Chicago Tribune
ONLINE EDITION

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**YOUR MONEY: A WEEKLY GUIDE TO PERSONAL FINANCE**

# Investors uninformed, easily talked into deals

Humberto Cruz, Tribune Media Services columnist

June 24, 2007

Say somebody at your church or place of work tells you about these "can't miss" investment opportunities:

One is a new fuel-cell technology to allow cars to run on tap water. Another is an options-trading system guaranteed to at least double your money. The third is a company with a new laser that kills lung-cancer cells in smokers.

Your best bet? Steer clear and report the matter to securities regulators. Cockamamie schemes like these are typical of investment scams sometimes promoted by people you trust, such as co-workers or fellow church members, who may have been duped themselves.

"Remember: Investigate before you invest, no matter who is selling," said Joseph Borg, president of the North American Securities Administrators Association, an organization of state regulators. "An investment that sounds too good to be true usually is."

Yet, 43 percent of American investors in a recent survey said they would likely put their money in at least one of these three "opportunities."

"The fact that this number is so high among investors who ought to know better is quite revealing," said the MoneyTrack/IPT Investing Secrets Survey, a study conducted by Opinion Research Corp. for the "MoneyTrack" public television series and the not-for-profit Investor Protection Trust (www.investorprotec tion.org).

Among 1,255 Americans 18 and over who said they decide on household investments, a measly 1 percent appears to understand or put to use all eight investment basics covered in the survey. They are:



*How compound interest works. For example, 58 percent of investors preferred to receive $1 million rather than a penny that doubles in value every day for 30 days. But that penny would grow to nearly $5.4 million.

*The meaning of diversification. Only 39 percent understood it involves balancing risk and return.

*Having a comprehensive plan to determine how much they need to save for retirement, something only 52 percent said they have. (I doubt that many actually do.)

*Avoiding overreliance on Social Security. (Thirty-seven percent are relying heavily on it, suggesting they have not or will not have saved enough.)

*Understanding that a sudden windfall, such as an inheritance, insurance settlement or winning the lottery, is not the most likely way for a young person to build a large nest egg. Just 58 percent said that the surest way a 25-year-old can accumulate at least $500,000 for retirement is to invest regularly in stocks. Assuming a compounded return of 8 percent a year -- less than the historical average for stocks -- I calculated that a 25-year-old investing $125 a month would have amassed $515,000 by age 67.

*Understanding that stocks have delivered greater returns over the past 20 years than savings accounts or certificates of deposit. Only 56 percent knew that.

*Checking out financial advisers. Two-thirds of investors who use a broker, investment adviser or financial planner have not checked credentials or disciplinary records with their state securities regulators ( www.nasaa.org), the Securities and Exchange Commission ( www.sec.gov) or NASD, formerly the National Association of Securities Dealers ( www.nasd.com). For financial planners, I would add www.cfpboard.org.

*Knowing how to avoid scams. The "new fuel-cell technology" and "options trading system" are actual swindles featured on this season of "MoneyTrack."

"We deliberately kept the questions on a simple level to get a full and fair sense of what U.S. investors know and do," said Pam Krueger, co-host and executive producer of the PBS series (www.moneytrack.org). Based on the survey results, "We definitely have our work cut out for us," she said.

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