6 12 questions to ask before investing

Are there any warning signs?

"Look before you leap"
-John Heywood

Warning signs are important because they alert us to know when we should tread cautiously. One of the important questions you should ask yourself before investing is whether there are any red flags with the investment. You do not want your hard-earned money to go down the drain because you failed to do due diligence. Although we can never guarantee that the investment is 100% safe because it has passed these tests, they are sure to help you avoid making a lot of bad investments.

1. Pressure to invest: Do you feel you are being given a very short time to invest, or are being urged not to speak to anyone for advice because you need to invest quickly? You could be in for a scam. Investment, generally, should be available for anyone to access any time after the person has conducted all the background research and is comfortable with the investment. Fraudsters usually adopt this approach so you do not have time to think through the decision or later find out it is a bad investment.

2. Overly complicated investment: It is true that investment jargon may be alien to the lay person. But that doesn't mean you should invest in something you do not understand. Is the investment too difficult to understand? Is the investment advisor using too many incomprehensible investment terminologies? Does the investment process sound too complex and with too many strings? Pause. Ask questions until you are satisfied with the explanations you get. Investment is not as complex as it sounds, and you should be able to understand basic investment concepts and make the right choice.

3. High returns with low or no risk: Generally, the higher the potential return of an investment, the higher the risk. This is why an offer of an investment with 'fantastic' returns that are guaranteed or high returns with low risk should look suspicious to you. Like they say, if it seems too good to be true, it probably is! Before you believe the returns being offered you, find out the prevailing T-Bill rate, for fixed-income investments, and the return on the stock exchange, if it is an equity investment. You should spot a red flag if there is a wide gap between the returns of the investment and those of their benchmarks, especially if your investment's returns are so much higher. Ask them: "how are you making the returns?" And importantly, mutual fund returns are **not** guaranteed, so no one is supposed to promise you that your money will *definitely* grow by 'x' percentage within a certain period.

4. Promise of a limited and special offer: You know that feeling you get when it seems everyone is enjoying something, and you are missing out? Fraudsters know that people hate to feel left out and so, capitalize on this. You are given the impression that this investment offer only lasts for a short span and only a "select few" have access to this "exclusive" investment. They may even go ahead to give you examples of some of those special people who are benefitting from investing in this special offer. A healthy investment should be open for any well-meaning person to choose to invest when they are ready.

5. Insider information or hot tips: Be wary of an investment offer when the person wants to appear as if he is sharing with you some privileged information. He or she will claim that he/she has discovered how the investment (especially a stock) will boom in the next few days or weeks. They will then ask you to take advantage of the opportunity before it passes. They may sound convincing but always conduct your research before investing.

6. Unregistered business or advisors: Before you invest with a company, check if it is registered with the Securities and Exchange Commission (SEC). In Ghana, you can find out if an investment is regulated by checking the website of the SEC (www.sec.gov.gh). You also want to find out if the person offering the investment is licensed to do so. When an investment is not regulated, it means they are at liberty to invest where and how they want, and this could be dangerous for your money. Regulation guides the company to invest your money only in places that are deemed safe and beneficial for you, the investor. Also, an unlicensed investment advisor will likely be more interested in getting you to invest than in telling you the facts of the investment.

Look before you leap

Looking out for red flags before investing is not a magic checkbox that guarantees 100% safety of the investment. Besides, there is no guarantee that a healthy investment today will remain healthy for the next year, or even week. But that doesn't mean we should throw caution to the wind. You can minimize the impact of major losses by carefully selecting where you invest. For 30 years, we at Databank have adhered to laws and regulations set out by the regulator to ensure your hard-earned money is protected.

A safe investment, still, does not mean it is good for you. Check your investment goal, time horizon and risk profile even after you have eliminated the red flags to be sure you select the investment that best suits you.

Invest wisely. Invest with Databank.