<p>Yields are miserable out there: The S&P 500’s average dividend yield is just about 2%. The highest-rated 10-year corporate bonds, meanwhile, are paying just a bit more than that on average.</p><p>

So when income-hungry investors find a stock or bond with an exceptional yield, they understandably want to pounce. But reaching for yield can backfire if stock or a bond has underlying concerns. And unfortunately, companies that issue securities are adept at using accounting maneuvers to camouflage weaknesses.</p> <p>

That’s why, unless you’re a professional, you shouldn’t be picking investments yourself, but rather working with an experienced investment advisor. A good investment advisor will know how to analyze cash flow and balance sheets. But that kind of readily available information isn’t enough.</p><p>

Publicly traded companies naturally use every available accounting tactic to put the best possible face on their financial situation. They must report all their accounting procedures in their public financial filings, but they are legally allowed to tuck important disclosures away in footnotes. And these disclosures are typically filled with legal jargon that may be impossible for the layperson to understand.</p><p>

Probably the most famous recent example of accounting trickery—Enron Corp.—crossed the line into outright fraud. Enron was named "America's Most Innovative Company" for six consecutive years by Fortune magazine, but filed bankruptcy in 2001 after its vast accounting fraud came to light. That’s an extreme example, of course. But it shows the extent to which accounting engineering can serve as a smoke screen, fooling investors for years.</p><p>

Locating and being able to understand companies’ accounting disclosures can change an investor’s view of an investment opportunity, and even provide early warning signs that an attractive investment may actually be a trap. Many times, interpreting companies’ financial position has a subjective element as well: Seasoned professional investors often sense when something is “off” in the story a company is selling.</p><p>

Do-it-yourself investors may argue that there's lots of free or inexpensive research available on stocks and bonds. But this research almost never takes into consideration the accounting information found in the footnotes of company reports. A good advisor will.</p><p>

Here's the caveat: Even with the guidance of a professional investment advisor, you won't achieve success with each and every investment you make. Even Warren Buffett has lost money on many of his bets. The key to achieving overall positive return is to win more than you lose. And working with a professional can help to raise your odds of success. Please contact us if you'd like to learn more.</p>