



**Financial Planning Notes**  
Client Newsletter  
February, 2012

*“If past history was all there was to the game, the richest people would be librarians.”*

**Warren Buffett**

*In This Issue:*

Scams du Jour .....	1
When I’m Sixty-Six .....	3
Pop Quiz.....	3

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**Scams du Jour**

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As you are no doubt aware, scams and fraud abound in the financial services industry. Take a long period of volatility and uncertainty, as we have been in, and you should expect con artists to thrive on investor anxiety.

Keeping one step ahead of the latest fraud can be a challenge, as the bad guys are always looking to stay one step ahead of you (and the law). Not surprising, recent scams have followed the financial news. Here are a few examples, many of which are currently listed among North American Securities Administrators Association (NASAA) top scams:

Buying Distressed Real Estate: Far from being fearful of real estate, we have kept our clients invested throughout the bubble burst, and remain committed to the sector because of the diversification it offers. But with millions of foreclosures and pending foreclosures, scam artists can dangle the carrot of easy profits from scooping up cheap foreclosures, short sales and bank-owned properties.

What the con artist offers is participation in an investment pool, where your money will be combined with money from other investors to allow the fund to buy up lots of cheap properties.

No one can argue that there are a lot of properties out there that are selling cheap, at least relative to prices a few years ago, but flipping those properties for big, quick profits? Seems like those days ended around 2007 or so.

In February 2011, A.J. Klatch, who operated a hedge fund in Tampa, pleaded guilty to bilking 39 investors out of a total of \$2.3 million, supposedly to be used to purchase, refurbish and sell distressed properties. He even issued official-looking Corporate promissory notes. About 60% of the money was actually invested, and was lost in 8 months. The rest went “elsewhere,” including more than \$180,000 to Klatch’s own bank account. (“What? How did that get there?”)

Real estate investment can be profitable but there is also substantial risk, especially in the short term.

Selling Distressed Real Estate: Sadly, many Americans, in all income and wealth brackets, have found themselves “upside down” in real estate investments made in recent years. And many have fallen victim to fraud. Here’s a common one involving time share units. If you have listed a time share for sale, you get a call from an attorney who says he’s at the closing table with an investor who was going to buy another unit in your building but the sale fell through. They found your unit listed and can sell it today, but there are closing fees of however-many-thousands-of-dollars-he-thinks-he-can-bilk-you-out-of. You wire the money out of your bank account, they close and the money is to be returned the same day, followed by the profit from the sale.

Can you guess where the story is heading? Right. There is no investor, no closing, and the guy calling

you isn't an attorney. But the money is real, and it now belongs to the scam artist.

But wait. The story isn't over. A couple of weeks later, you get a call from a consumer protection agency which is investigating time share sales fraud, and for a fee of however-much-he-thinks-he-can-get-from-you, they will recover your money.

Yup. You've just been double-whammied. And here's the big punchline: The lawyer and the consumer protection agency ARE THE SAME COMPANY.

Last year, federal prosecutors cracked down on 13 telemarketers at Timeshare Mega Media and Marketing Group in South Florida who were running the time share scam.

Energy Investment: As with real estate, there is substantial risk in energy investment, particularly "wildcat" oil and gas exploration. No one should invest in such ventures unless they are able to bear the high risk that they will lose everything. Yet unscrupulous salespeople are pushing high risk energy investments and downplaying the risks involved.

One case came to light when a telemarketer at a Texas oil and gas company made a cold call offering a joint venture interest in two Pennsylvania oil wells with next to no drilling risk. That telemarketer made a bad cold call choice. He had called the Colorado Division of Securities.

Gold and Precious Metals: With nervous investors fleeing to "safety" over recent years, and gold selling at unprecedented prices, a variety of scams have been used to defraud unsuspecting investors. Here's one that sounds a lot like the Nigerian prince who needs to park millions in your bank account while he helps his beautiful rich sister (who has a thing for married American guys) emigrate to your hometown.

A promoter is looking for capital for extraction equipment to reopen a long dormant gold mine. The offer is a full (and quick) refund of your investment plus interest, and a stake in the mine. In another scam, the company claims to have millions of dollars

of special coins or nuggets that they can store or trade for high profits.

Once again, commodities investing carries high risk, even when the investment is legitimate. Last spring, despite its long run, the price of silver fell 30% in just 3 weeks. If you are talking to someone who claims he has a commodity investment with little or no risk, chances are good the Securities and Exchange Commission would also like to talk to him.

Last year, the founder of Gold Bullion Exchange in Florida (Why is it always Florida?) pled guilty to defrauding more than 1,400 investors out of almost \$30 million. He was offering high leverage investing in bullion, with the investor paying only a fraction of the cost and a financing company covering the rest. Commissions and fees of up to 18% were paid by investors, but the sale of their investment never took place. Probably because no bullion was ever purchased for them in the first place.

In addition to these bogus products, NASAA also cautions against fraudulent practices in the securities and financial services industry, including:

Affinity Fraud: Ponzi operators often seek out affinity groups because they can quickly establish credibility with a large group, such as retirees, ethnic groups and religious groups.

Bogus Credentials: It's always worth verifying that you are dealing with someone who actually has the credentials he presents, such as CPA or a law degree or CERTIFIED FINANCIAL PLANNER™. Also, if you aren't sure what some of those initials are, ask about it. One broker in Utah listed "C.H.S.G." on his business card. When asked by regulators, he said the initials stood for "Certified High School Graduate."

Private Placements: When private placements are legitimately offered, they can avoid many of the requirements placed on other publicly-offered securities, particularly public reporting. This and many other factors (such as illiquidity) can make them risky investments, and also makes them fertile ground for fraud.

*Adapted from information at [www.nasaa.org](http://www.nasaa.org)*

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## When I'm Sixty....Six?

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This year, the first baby boomers will turn 66, an age that carries a bit more retirement planning significance than Paul McCartney's ode to senior citizenship.

At age 66, those who have paid into the Social Security can retire with full benefits. Yet about half of Americans file at age 62, as soon as they are eligible for benefits. Early retirees get benefits that are reduced 8% for retiring one year early, 16% for retiring two years early, etc. So the monthly social security check of the age 62 retiree will be 68% compared to waiting for full retirement.

Seniors also have the option of waiting beyond normal retirement age. If you wait until age 70, you will receive a monthly check that is 32% larger than retiring at age 66. What does all this mean in real numbers? It means if your full social security retirement benefit is \$1,600 per month, then retiring at age 62 reduces your check to \$1,212, and waiting until age 70 increases it to \$2,112.

(Note that if you are a late boomer, born after 1959, normal retirement age increases to age 67, so your age 62 retirement benefit will be reduced even more and your age 70 retirement check won't increase as much.)

So the next question is what is the best age to retire at? Well, unfortunately it isn't an easy answer. Based on average life expectancy, the options are meant to leave with you with the same amount of total benefit, so you may adjust your decision on when to retire based on personal health and family longevity history. But beware: many seniors underestimate their own longevity. If you take the early retirement option because of your sciatica and family history of high blood pressure, and then live till age 95, you've made a mistake.

A better criterion for making this important decision is a more basic one: How much do you need the money? Remember, social security is designed to replace a portion of your earned income after you

stop working. So if you are planning to work until age 66 or even later, taking early retirement just to "stockpile" benefits that you fear you might lose if you die in your 60's or early 70's may not be a good idea. Further hurting the early retiree is that benefits will be reduced if you exceed an income threshold of \$14,640.

Sixty-five is also an important age for seniors because no matter your retirement age, at 65 you become eligible for Medicare. But it is important to note that filing is not automatic unless you have retired. So if you wait until full retirement age or later to collect Social Security, you must apply for Medicare either online ([www.ssa.gov/medicareonly](http://www.ssa.gov/medicareonly)) or at a local office.

Filing for Medicare Part B should be done three months before the month you turn 65. Waiting can be costly. There is a 10% penalty on the premium for each year you delay after you are eligible, up to 50%.

If you are planning on buying a Medigap policy, it is also best to do it within three months of age 65, as after that, you may have to take medical screening tests and could be rejected due to preexisting conditions.

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## A Money and Business Quiz

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I am confident with everything we have taught our longtime clients that they will ace this little quiz. Then again, I only got about half right myself. (Answers on page 4.)

Answer each question True or False:

- 1) Somewhere between a third and half of all U.S. paper money has traces of cocaine.
- 2) Canadian counterfeiters didn't do a great job making fake \$2 coins. The portrait of the queen is twice the size of the portrait on the real coin.
- 3) A U.S. penny costs more than a cent to make.
- 4) Good luck emptying out your piggy bank to pay a bill. Under U.S. law, banks, creditors and merchants

are not required to accept more than 100 pennies as payment.

5) One of the reasons \$2 bills did not catch on was they were considered unlucky.

6) Alka Seltzer nearly doubled their sales after they began instructing customers to use two tablets instead of one (“Plop Plop Fizz Fizz...”)

7) NASA spent millions of dollars to develop the “astronaut pen” that could be used in zero gravity, while the Soviets solved the same problem by using pencils.

8) The name of the San Diego Wild Animal Park’s WGASA Bush Line railway was taken from a crude acronym: “Who gives a s\*\*\* anyway?”

9) The year the IRS began to require filers to provide social security numbers for dependents listed on their returns, the number of dependents claimed dropped by millions.

10) The Chevy Nova did not sell well in Mexico, central and South America because Nova translates to “doesn’t go” in Spanish.

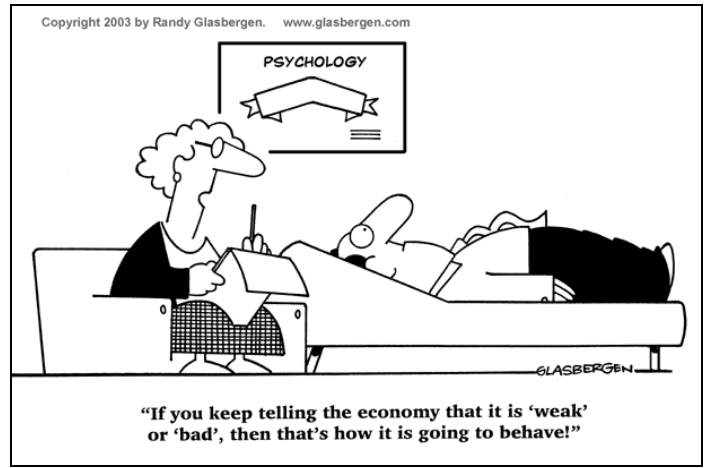
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## What We Offer

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Consider this the next time you are in a position to recommend a friend, family member or co-worker to your favorite financial planner (hoping that would be Northstar). When it all comes down to it what we offer the prospective new client is simply **a cup of coffee and a second opinion.**

They are always welcome to come in and sit with us for a while to outline their goals and what their portfolio is intended to do for them. If we think their investments are on track for their goals we’ll tell them so. If not, we’ll tell them that too, and we’ll explain why in plain English. If they’d like, we’ll recommend some alternatives. Either way, the coffee, and the time, is on us.



Northstar Financial Planners is:

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Answers to Quiz Questions:

1) True  
2) False  
3) True  
4) False  
5) True  
6) True  
7) False  
8) True  
9) True  
10) False

Source: [www.snopes.com](http://www.snopes.com)