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On Hucksters

I get my share of requests for help. Some are from naive friends (but not so naive that they don't ask me) are solicited on Nigerian scams. A few quick analyses, and I can tell them: don't do it. This is a scam.

Then there are people who trot a business idea past me. Some of the ideas sound pretty good, but upon further examination, I wonder why it hasn't worked so far. Probing that, the answer is that "business partners failed me." Mmm... I can understand that once or twice but when it repeats, it makes me look at the entrepreneur.

There was one guy who had a compelling idea regarding health insurance that I thought was promising, and so I let him into my network of contacts, while saying to them "This might be promising or not. There are some good ideas here, but he is too certain of his views, and that worries me." A variety of talented executives looked at his idea, and passed. A friend of mine gave it some attention, thought it had promise, and he met with him, worked with him, but he proved unstable. In the end, he blamed us.

That typifies hucksters. Someone else is always to blame, and they have this great untapped concept, but no one will help fund their genius.

So now, I have a client who approached me regarding an investment in the energy sector pitched to him by a friend. I help my clients. If they have investment issues away from me, I will take some time to give them my opinion.

But here's the problem:

- The illustrated returns are too good to be true.
- The CEO has no experience operating an energy company.
- The CEO's career has gone here and there, but has not amounted to much, such that he can't fund a $500K project on his own.
- All of the helpers/directors in the illustration document have other jobs now, and may or may not be available to help if the project develops.
- Some of them have overstated their resumes, or have stated things that can't verified.
- Some board members are questionable.
- The opportunities, if true, are of a reasonable size such that small cap public E&P companies could take advantage of the opportunities.
- The core idea is that there are a lot of small lazy oil producers who are unwilling to invest to improve output.
- The pitchbook mixes in gold mining and clever trading of energy contracts -- those are different businesses. I want developmental stage businesses to focus.
- If the first opportunity costs only$500K, you mean the whole group of interested parties doesn't have $500K to invest? I don't want to invest where the management/board is not invested to the hilt.

I don't see this as a valid concept, and will tell my friend/client to not invest.

All that said, I want to say to all my readers that good investing considers uncertainty, and focuses on the possibility of loss. Bad investing focuses on possible gains.

Good investing sardonically asks "Why am I the lucky one?" There are a lot of Baby Boomers out there who have not done well, and are looking for one miraculous venture to give them the retirement that they dreamed of. They will take chances with the money of others that they would never do with their own.

To my readers: be wary of private investment opportunities. Beware of those that are very certain they will succeed, but they need your money to succeed. The certainty is incompatible with the request for external funds in most cases.

Hucksters are always certain; good investors are skeptical.