



Dumb, dumber and dumbest

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Here are some reflections on 35 years as a financial and tax adviser:

Dumb Tax Mistakes

- Paper-filing your return — think: *slow* and keypunch errors
- Fudging the numbers
- Failing to file or filing late — think: *big* penalties
- Using the IRS as a savings account
- Not taking deductions you are entitled to in the mistaken belief it will decrease your chances of an audit — guess again
- Turning long-term capital gains into ordinary income by not waiting a few days
- Buying municipal bonds because they are “tax free”
- Doing anything just because it is tax favored or deductible
- Failing to do tax loss harvesting with your portfolio — think: interest-free loan to the IRS
- Assuming tax rates will go down — think: *You have got to be kidding*
- Having large life insurance policies without a irrevocable life insurance trust — think: gifts to the IRS
- Not doing annual gifting if your estate will be taxable

Dumb Investment Mistakes

- Not diversifying — think: roulette
- Leverage, leverage, leverage
- Not understanding investments

— think: four years in college to understand how to make a living and not investing time to learn the fundamentals of investing

- Not having an investment philosophy
- Expecting investments to conform to “your” timetable
- Putting all your investments in a country with only 4 percent of the world’s population and a mountain of debt — think: USA.
- Ignoring emerging markets
- Setting unrealistic expectations on investment performance
- Assuming real estate, wages, stocks and investments will continue to go up — think: gravity
- Using your home as a credit card
- Not using 529 Plans for your children’s college savings — think: tax free
- Following the headlines to inform your investment decisions — think of a boy with a yo-yo walking up the stairs
- Complacency — I know it is a pain to get rid of those losers but ...
- Failing to think long-term — successful investing is about slow and steady accumulation of assets over time
- Holding investments to get long-term capital gains treatment without considering market risk

General Financial Mistakes

- Impulsive decision making

- Spending to your earning level — think: *Oops!*
- Not staying on top of declining interest rates to refinance loans — the banker is not going to call you
- Assuming you have to refinance to get a better rate because your mortgage has been sold on the secondary market
- Deciding that vacation home is just what you need, then having to finance it
- Failure to carry adequate life insurance
- Failing to have a will — think: chaos and lots of fees
- No estate plan to minimize taxes — think, again: gifts to the IRS
- Ignoring reality — hey, a budget is just reality
- Thinking Social Security will be there for you — hello!
- Not setting financial goals and sticking to them
- Not reviewing your financial plan at least annually
- Putting off saving for retirement until your later years — think: \$2,000 a year for 25 years earning 5 percent grows to almost \$100,000
- Lottery mindsets
- Allowing emotions to influence your financial decisions
- Not living within your means
- Having no rainy-day fund
- Living on credit
- Not waiting to purchase something with cash

- Not saving when times are good
- Trying to keep up the Joneses
- Keeping up with the Joneses
- Not having adequate health insurance
- Not teaching your children to be financially responsible — think: “The Return of the Dependents”
- Not establishing good credit
- Missing a great educational opportunity by not learning from your financial mistakes
- Following the blind: advice from friends who may know slightly more than you
- Loaning money to family or friends
- Acting as a co-signer

Other Financial Mistakes

- Skipping a loan payment (Skipping a payment now only adds a payment at the end and you pay a lot more in interest.)
- Extended warranties
- Payday loans
- Incurring prepayment penalties without obtaining a correspondent interest benefit

And let’s not forget Tiger!

- Tiger Woods tried to sell an image while privately maintaining a completely opposite life style. This resulted in the loss of endorsement deals, a drop in his game and a very expensive divorce.

Talk about financial disasters.