



Common Money Blunders

**Derived from the Debt-Proof Living Newsletter*

I could be wrong but I'm going to guess you've made a money blunder or two in your life. For many of us, it was a non-stop series of blunders that finally brought us to our financial knees.

But I'm not talking about the kind of blunders that got us into trouble. We can list those in our sleep. These are the blunders commonly made while clawing our way back to financial freedom. Make sure your not making these blunders, and you'll get there much faster.

1. **Not Giving.** Whether out of fear of forgetfulness, keeping all of your money is a serious blunder. Giving away the first part (10% is optimum, but don't let that stop you from giving anything). It will do amazing things for your life. AMAZING!!!!
2. **Not Saving.** This is the blunder most often committed by the overzealous Debt-Proof Liver. He is so driven to right all his wrongs (yesterday if not sooner) that he feels guilty keeping anything for himself. So when life hauls off and happens, he has no choice but to turn back to the credit cards that got him into trouble in the first place.
3. **Mis-timing Mortgage Payments.** You should not even think about prepaying your mortgage until you have amassed a respectable Contingency Fund, built a fully funded Freedom Account and paid off all of your unsecured debts. Prepaying your mortgage before achieving those goals is foolish because when something unexpected happens you'll keep running to your home's equity for a bail out. Never think of your home's equity as a bank account from which you can make withdrawals at will.
4. **Misunderstanding Deductibility.** There is a myth that says you should not pay off your home mortgage. In fact, you should get another one because the interest is tax-deductible. That is an industrial strength blunder. Deductibility is a consolation prize. It softens the blow on expenses that can not be avoided.

Example: If you are in a 28% tax bracket and pay \$1000.00 in deductible mortgage interest this year. That translates to a \$280.00 reduction in your tax bill. If you pay off that mortgage, you lose the tax relief. But guess what? You get to KEEP the \$720.00 you would have paid in interest too! Who in their right mind would choose to give up \$720.00 to get back \$280.00?

5. **Transferring Balances.** Hopping from one credit card to another as a way of getting in on all those teaser rates, can be a very expensive blunder. There are all kinds of explosives lurking in that fine print. With most cards it is nearly impossible to stay out of punitive territory – meaning: they're going to find some reason to zap you with a big interest rate bump. Then there are the blemishes to your credit report for applying for too much credit, inflated fees and established floors on the interest rates (the number below which the variable interest rate cannot fall).
6. **Consolidating Debts.** It sounds great to pay off all your high-interest debts with one low-interest loan and then have a single smaller payment, but it's usually a big mistake if it is tied to you home's equity. The worst thing that happens is, the financially immature person keeps the accounts open (you know, the ones that were paid off with the "consolidation" loan) and falls back into using them again. Can you say BIG B-l-u-n-d-e-r?