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## MONEY WISE

### SHOULD YOU KIDNAP YOUR FINANCIAL ADVISER?

***This is precisely what a group of five German pensioners aged 61 to 80 did when their investments crashed.***

It all began in the late 1990's when a couple started to invest in the booming Florida property market via an investment firm run by James Amburn, an American financial adviser living in Germany. In the early years the returns were good so they invested more together with three other pensioners. But their investments crashed in the sub-prime mortgage crisis and by early 2009 they had lost as much as 2.5 million Euros.

Determined to recover their losses they embarked on an elaborate plan to abduct Mr. Amburn and force him to repay the money they lost. This involved tying him up and taking him in the boot of a car to the lakeside home of one of the pensioners near the Austrian border. Attempts to escape were punished with beatings and he was eventually saved only by his offering to send a fax to his bank instructing the transfer of some of the money they sought. In so doing he managed to send a coded message which resulted in his rescue and the arrest of the five pensioners by 40 heavily armed police from Bavaria's terrorist unit.

#### ***The pensioners are not the only angry ones***

There can be very few investors who did not see a large chunk of their wealth disappear during the financial meltdown of 2008, whether that wealth consisted of stocks, a pension plan or property in Europe or America. And while late 2009 and much of 2010 saw a partial recovery most asset classes have continued to languish. Confidence in the global financial system has not been helped by the recent scandals involving international banks.

Anger is rising in countries such as Spain and Greece where millions are now affected by austerity measures. In the US an estimated 1.5 million Americans over the age of 50 lost their homes to foreclosure between 2007

and 2011. Investors globally are feeling the pinch once again as they see the value of their savings dwindling.

### ***But who is to blame?***

Is it governments, politicians, economists, business leaders, bankers, fund managers or financial advisers? As far as the German pensioners were concerned the financial adviser was the culprit, which seems a little harsh. The adviser, like 99% of people in the business world, did not see the crash coming. Yet the scenario was not a new one; rapidly rising property prices and absurdly easy loans should have been a warning sign. But a new element had come on to the scene; the creation of new financial instruments based on the packaging of loans. When the bubble finally burst, the damage was considerable and the repercussions are still being felt today.

In the big picture the blame can be placed at many doors. It was a collective failure of the system. Human nature can be blamed too; we all seek high returns from investments and easy loans at low interest. Not to mention living beyond our means, as many countries have been doing.

But there are instances where individuals are clearly responsible for causing misery. They range from the simple mis-selling of products to outright fraud such as the multi-level marketing scams exposed in Indonesia last month.

Perhaps the most infamous scam of all was perpetrated by Bernard Madoff who cheated people out of millions of dollars over a 20-year period in the US. But no chance of investors kidnapping him; he is now a guest for life of the US prison service.

### ***So how can we protect ourselves?***

Knowledge and understanding of the financial markets is a good defence. Don't assume that people in the industry know everything. 'Experts' at JPMorgan Chase recently 'lost' \$5.8 billion of the bank's money in trading mistakes. Even top fund managers can get things wrong. The markets are driven by so many forces that the outcome is never easy to predict.

But don't give up. By applying sound investment strategies you can significantly reduce risk, even if you cannot completely eliminate it. Just follow a few golden rules:

- Don't invest in anything you don't understand.
- If the promised returns are outrageously high there is a real risk of losing all your money.
- Get to understand the workings of different asset classes such as stocks, bonds, commodities and alternative investments.
- Get the best advice you can but make your own decisions.
- Remember that investing is for the long term, not to make a quick profit.
- Be prepared for some losses in the short term; it is the price you often have to pay for long term growth.
- Live within your means.
- Keep ample cash reserves.
- And above all diversify; don't put all or most of your eggs in one basket.

### ***Did the kidnapping pay off?***

Unfortunately for our elderly friends it did not. They still lost their money and now they have lost their freedom as they were sentenced to up to six years in jail.

***So if things go wrong, don't resort to kidnapping your financial adviser - unless you plan to live in a retirement home where the windows have bars.***

***Colin Bloodworth***

**PPi Indonesia**