only may you lose the investment, but accountants and attorneys will charge you substantial fees to deal with the Internal Revenue Service and the promoter’s attorneys.

5. Go slowly. As one wise man said, the good deals will always outlast the money. Any time anyone pressures you to invest before you have *all* the answers, walk away.

6. Keep money close to home. Sending money out of the state or the country invites disaster. Keeping track of the investment is difficult, and recovering your money can be expensive, frustrating, and sometimes impossible.

Avoid investing in land or lots in exotic places. In one of my probate cases, the heirs were surprised to find that they had inherited a scenic canyon-view lot—located on a vertical wall. Another client brought me a deed for real estate he had purchased sight unseen. When he went to inspect it, he found that it lay under four feet of swamp water. When considering real estate, *always* personally inspect it before buying. Also check for hazardous waste problems, flood plains, and zoning restrictions, and get warranties from the seller regarding these matters whenever possible.

7. Beware of investment counsel based on someone else's "inspiration." No one should use his or her Church position to persuade others to invest in something. If you receive such counsel, or if someone indicates that he or she was "inspired" to guide you financially, report the circumstances immediately to the proper Church authority.

8. Investigate investment advisers before you entrust them with your money. The financial advisory industry attracts people with a variety of personalities and ethical standards. When you don't know an adviser personally, ask for a list of references. If the adviser is young or inexperienced, entrust a relatively small amount of funds to his or her care initially if you choose to invest with him or her.

Avoid people with poor reputations. It is a mistake to believe that a person who cheats will cheat everyone but you—even if he or she is a friend or relative.

9. Avoid people who flash money. The flash is bait. Those people don't want to give you their money—they want you to give them yours.

10. Think carefully before you enter into business ventures with relatives or friends. Resolve possible problems in advance *in writing* before any money changes hands. If you neglect details, you may later have misunderstandings that will damage relationships.

11. Be wary of anyone who says he or she is doing you a favor by getting you into an investment. It's probably not true.

12. Everything we own owns us. Before you invest in anything, give some thought to the effects that investment will have on your freedom and mobility. Possessions can oppress us and command our attention away from weightier matters.

Even more important than following these rules is that we remember to keep financial concerns in proper perspective. Our possessions are of real worth only when we acquire and use them to lift others.**—***Charles E. Davis*, Mesa, Arizona