There are Real Autographs But There are No Guaranteed Investments

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"Can I have your autograph?" The question surprised me. I knew I looked enough like Andy North that some of the other golfers would kid my brother-in-law about having a US Open champion as his caddie, but I never thought anyone would actually mistake me for Andy North up close. The autograph request was made at the Transamerica Tournament in Napa, on a weekend I was working for ESPN as an on-course spotter. With my ESPN hat and my official looking headset, this sight-challenged golf fan had mistaken me for Andy North, the professional golfer-turned-announcer. As I stood there soaking up my five minutes of fame, my aging golf groupie gushed, "I really enjoyed following your career." In a response that was technically true but realistically misleading I replied, "You don't know how much that means to me. Very few people remember my career at all." That little comment elicited a kick in the ankle and a glare from my wife, who was standing next to me. Jolted back to reality, I excused myself and hurried off down the fairway, but not before hastily scribbling a signature on her program.

As my story points out, reality is objective and independent of our assumptions and feelings, but determining what is real and what isn't is not always so easy. Somewhere there is a golf fan who really believes she spoke with Andy North and got his autograph, but if you should ever see an Andy North autograph on a Transamerica program listed on eBay, you should think twice before buying it.

The older I get, the more I question many of the things I had previously assumed were true. I really believed there were people who had figured out markets and who could take the risk out of investing. Unfortunately, I have come to realize that isn't true - but there is no shortage of investment experts out there who want you to think they can. The best of this group of advisors believe in false hopes; the worst rely on outright fraud. Probably the best known of the worst type is Bernie Madoff. But frauds aren't the only ones who sell "no fear"; insurance companies do, too. They call it guarantees. Recently, a nationally known speaker sent me the following email about how insurance companies are attracting new business. He said, "…one of the ways they've been doing it is with minimum guaranteed returns of 5% and 6%, on a base that ratchets upward[…] At one conference, the room was rimmed with annuity companies. As you walked by [the] booths, each company hawked its guaranteed return and how often the base ratcheted up... 'Anniversary date,' said one… 'Quarterly,' said the next guy… 'Monthly…' Sure enough the last guy in line said 'DAILY!'…" The email went on to say that the conference speakers had all kinds of suggestions for ways to use and abuse the minimum guarantees in order to achieve high returns with no risk. One speaker went so far as to say, "What the heck. Why diversify? Put your entire contract into the riskiest, most volatile option, since there's no downside risk!" Fed up with these unrealistic guarantees, my friend concluded his email by saying: "I just want to short-sell the companies that are offering those deals. It's insane."

The point isn't so much to criticize insurance companies as it is to warn you that guarantees don't eliminate risk. That reality has become all too clear recently with the inability of insurance companies, banks, and brokerage firms to cover losses on the credit default swaps that they sold as guarantees for mortgage-backed securities. So, don't be blinded by guarantees as Madoff's clients were blinded by two decades of consistent returns. What appears to be a safe investment may actually be a very risky one; in the real world there are some real Andy North autographs and some phony ones, but there are no investments that are really guaranteed.

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