

I.A.F.F 140 MONTHLY FINANCIAL
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Dumb things we do with our money!!

1. Falling in Love ... With Your Investments

It can be great to fall in love with a person, but stocks can get you into deep trouble. Newport Beach, Calif., financial planner Laura Tarbox says she sees this all the time: Some clients keep concentrated stock holdings because they inherited them and “Mom just loved IBM,” or because they work for the company and feel that selling would be disloyal.

Then there’s the couple who came to her asking for help investing \$12 million. “That sounded really great until we found out that this couple used to have more than \$1 billion,” Tarbox says. “All their money had been invested in a company that the husband helped launch — and he couldn’t convince himself to diversify when he walked away.”

Sorry, but that relationship just won’t work, says Tarbox. No one should have more than 10 percent of his or her wealth locked in one stock. Just ask the former employees of Enron, who lost both their jobs and their retirement savings when the company filed for bankruptcy 10 years ago.

2. Chasing a Fantasy

You’ve read it 100 times: “Past performance is not an indication of future returns.” But no one appears to believe it. Purveyors of investment data can trot out tons of statistics showing that when a mutual fund or asset class (such as gold, emerging markets stocks, or junk bonds) gets singled out for great quarterly or annual returns, investors start to pour money into that investment like it was going out of style.

And, of course, it is. One extensive study that looked at 19 years of market data found that investors consistently poured money into “hot” investments just as they were about to turn cold. That left the average investor with returns that fell way below the market as a whole and didn’t even keep up with inflation.

Klontz admits that this is why he lost his shirt in technology stocks. It’s a natural inclination to “run with the herd,” he says with a shrug. Maybe so, but if you don’t want to get trampled, you have to devise an investment strategy that suits your goals and then stick to it, even as your neighbor gets (temporarily) rich on the investment du jour.

3. Equating “On Sale” With “Good Deal”

Consider two television sets: Both are \$500, but one is marked down from \$800. Which one do you buy? If you’re being reasonable, you buy the one that got the better rating in *Consumer Reports*. But most people buy the one that’s on sale, says Matt Wallaert, a consultant for LendingTree, which owns the money management Web site *Thrive*. In fact, even people who would never have spent \$500 on a television often will when it’s discounted — simply because it’s *so cheap!*

In reality, \$500 is \$500. If you wouldn’t normally spend that much on a television (or any product, for that matter), you shouldn’t do it now. We’ve been fooled by “[anchoring](#)”: the illogical, but nearly inescapable, tendency to base our estimates of value on the nearest number we see, rather than an independent assessment. Just because the tag has \$800 crossed out and replaced by \$500, that doesn’t mean \$800 was a meaningful price. Indeed, an MIT experiment revealed that students who wrote down the last two digits of their Social Security numbers based their estimates of a wine bottle’s worth on those two random numbers. The higher their numbers, the more the students were willing to bid for the wine.

Before you pull out your checkbook to splurge at a sale, evaluate whether the product, be it a television or a bread machine, is worth that price in enjoyment. Consider how often you’ll use it, for instance, and whether you can get something of similar quality for less.

4. Retaliatory Spending

You don’t need it. You don’t want it. But, dang it, no one is going to tell you that you can’t have it. New York psychologist Bonnie Eaker Weil calls it “POP” spending — for “pissed-off purchases.” She did a survey before publishing her latest book, *Financial Infidelity*, and estimated from the results that POP spending accounts for about \$424 billion in purchases each year.

One of Weil’s Brooklyn-based clients, for example, went on a retaliatory \$500 shopping spree when her husband gave one of her beat-up old jackets to charity without asking her first. When she got home, she informed him that since he didn’t like her old jacket, she had gotten a new one from Saks Fifth Avenue. Such purchases can also result from a fight with your boss, mother, or best friend, according to Weil.

But as good as retaliatory spending may feel, it can do real damage to your financial health. Tarbox says a better approach is to talk out the anger, hurt, or disappointment — or just your bad day — with a friend, or even a professional counselor. If you have to spend money on a psychologist, it’s probably still cheaper than the golf clubs or designer shoes you put on your credit card after that last argument with the boss.

5. Hanging On to Debt

The number of people who have money in savings accounts, earning less than 2 percent, while carrying debt on credit cards that charge more than 14 percent is “shocking,” Wallaert says. Of Thrive’s customers who have more than \$500 in credit card debt, almost 40 percent have more than enough in savings to pay it off, he says.

Wallaert connects this mistake to “mental accounting” that separates our money into different stacks that we think ought to stay separate. But illogical separations can create mathematical mayhem.

Consider a person with \$5,000 in credit card debt and \$10,000 in savings. The debt costs him 14 percent per year, or \$700, but the \$10,000 in savings earns just 2 percent annually, or \$200. He could pay off the debt, saving the \$700, and still earn \$100 annually on the remaining \$5,000 in savings. Net result: He’s immediately \$600 richer and can start saving faster.

You might argue that you need those savings for emergencies. And you do need some emergency savings, allows Frank C. Presson III, a financial planner in Tucson, Ariz. But if you’ve got considerably more savings than debt, there’s no excuse. Keep one month’s worth of living expenses in the bank, even at those sorry returns, Presson advises. Use the rest to pay off the high-cost debt. Then rebuild the emergency savings, not the debt. Worst-case scenario: You still have the credit cards (now with zero balances), and you can tap them in an emergency.

6. Parental Martyrdom

An emerging problem involves parents who spend themselves to the edge of insolvency bailing out their children. “It starts from a good place, basically from wanting to be a good parent,” Klontz says. “They’ll say that Johnny is going through a rough patch and needs some help. But it becomes financial enabling.”

Worse, it often causes the parents to suffer money woes that keep them from retiring or living comfortably because they’re constantly paying Johnny’s bills.

Any time you help an adult child, you should have a clear idea of how much help is necessary, how long it will be required, how it will help the child get back on his or her feet, and when (or whether) the child will have to pay you back. When there’s no plan — just an open checkbook or couch — you turn the child into a dependent who becomes increasingly incapable of taking care of himself, Klontz says.

“I talk to the parents about how their attempts to help are like giving a drink to an alcoholic because his hand is shaking. This kind of helping is hurting,” he says. “Then we talk about what kind of help would really help.” (Hint: That kind generally doesn’t involve cash.)

7. Cyber Insecurity

Roughly half the world has signed on for free online banking, which makes money management easier and saves the typical consumer about \$50 annually in postage stamps. Among the people who don’t use

online banking, 41 percent say they've held back because of security concerns, according to a recent survey by Gartner Research.

What do banks typically do to secure online customer accounts? They put up multiple firewalls, which are the equivalent of brick enclosures around your house, and they have techno-security teams attempting to find the weak spots and shore them up. They also patrol the firewalls 24/7, looking for climbers.

Now, let's look at your mailbox. It's probably unlocked and unguarded — just what a thief needs to steal your credit cards. In reality, the chance of becoming a victim of identity theft or financial fraud as the result of low-tech crime — whether it's somebody stealing cards or “spoofing” you into providing private information via e-mail — is a lot greater than the chance that somebody will breach your bank's online vault.

So sign up already and save the stamps. And if you're worried about security, check your account regularly to make sure there's no suspicious activity.