Rich People, Beware

Are you rich? We don't mean in the way that Emerson ("The first wealth is health") or Thoreau ("Wealth is the ability to fully experience life") want you to think about it. Those are also fine and useful and true, but today we want to think about being rich in the real dollars-and-cents sense of the word. In the how-much-do-you-have-in-the-bank meaning of the term.

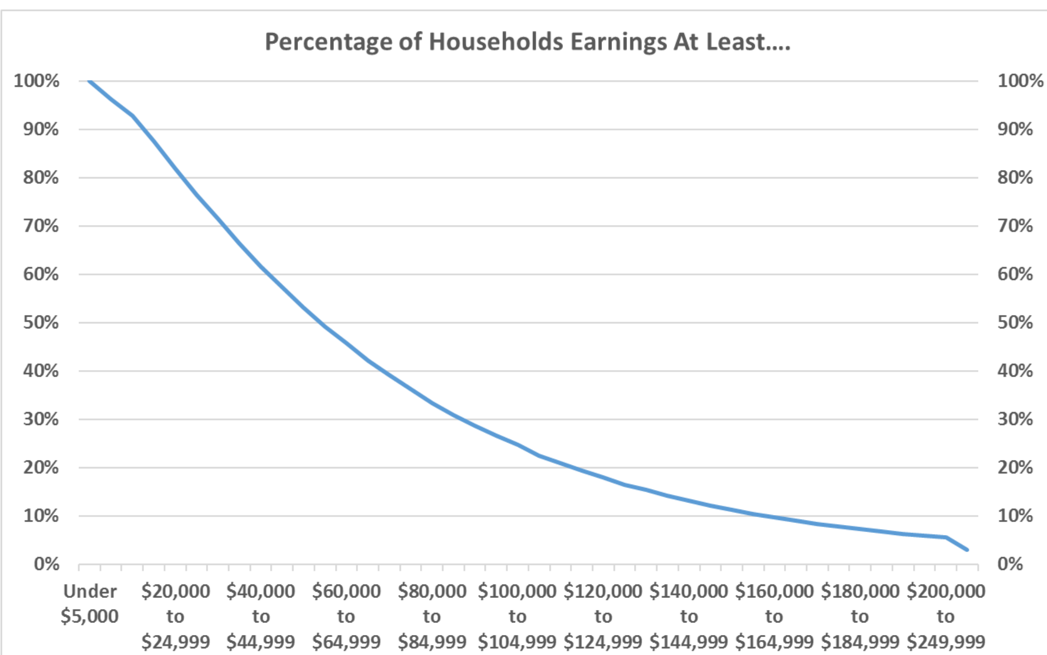
It's possible that you are richer than you think. Some wealthy people have much more than they realize. Of course, it's also possible that you are not quite as rich as you think. After all, 19% of us Americans think that we're in the top 1% of income earners.

So to help us each decide whether or not we really are rich, let's look at the data.

Two Ways To Be Admitted Into the Rich Club

There are two main ways to cut it. If you are still in the productive career years of your life, you can measure your household income against how much the typical American household earns. The latest figures we have are from 2014. They say that if your household earns more than $60,000 before taxes each year, then you are in the top half of the country.

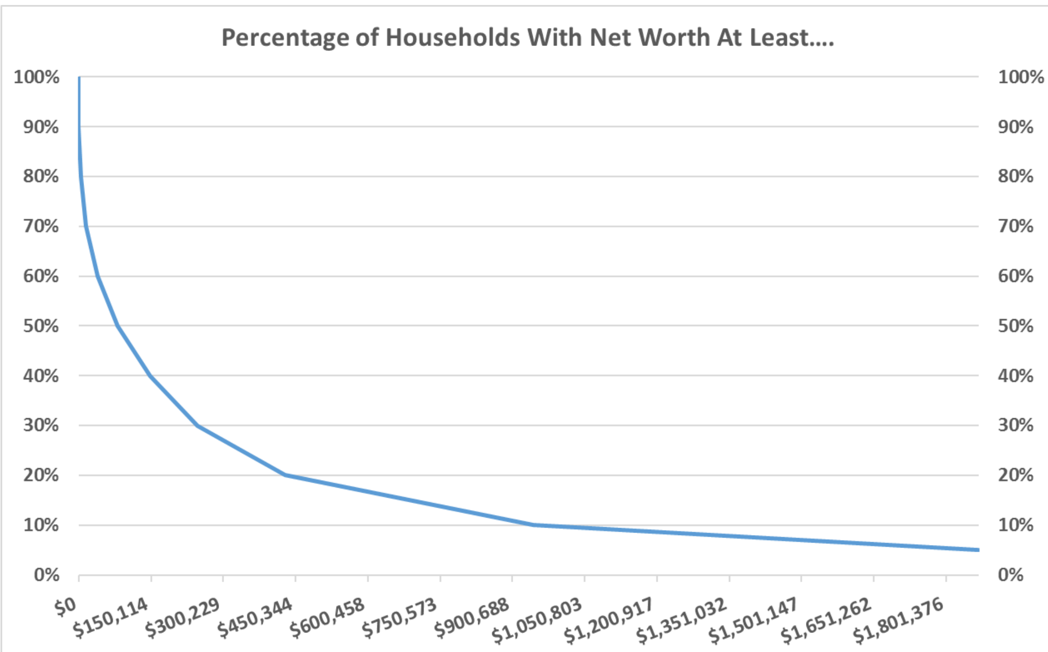
Or, if your household income is more than $105,000, that puts you in the top quarter. Membership in the Top 10% Club requires annual household income above $165,000. Or, if you're lucky enough to earn more than $250,000 each year, well then God bless you. That puts you in the top 3%, and that's about as fine as we're going to slice it in this article.



source: U.S. Census Bureau

The second way to measure it is more helpful if you're in your later years—no longer earning a meaningful income, but hopefully with a nice nest egg to help you live a comfortable retirement—and that's by looking at your net worth. Just add up the value of all the things you own (e.g., value of your house, savings accounts, investment accounts, other real estate), subtract all your debts (e.g., mortgage balance, student loans), and what you're left with is your net worth.

If you've got more than $82,000, you're ahead of more than half the country. Getting into the top quarter requires a net worth of at least $190,000. The top 10% starts at $944,000, and the top 1% starts at around $8 million.



source: Federal Reserve 2013 Survey of Consumer Finances

This curve is much steeper at the beginning though flatter at the end than the income graph above, since we live in a capitalist society that distributes disproportionate wealth to our great innovators (think Bill Gates or Richard Branson).

Once You're In, Be Careful

So now we know whether we're rich, and if so to what degree. We're guessing that most people who are reading this are interested enough in investing and finances to be somewhere in the rich zone.

And if that indeed describes you, here is our message to you today: *watch out*.

As you are probably aware, there are dozens if not hundreds of scams out there being perpetrated by people trying to extract some of your hard-earned wealth through various nefarious means.

There are far too many to list here, but some of the more popular ones in recent years have been the Nigerian inheritance scam, the one where the nice lady from "your credit card's customer protection department" offers to lower your interest rate, or the Facebook friend who asks for your help after he got mugged in London.

And you might think to yourself that you could never possibly fall prey to one of these devious schemes. Who could ever go in for one of these crazy things? Right?

We were surprised to learn that the answer is, more often than not, rich people.

Red Flags

In particular, educated rich old people. So if you have at least a college education and are now in your golden years with a significant nest egg, you may be interested in the results of a recent study concerning Fraud Susceptibility in the United States which was commissioned jointly by AARP and the Financial Industry Regulatory Authority.

You should be particularly wary of anyone who wants you to send them money and wants you to send it soon. Usually it's not a large sum of money that's asked for, because scammers put out a sort of trolling line in the financial waters, to see if anyone is willing to take their bait. If a person does send in that first small payment that the scammers typically ask for, that is generally the start of a longer process during which the victim is slowly drained of his or her resources until either the resources dry up or the victim wises up to the con.

But it's not only outright scams that we need to watch out for. Fraudulent investment schemes, usually promising wildly unreasonable profits such as annual returns exceeding 100%, are rampant as well.

Each fraud is unique, but there are some common threads running through them that you should be aware of. Any time you hear something along the lines of the following statements, your "fraud radar" system should light up and you should be extra careful about proceeding:

- No mention of the chance of losing your principal invested
- Guaranteed performance numbers or return of principal
- Outrageous investment return possibilities (e.g., 2% daily return, which would double your money every 36 days)
- Initial period of lock-up of your money (i.e., you will not have access to your cash)
- Deadline for participation (e.g., "Act now! Only the first 100 investors will be accepted.")

With the exception of FDIC-insured bank accounts (and even those have a maximum amount insured), all investments carry the risk that your principal may not be returned to you. That's the whole point of an investment. In return for the money you commit, the investment pays you a certain return.

For a short-term T-bill backed by the full faith and credit of the United States, that return is usually a low one. For a speculative biotech company lacking a marketable product but with promising prospects, that return should be extremely high. And there are thousands of investments in between those extremes. But they all carry risks, and none of them have a guarantee. So try to keep in mind the items above the next time you're pitched something that sounds too good to be true.

But if these red flags are too numerous to keep in mind, just remember this simple rule of thumb from the first American Nobel Laureate in Economics, Paul Samuelson:

> *Investing should be dull. It shouldn't be exciting. Investing should be more like watching paint dry or grass grow. If you want excitement, take $800 and go to Las Vegas.*

Conclusion

According to the FINRA/AARP study, over 80% of investors are solicited to participate in frauds or scams at some point in their life. So if it hasn't happened to you yet, it probably will. And when it does, if you are constantly on the lookout for those telltale red flags, and if you are careful with your personal information, then you may be able to spare yourself some time and embarrassment. And, better yet, you may be able to protect your hard-earned wealth which can be put to use for more worthwhile purposes.

FELIPE

Felipe Garcia, CFA
Chief Investment Officer
INKWELL CAPITAL LLC

Aaron

Aaron Byrd, CFA
President
INKWELL CAPITAL LLC