ASIC briefly.....

Australian Securities and Investments Commission [ASIC] had a record amount of enforcement outcomes in 2003.

During this time ASIC jailed 16 Financial Advisers for cheating their clients plus two investment fraudsters.

- 29 were jailed for fraud, criminal breach of duties or *insider trading*.
- 39 were banned for offering financial advice -20 of them banned permanently.
- 43 illegal schemes involving more than \$200 million were acted against, and obtained 311 corrective disclosures.
- 67 civil proceedings resulting in orders against 151 people or companies, \$121 million in recoveries and compensation orders, and \$2 million in frozen assets.
- ASIC spent 40% (or \$69 million) of it's expenses on enforcement activity, pushing it's total expenses from \$159.9 million in 2001-2 to \$172.6 million

Source; Money Management 2003

ASIC Risk Factors

What they're called	Who offers them	Fixed Interest Risk and Return levels
Term deposits	Offered by banks, building societies, credit unions and other prudentially regulated institutions.	Lower risk because the institutions are specially regulated. Lower returns.
Mortgage debentures	Offered by companies through a prospectus. By law must be secured by first mortgage over land given to the trustee. Loan to valuation ratio may not exceed 60%.	Medium risk, but investors have a trustee to act for them. Accuracy of land valuation is a key issue. Typically medium returns.
Debentures	Offered by companies through a prospectus. By law must be secured by first mortgage over land or a 'charge' over tangible property sufficient to repay the money raised.	Medium risk. Investors have a trustee. True value of land or other property is crucial. Typically medium returns.
Unsecured note or unsecured deposit notes.	Offered by companies through a prospectus. Not required to have a first mortgage over land nor any 'charge' over tangible property.	Higher risk. Investors rely entirely on the financial strength of the company. High returns

How to calculate 'doubling your money' without using an advisor.

Use the Rule of 72

One way to tackle this problem is to work out how long it would take to double the money you originally invested if you reinvested all your returns.

This is simpler than it seems. Before calculators or spreadsheets, investors used the trusty old 'Rule of 72'.

How the Rule of 72 works

Suppose you were offered an investment with a return of 10% per year and you reinvested all your returns. How many years would it take to double the value of your original investment?

The Rule of 72 says you:

- divide 72 by the annual rate of return
- to get the number of years it will take to double your money.

So for 10% per year:

72 divided by 10 = 7.2 which means at this rate of return, it will take a bit over **7 years** to double the value your original investment.

If you get a **20% per year** return, it will take a shade over **3**½ years to double your money. If you get only **3%** per year you will have to wait **24 years**.

The Rule of 72 is not absolutely precise, but it gives you a practical estimate that you can work out in your head.

A real-life example: the 'Wattle' scheme

Let's use the Rule of 72 in a real case from the ASIC files.

The 'Wattle' scheme was one of Australia's worst investment disasters during the late 1990s. More than 3,000 Australians, including police and health care workers, invested about \$160 million dollars in an illegal investment scheme that promised **50% per year** return, paid each month.

Using the Rule of 72: 72 divided by 50 = 1.5

Source;

http://www.asic.gov.au/fido/fido.nsf/byheadline/How+to+spot+what%27s+too+good+to +be+true%3A+the+rule+of+72?openDocument

The Truth of the Matter!

The Car Salesman says:

• This "HoldnX Super Pack car will travel from Perth to Darwin in two days....that's if you make it past the first bend.

The Insurance salesman says:

• This policy will set you up for life...you'll make a fortune...*if you keep your income going throughout your working life.*

The Painter says:

• I'll have it done in three days, but it must be cash for this price and I need to buy the paint.....*Next day he was in Bali.*

The Government says:

• We'll increase the child welfare benefit and make it easier for families.....but did not say when or how.

The Valuer/Real Estate Salesman;

• This property sold eighteen months ago for \$'s, now just look at what can be done.....he didn't say it was overvalued/capitalized.

The Investment Adviser says;

• This mortgage pays 10% pa (or 12% if late payment) "guaranteed" by title over the property.....*that's if it's not overvalued.*

ASIC says;

• If it's too good to be true, it's probably a lie.....How true!... not just a lie but fraud, or straight-out thieving!