Is this lunch free?

Don't be fooled – everything comes at a price, even that tax-free investment, says Finance Editor Susanna Stuart

THERE'S NO SUCH thing as a free lunch. This was one of the big lessons drummed into me when I started working in the financial sector in the early 80s; everybody used to repeat it like a mantra.

The phrase was made popular by the 1976 Nobel prize winner in economics, Dr Milton Friedman. He was referring to a common practice in American pubs dating back to the 1840s. A sign would say 'Free Lunch!', but the pubs would charge a premium price for drinks. One way or another, we learned, you'll pay in this world. Nothing is free.

Strangely, the term has fallen out of favour in the past 10 years – a shame, because many people may have avoided being burned if they'd borne it in mind. Here are five 'free lunches' you should avoid. They're not illegal, but the free lunch rule is simple: If something seems too good to be true, then it probably is.

● **No-interest deals** You go into a store and there it is – a new, huge plasma TV. No interest or repayments for 24 months! Not a bad deal – if you set money aside. If you don't, then at the end of the period you signed up for, the interest clock starts ticking. And if your situation has changed in the meantime (eg redundancy) you can get caught.

● **Free financial plans** No one offers free financial advice unless they're selling something, and by the time you're sitting face to face with a consultant who's doing the numbers for you, it gets mighty hard to wriggle out of a contract. Failed property investment company Blue Chip ran a variation of this one by offering free 'independent' legal advice to help draw investors into complicated deals. Those investors are paying dearly now.

● **Low-interest credit cards** Wow, these look good. Imagine banging your purchases on credit with a low interest rate. The problem is, low rates seduce more people into bigger debts – and possibly a hefty interest bill. In any economic climate, I suggest the 'no interest' method of shopping. Either save up first or, if you use a credit card, pay it off in full on time.

● **Pay no tax** It's a strange quirk of investors, but we seem to value a single dollar shaved off our tax bill far more highly than $5 gained through good, sound investment. As a result, all kinds of investment products are designed to reduce your tax exposure. In the past 20 years we've seen investment opportunities in activities as diverse as kiwifruit and film partnerships, where huge tax breaks were once possible. But the IRD is very keen to remove these loopholes, and then any investment advantage goes out the window. Investors are far better to focus on growing capital or earning income, and treat a tax bill for what it is: A healthy sign that you're making money.

● **Exclusive investment offers** Be wary of investment offers promising higher returns from a consortium of like-minded 'friends'. These investments are usually harder to sell to the general public, and the marketer has decided to rely on the gullibility or goodwill of certain groups, such as members of a church, or others with a common interest. Another tactic is the offer to invest on an 'exclusive' basis – many US investors who lost their money in the Ponzi scheme run by Bernie Madoff (sentenced in June) were attracted by the exclusivity of being selected by a friend.

I'm not a cynic, but I've been in this business for nearly 30 years – and after a while, the signs of a 'free' lunch become fairly obvious to all. N

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