

## Red flags and flashing lights

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Claims of extremely high returns. Secret investment strategies. Unregistered investments made by someone not registered as a broker or adviser.

In its descriptions of the investment "pools" it offered, Al Parish's Parish Economics LLC featured all of the above. And according to securities regulators, economists and financial experts, all of them should have prompted potential investors to take a closer look at those pools and the claims Parish made.

"The basic rule of thumb for an investor is, if it sounds too good to be true, it probably is," said Herb Perone, a spokesman for the National Association of Securities Dealers.

In particular, the investment returns that Parish claimed he was achieving are far higher than mainstream economists or market-watchers believe are possible over extended periods.

Parish, at one time, published a table on the Parish Economics Web site that showed annual returns on investment in three of his firm's four pools. That table, still accessible through a database of past Web pages collected by an organization called the Internet Archive ([www.archive.org](http://www.archive.org)), shows an average annual return of 33.69 percent over an 18-year stretch for the "Futures Pool," 36.1 percent over a six-year period for the "Hard Asset Pool" and 48.02 percent over eight years for the stock pool.

Returns that high would rank Parish far above other professional investment advisers, according to one expert.

Mark Hulbert has published the Hulbert Financial Digest for more than a quarter-century. His Annandale, Va.-based newsletter tracks and ranks investment newsletters' recommendations. Over the period when Parish was claiming a 48 percent annual return for his Stock Pool, the top-ranked market newsletter, "The Prudent Speculator," achieved an annual return of 24.3 percent.

In a telephone interview, Hulbert noted that no other newsletter came close to matching "The Prudent Speculator" over that period. The second-ranked newsletter "No Load FundX" racked up an annual return of 18.1 percent.

"In general, we find that a return of 20 to 25 percent is kind of a practical maximum," Hulbert said. "Some people may get above that for a year or two, but then they'll fall back."

That observation is generally in line with what mutual fund trackers, including Morningstar and Lipper Analytical Service, have found. According to both of those services, the top-performing mutual fund over the last 10 years, out of more than 2,500, was Wasatch Micro Cap with an average annual return of about 24 percent.

How did Parish say he achieved the rates of return he claimed? In descriptions of his pools, he wrote that buy and sell decisions were based on a "proprietary" mathematical or econometric model. In the case of his Futures Pool, he wrote: "Individuals placing money in the pool are NOT entitled to know the details of how the model works but may receive ... a copy of a journal article written by Albert E. Parish Jr. discussing the basic methodology of technical trading systems if desired."

Jeffrey S. Russell, professor of econometrics and statistics at the University of Chicago Graduate School of Business, said it was unlikely any model could produce the rates of return Parish described.

"Econometrics is just statistical methods applied to economic data," he said. "You try to create models that will explain what you've seen in the past. Someone who sees a pattern in the historical data, if you think the pattern hasn't changed, you can use that to try to build a profitable trading strategy."

But not profitable to the tune of 48 percent per year, Russell added. "Econometrics is not going to get you that. I don't know of any statistical models that are going to do that. If I did, I wouldn't be here teaching, I'd be living on my 48 percent per year."

### **A little homework for investors**

Here are some tips for evaluating investment proposals:

--Contact your state securities regulator to see whether the investment vehicle and the person selling it are registered. The securities regulator also will be able to tell you whether the salesperson has had civil, criminal or administrative proceedings brought against him or her.

--Contact the Better Business Bureau to see whether any complaints have been filed against the venture's promoters or principals.

--Deal only with financial advisers, broker-dealers or financial institutions with a proven track record.

--Ask for written information on the investment product and the business. Such information, including financial data on the company and the risks involved in the investment, is contained in a prospectus. Read it carefully.

--Don't take everything you hear or read at face value. Ask questions if you don't understand and do some sleuthing for yourself. If you need help in evaluating the investment, go to someone independent you can trust, such as a lawyer or an accountant.

--Steer clear of investments touted as having no downside or risk.