

INVESTOR PROTECTION • PRODUCT RISK

The Investment Traps That Keep Burning Investors

A 25-Year Pattern: The Product Structures That Quietly Work Against You

John Koyle, AIF® (Accredited Investment Fiduciary), Co-Founder, Red Cedar Wealth Advisors
Red Cedar Wealth Advisors | Educational White Paper | johnkoyle.com

Key Takeaways

- The investments that damage people rarely have a single flaw. They stack several at once: outsized losses for the risk taken, illiquidity, layered fees, harsh tax treatment, and weak transparency.
- The problem is usually the product structure and how it is sold, not the underlying asset class. Real estate, insurance, and private businesses all have legitimate uses.
- Before buying anything, four questions cut through most sales pitches: How do I exit and what does it cost? What are all the fees? What are the tax consequences? How is the seller paid?
- FINRA's BrokerCheck lets you review any advisor's full professional and disciplinary record for free in about two minutes.

Why This Matters

After 25 years in this business, the things that keep me up at night are not market crashes or interest rate moves. Markets fall and recover. What does lasting damage is the product that was broken before the market moved a single point: the one sold with a compelling story, a generous commission to the seller, and a structure that quietly works against the person who bought it.

This paper is about those products. What they are, why they keep showing up, and how to recognize one before you are trapped inside it. It is educational, not a blanket condemnation of any asset class, and it is not individualized advice. The goal is to give you the vocabulary and the questions to evaluate what you own, or what you are being offered, with clearer eyes.

The Five Things That Actually Damage Investors

Genuine, lasting harm to a portfolio usually traces back to one or more of five issues, and none of them is simply "the market went down":

- Losses larger than the risk you believed you were taking.

- Illiquidity. Your money is locked up, and you discover this at the worst possible moment, when you need it.
- High fees, often layered, sometimes hidden, compounding against you every year.
- Tax treatment that generates income taxed at the highest ordinary rates, sometimes even in years you received no cash.
- Misrepresentation. Not always outright fraud, but a product that was never described to you honestly.

The investments that truly wreck people tend to combine several of these at once. You often do not find out until it is too late to do anything about it.

A Story About the Illusion of Stability

In 2008, the market was down nearly 50% and the financial system was seizing up for one core reason: a lack of liquidity. Even high-quality holdings were affected. People I worked with owned investment-grade, tax-free Idaho bonds with no meaningful default risk, and even those were marked down roughly 15%, not because anything was wrong with the bonds, but because liquidity had evaporated.

Around that time another advisor told me his clients had not lost a dime. They were in real estate, he said. My response then is the lesson now: if they had not lost any money, it was only because the product had not been marked to market yet. The losses were real. They simply were not visible. Eventually those non-traded real estate holdings were repriced, the losses surfaced, and they were severe.

Complexity is not the same as sophistication. And the appearance of stability is not the same as actual safety. A price that never moves is not proof of stability. Sometimes it just means no one is pricing it honestly.

An Important Distinction

Before going further, one thing must be clear. This is not an indictment of entire asset classes. Life insurance has a legitimate place in a financial plan. Real estate has generated enormous wealth. Privately held companies are among the greatest wealth creators in history. The energy sector has produced fortunes for generations.

The issue is that the way many of these products get packaged and sold to individual investors often has little to do with the underlying asset and a great deal to do with the compensation generated on the other side of the transaction. The asset class is frequently sound. It is the product structure, the fees, and the tax treatment that can work against you.

Where These Problems Tend to Cluster

Insurance Products Sold as Investments

Whole life, indexed universal life, and variable annuities are often pitched as protection and growth combined. The structures frequently carry significant commissions built in from day one, surrender charges that can lock up your money for seven to ten years, and internal costs that are easy to underestimate. These products can be appropriate for specific needs. They deserve scrutiny of the total cost and the surrender terms before you commit.

Non-Traded REITs

Real estate investment trusts that do not trade on an exchange are often sold as steady income with real estate upside and less volatility. What is less emphasized: you may not be able to sell when you need to, distributions can be suspended, redemptions can be queued, and front-end and ongoing fees can consume a meaningful share of your money before it is ever put to work. When conditions get difficult, the “stable” label can prove to be a story rather than a structure.

Oil and Gas Private Placements

This category warrants particular caution because the pitch is so compelling. The tax benefits, such as intangible drilling cost deductions and depletion allowances, are real. But the tax advantages can end up overshadowing a sober look at the investment itself: deep illiquidity, substantial geology and commodity risk, and promoter compensation structures that can be steep. The SEC's Office of Investor Education and Advocacy has issued a formal investor alert on private oil and gas offerings, noting a marked increase in fraud cases and listing specific red-flag sales pitches. That is a regulator's documented warning, not an opinion.

Real Estate Private Placements

Beyond non-traded REITs, real estate private placements can layer on acquisition fees, management fees, disposition fees, and carried interest, with the promoter often compensated at every stage regardless of outcome. Without a public market price, there is little keeping anyone honest about current value. Delaware Statutory Trusts sold to investors completing 1031 exchanges are common right now; the time pressure to defer a tax bill can work against careful diligence. Slow down and read what you are buying.

Hedge Funds

Hedge funds frequently bring lock-up periods of one to three years, a traditional fee structure of around 2% of assets annually plus 20% of profits, and performance data that is often survivorship-biased, meaning the funds that failed are not in the brochure. The sophistication premium investors are asked to pay has historically been difficult to justify.

Private Credit

Private credit, lending to companies that cannot access traditional bank financing, has become fashionable, and the yields can look attractive. But you are taking on credit risk, illiquidity risk, and in

many structures layered manager fees. When credit conditions tighten, problems may not surface for quarters because valuations are not marked to market in real time.

Private Equity

Private equity has created real wealth, largely for institutions, over long horizons, with institutional fee structures. What gets sold to individual investors can be a different product: lock-ups of seven to ten years, management fees plus carried interest, and, as more capital has chased the same deals, compressed return premiums. You may be accepting years of illiquidity for returns achievable in a liquid public index.

The Stacking Problem

The real damage comes not from any one of these issues in isolation but from their combination. Picture an investment that is illiquid, carries high fees, generates income taxed at ordinary rates, and is priced by someone with no independent obligation to be accurate. You are trapped, overpaying, facing a tax bill, and unsure what you actually own.

That is not an investment. That is a trap with a prospectus.

Four Questions Before You Commit to Anything

1. How do I get out, and exactly what does it cost me?
2. What are all the fees, at every layer?
3. What are the tax consequences, specifically?
4. How is the person selling this being compensated?

If those questions cannot be answered clearly and quickly, that is your answer.

Check the Record First

Before any meeting, take two minutes to look up the professional record of anyone advising you. FINRA's BrokerCheck is public and free. Searching by name shows an advisor's full history: every firm they have worked at, the licenses they hold, and any customer complaints, regulatory actions, or settlements. Patterns tend to show up in the record. You deserve to know who you are taking advice from.

The Bottom Line

If you own products you cannot fully explain, cannot easily exit, and are not certain what you are paying for, that is exactly the conversation worth having. The point is not fear. It is clarity. You deserve to understand what you actually own, what it costs, and how to get out of it.

References and Sources

The following sources support the figures, rules, and statements described in this paper. They are provided for verification and for compliance review.

U.S. Securities and Exchange Commission, Office of Investor Education and Advocacy. "Investor Alert: Private Oil and Gas Offerings." Investor.gov. <https://www.investor.gov/introduction-investing/general-resources/news-alerts/alerts-bulletins/investor-alerts/investor-45>

U.S. Securities and Exchange Commission. "Investor Alerts and Bulletins." SEC.gov. <https://www.sec.gov/resources-for-investors/investor-alerts-bulletins>

Financial Industry Regulatory Authority (FINRA). "BrokerCheck." <https://brokercheck.finra.org>

FINRA. "Public Non-Traded REITs – Perform a Careful Review Before Investing." Investor Insights. <https://www.finra.org/investors>

U.S. Securities and Exchange Commission. "Private Placements – Evaluate the Risks." Investor.gov.

Important Disclosures

This white paper is published by John Koyle and Red Cedar Wealth Advisors for informational and educational purposes only and does not constitute personalized financial, tax, or legal advice. Nothing in this paper should be construed as a solicitation, offer, or recommendation to buy or sell any security, or to adopt any particular investment or tax strategy.

This paper discusses categories of investment products in general, educational terms. It does not name or evaluate any specific security, sponsor, or firm, and nothing here is a recommendation to buy, sell, or avoid any particular product. The suitability of any investment depends entirely on your individual circumstances. Certain products described, including private placements, are generally limited by law to accredited or institutional investors.

Investing involves risk, including the possible loss of principal. Past performance is not indicative of future results, and there can be no assurance that any investment strategy will achieve its objectives. No content in this paper is a prediction or projection of future performance. Tax laws, contribution limits, and regulations are subject to change; figures cited reflect rules in effect as of the date of publication. Please consult qualified legal, tax, and investment professionals regarding your specific situation.

References to third-party sources are provided for context and verification; their inclusion does not imply endorsement, and neither John Koyle nor Red Cedar Wealth Advisors is responsible for the content of third-party materials.

Regulatory Disclosures

Broker-Dealer Disclosure

Securities offered through Osaic Wealth, Inc., Member FINRA (www.finra.org) / SIPC (www.sipc.org). Investment Advisory Services offered through Osaic Advisory Services, LLC. Osaic Wealth and Osaic Advisory are separately owned, and other entities and/or marketing names, products, or services referenced here are independent of Osaic Wealth and Osaic Advisory.

State Registration (Blue Sky)

This communication is strictly intended for individuals residing in the states of Arizona, California, Colorado, Idaho, Montana, Nevada, Oregon, Texas, Utah, and Washington. No offers may be made or accepted from any resident outside the specific state(s) referenced.

FINRA BrokerCheck

You can check the background of this financial professional on FINRA's BrokerCheck at <https://brokercheck.finra.org/individual/summary/4409795>. Full disclosures are available at johnkoyle.com.

FOR ADVERTISING SUPERVISION: This educational white paper is a pre-publication draft submitted for review prior to going live on johnkoyle.com. It is intended as a retail communication for the firm-approved securities-related website. Disclosure language mirrors the approved disclosures currently published at johnkoyle.com. It will not be posted until written approval is received.

Red Cedar Wealth Advisors

John Koyle, AIF® (Accredited Investment Fiduciary), Co-Founder, Red Cedar Wealth Advisors
1414 East Center Street, Pocatello, Idaho 83201
(208) 915-8400 | johnkoyle.com
© 2026 Red Cedar Wealth Advisors. All rights reserved.