

Dow Jones Reprints: This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers, use the Order Reprints tool at the bottom of any article or visit [www.djreprints.com](http://www.djreprints.com)

[See a sample reprint in PDF format.](#)

[Order a reprint of this article now](#)

---

## **THE WALL STREET JOURNAL.**

WSJ.com

---

DECEMBER 13, 2010

# Just Say No. Please.

*Financial advisers sometimes have to talk their clients out of really bad ideas. Here are some of them.*

By [VERONICA DAGHER](#)

There are lots of bad investment ideas out there. Financial advisers have plenty of them. But so do their clients. And part of an adviser's job is to steer clients away from those—or at least raise a red flag when a client finds an opportunity that simply doesn't add up. Sometimes clients listen, other times they don't. We asked a few advisers about the worst investments they ever had to talk a client out of. Anyone up for...ostrich eggs?

## *Land, Ho, Ho, Ho*

---

### **Journal Report**

Read the complete [Wealth Adviser report](#) .

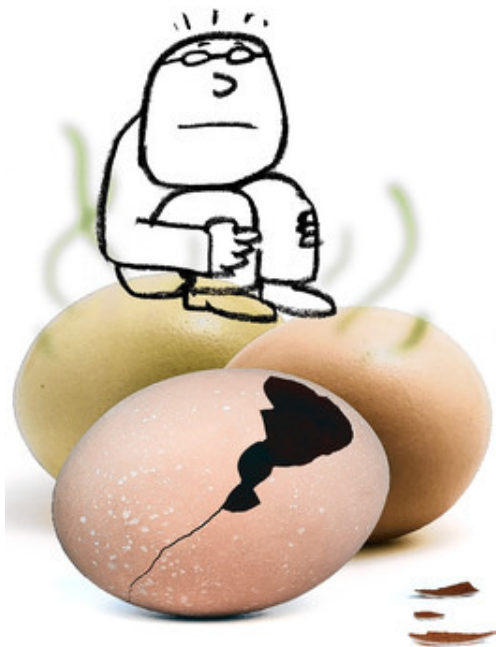
A client of Carlo Panaccione, a Redwood Shores, Calif., certified financial planner, wanted to invest in a California real-estate deal that offered a 12% "guaranteed" yield backed by the real estate. Mr. Panaccione immediately knew it was a bad idea.

"It sounded too good to be true," says Mr. Panaccione. Just as real estate in California was peaking, a close friend of the client had invested a large portion of his net worth in this deal, Mr. Panaccione says, and the client was wondering whether he should invest, too.

Mr. Panaccione warned the client that real estate doesn't consistently return 12% and questioned whether a real-estate investment trust would pay such a rate when average rates for real-estate deals were much lower.

The client took his advice and didn't invest. "The program went belly up and the owner is most likely going to jail for fraud," Mr. Panaccione says.

## *CD Player*


[View Full Image](#)

Serge Bloch

After one of Gerald Polcari's clients received a solicitation from a broker for an equity-linked CD product, the Wellesley, Mass., financial adviser was skeptical. The investment was marketed as having no principal risk, allowed the holder to bank a guaranteed rate of interest, and if equity markets performed well, the holder would receive at least some portion of that growth through added principal credits. As Mr. Polcari looked at the offering's prospectus, he noted it had high fees and a low "base" interest rate relative to the market.

"The kicker was the fact that the CD was actually an unsecured, non-collateralized, non-FDIC-insured contract between the note-holder and the issuing bank," he says.

Given the client's need for preservation of principal, the investment wasn't a good choice. And after Mr. Polcari noted the "significant" risks of the structure to the clients, the client immediately decided the investment wasn't for them. "I was relieved," Mr. Polcari says.

### *Pyramid Power*

When a client wanted to invest in a company called Agape because a friend had doubled his money with such an investment, Cary Carbonaro, a Fair Lawn, N.J., certified financial planner, was skeptical.

As soon as she read the investment proposal, she says, she knew Agape was a fraud. "The proposal had a chart showing growth of cash at 3%, growth of bonds at 6%, growth of stock at 9% and growth of Agape at 100%—with no risk," she says. She told her client she thought Agape was a pyramid scheme and advised him not to invest.

The client took her advice. A few months later, in April 2009, the owner and president of Agape World Inc. and Agape Merchant Advance LLC, Nicholas Cosmo, was indicted on charges of mail and wire fraud. Ms. Carbonaro called the client the same day. "They were crying and thanking me," she says.

Mr. Cosmo pleaded guilty to mail and wire fraud in October in U.S. District Court in Central Islip, N.Y. Federal prosecutors said he bilked investors out of about \$195 million. He is scheduled for sentencing in February. Mr. Cosmo's lawyer declined to comment.

### *Golden Opportunity?*

When a client of Michelle Goldstein's wanted to plow the majority of her retirement savings into rare gold coins, the Dallas-based certified financial planner tried to talk her out of it.

The client liked the idea because she wanted a tangible investment. Ms. Goldstein didn't like it because she wouldn't recommend investing 66% of anyone's retirement portfolio in any one asset class, whether it be in gold coins or small-cap stocks.

Other reasons to not like the deal: The broker was charging a 15% commission, coin prices can be volatile, coins can be hard to liquidate and the client didn't have much saved to begin with, Ms. Goldstein says.

Still, the client gave her broker approval to purchase the coins.

The client held the coins for about a year but decided to liquidate them when they lost about 30% of their value, says Ms. Goldstein.

"I wish she would have listened," Ms. Goldstein says. "She really got burned."

## *Bad Eggs*

Several years ago, a client of Stewart McLauchlan said he had an "opportunity to purchase some ostrich eggs at below the current market," Mr. McLauchlan says. Red flags went up for the Richardson, Texas, certified financial planner.

The client said once the eggs hatched, he could sell the chicks or raise them and watch the birds appreciate as they matured into breeders. What's more, the client said if he was fortunate enough to get a pair, they could produce and his "wealth would be made." He said the eggs cost \$5,000 each and a mature ostrich could bring in \$20,000 to \$30,000 if you "hit the market at the right time."

"I looked at him in amazement," says Mr. McLauchlan. "It was evident he was motivated by the return and had not thought through the pros and cons."

He then explained to the client some of the risks: The investment was a fad; the client knew nothing about ostrich farming (or any other type of agricultural venture, for that matter); and knew nothing about the investment group that represented the ostrich farm.

Mr. McLauchlan says he tried to persuade his client with "every angle" he could think of not to invest.

However, he found out months later the client had purchased four eggs at \$5,000 each. The client said that the eggs, unfortunately, spoiled and that he was told by the ostrich farm that some type of bacteria had gotten into the shells and contaminated them.

"He told me not to tell anybody about this situation—especially his wife," says Mr. McLauchlan. "I believe he learned his lesson."

*Ms. Dagher is a reporter for Dow Jones Newswires in New York. She can be reached at [veronica.dagher@dowjones.com](mailto:veronica.dagher@dowjones.com).*

Copyright 2010 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. Distribution and use of this material are governed by our [Subscriber Agreement](#) and by copyright law. For non-personal use or to order multiple copies, please contact Dow Jones Reprints at 1-800-843-0008 or visit [www.djreprints.com](http://www.djreprints.com)