

MIND YOUR FINANCES



FINANCIAL PITFALLS & ATTITUDES
Participant Guide



OBJECTIVES FOR AVOIDING FINANCIAL PITFALLS

- **Discuss what are the causes of financial pitfalls and how to avoid them**
- **Understand how your attitude about money can drive you or prevent you from falling into financial pitfalls**
- **Discuss what your attitude about money profile looks like**
- **Understand ways that you can avoid being pressured or rushed into overspending**

AVOIDING FINANCIAL PITFALLS

Protect Your “Rep”

When you agree to co-sign on a loan, you are agreeing to make the payment on the loan as if it was YOUR LOAN. If you are not financially prepared to 100% take over the payments, DO NOT co-sign on a loan. Many good people with great intentions have ruined their credit histories by co-signing for irresponsible people. Don't become one of them. Protect your rep by keeping your credit to yourself.

A LETTER FROM JAMIE

Dear InCharge,

I'm 22 years old and I need some help. When I was 19, I co-signed on my boyfriend's truck. He really needed help, and my credit was good. Unfortunately, he didn't keep up with the monthly payment and the car was repossessed. The bank is now sending me notices that I owe \$15,000. I am barely getting by as it is. There is no way I can pay this.

Please help.

Jamie

P.S. – we are no longer together



QUESTIONS:

What do you think has happened to Jamie's credit as a result of this situation?

Where did she go wrong?

What should she do now?

FINANCIAL PITFALL SELF-ASSESSMENT

Check the box if you've fallen into any of these financial traps

Yes	No	Pitfall
		Bouncing checks
		Post-dating checks
		Paying credit card minimums
		Taking out high interest cash advances on my credit card
		Taking out a payday loan
		Going on an unaffordable spending spree
		Paying credit card late fees
		Someone else ruining your credit
		Victim of identity theft
		Agreeing to pay high fees for a product or service, without realizing it

CAUSES OF FINANCIAL PITFALLS

- Lack of knowledge
- Lack of discipline
- Not paying attention
- Not planning or prioritizing spending
- Discussion Question:
- What caused your financial pitfall? What could you have done differently?

PRESCRIPTION FOR SUCCESS

Financial pitfalls are like diseases that capitalize on our weaknesses. Follow this prescription for success and build up an immunity to fees, fines and scams.

FINANCIAL HEALTH CENTRAL



Name _____ Date _____

Address _____ Age _____

Some things to keep in mind:

1. *Budget*
2. *Pay Attention*
3. *Know what's your attitude
about money*
4. *Take your time*
5. *Do your research & shop around*
6. *Understand that the best things in
life are free*

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I. BUDGET

InCharge Budget Pledge

I will live within my means.

I will save a portion of my monthly income in an emergency fund (savings account).

I will not rely on cash advances, credit cards or payday loans to stretch my monthly budget.

I will strive to reduce my expenses.

I will strive to increase my income.

Read the InCharge Budget Pledge out loud, all together.

QUESTION:

Which one of these is the hardest for you to do?



I WILL NOT RELY ON CASH ADVANCES, CREDIT CARDS OR PAYDAY LOANS TO STRETCH MY MONTHLY BUDGET.

Cash advances, payday loans and charging to a credit card can create a vicious circle. The more you take advantage of these “quick fixes” the more you will pay over the long term. If you do not have enough income to pay your monthly expenses, you need to:

1. Lower your expenses
2. Increase your income

MEET TANYA AND HER VICIOUS CIRCLE

Dear InCharge,

The last few months have been rough. Unexpected car repairs forced me to take out a cash advance on my credit card. I missed a few days of work when my car was down, so I had to take out a payday loan just to make my rent payment by month's end. The next month, I was already down the payday loan fee and had spent my first paycheck catching up from the month before, so I paid the minimum on the credit card and charged my groceries for the last week of the month. It seems like each month I'm falling farther and farther behind. I don't know how I can possibly catch up let alone start saving money for the next unexpected event.

Tanya



QUESTIONS: Can you explain this statement? Do you agree or disagree?
“Using short term high interest credit and loans to fight a budget shortfall is like pouring gasoline on a fire.”

2. IT'S YOUR MONEY SO PAY ATTENTION

Not paying attention can cost you thousands of dollars over time. Here are some common examples:

Maria

Maria received an offer for a no-fee checking account in the mail and signed up for it. One of the conditions of no-fee checking was to receive the statements online. Since Maria received A LOT of email, she rarely noticed or checked her online statement email. Unfortunately, the clerk who opened her account made a mistake and did not designate it as "no-fee." Maria paid the \$10 monthly fee for 2 years before noticing the debit. This NOT PAYING ATTENTION problem cost her \$240.



John

John uses his credit card for everything to build up points for rewards. He rarely scours his statements, which are typically several pages long. Unfortunately, he never realized that an online music service he thought he'd cancelled was billing him \$15.95/month. By not reviewing his statement carefully, he lost more than \$300 before noticing the recurring charge.



Sam

Sam uses automatic bill pay for a number of his bills. Since he doesn't keep track of the auto-debits, he often overdrafts his account by poorly timing his rent and credit card statements at the same time. Overdraft and late fees add up to several hundred dollars each year.



Always read your statements!
Check your balances often, especially before paying large bills.
Balance your checkbook.

Keep your financial life simple by having FEW accounts.
Make bill pay an ACTIVE process – don't rely on auto debits.

3. KNOW WHAT IS YOUR ATTITUDE ABOUT MONEY

Introduction

Money makes the world go round. The love of money is the root of all kinds of evil. Money can't buy you love. Time is money. Penny pincher. Tight wad. Spendthrift. Big spender. Money grubbing. Gold digger.

As you can see, we place a lot of emotion onto money. Money inspires love, hate, and envy.

Our attitudes about money develop over time, and research shows that most of these attitudes originated with our parents and how they felt about money.

Did your parents talk to you about responsible spending or were they irresponsible in the way they spent money? Did you view your parents as savers or spenders?

It's not hard to see how other people use money to express their power and success, even when the money they are using is not their own. Many people who appear to have "money to burn" are living beyond their means with credit cards, car loans, and big mortgages. They are hurting their own financial future to impress you.

It is also not rare to hear of people who appear to have no money at all, wear second-hand clothing, and live simply with millions of dollars in the bank.

Most people are somewhere between these two extremes.

The attitudes you formed about money early in your life probably affect how you save, spend, and invest today. Think about how your money habits differ from your parents, or are they the same?

The next section will

- *Help you identify the attitudes about money that drive your financial decisions.*
- *Identify the five negative attitudes people have toward money and find ways to overcome those attitudes.*

“WHAT’S MY ATTITUDE” PROFILE ACTIVITY

Complete the following activity. Read all the statements in each category and then rank them from 1 (least like you) to 6 (most like you). Try to use each number just once in a category. If you read a statement that you feel is absolutely not like you, place a “0” next to the statement. You can use the “0” option more than once in each category.

1. GENERAL

- a. ___ Watching my savings grow gives me great pleasure.
- b. ___ Wandering around stores puts me in a good mood.
- c. ___ Making my own financial decisions makes me happy.
- d. ___ Being free of rules and stereotypes is my dream.
- e. ___ The more money I have, the more I’ll be able to do what I want.
- f. ___ I work hard and I want to be valued for the work I do.

2. LIFESTYLE

- a. ___ I spend money when I need something rather than when I want it.
- b. ___ Spending now is definitely more important than saving for the future.
- c. ___ Having things that I want is my goal.
- d. ___ Possessions tend to drag me down so I don’t own much.
- e. ___ Saving money gives me the freedom to do things that cost money in the future.
- f. ___ Having things helps people know who I am.

2. EATING OUT

- a. ___ When I eat out with others, everybody pays for his own food.
- b. ___ I order whatever I want.
- c. ___ I like to buy food for others because I have the money.
- d. ___ I prefer paying my own way.
- e. ___ I like to pay for others to impress them.
- f. ___ Paying for others helps me feel good about myself.

3. SHOPPING

- a. ___ I know a real deal when I see one because I shop around.
- b. ___ I like everything I try on; it’s hard not to buy it all.
- c. ___ Name brands fill my closets and drawers.
- d. ___ I like to make my own fashion statements.
- e. ___ When I go shopping, I buy something that will help me accomplish my goals.
- f. ___ I go shopping to make myself feel good.

4. SAVING

- a. ___ I have a secret stash of money just in case I need it.
- b. ___ Saving money is hard for me. I always have something I want to buy.
- c. ___ When I take charge of my money, I feel in control.
- d. ___ Saving money is easy because I’d rather be doing things that don’t cost a lot.
- e. ___ The more money I have saved, the more options I have open to me.
- f. ___ Having a large amount of savings makes me feel valuable.

5. GIFTS

- a. ___ It’s easier to give gifts to others than to buy them for myself.
- b. ___ I love buying the perfect gift for someone.
- c. ___ I buy expensive gifts because it means more.
- d. ___ Handcrafted/homemade gifts have more meaning; people think they are special.
- e. ___ The gifts I give others lets them know that I like them or I want them to like me.
- f. ___ The price of my gift earns me respect for being able to afford it.

DETERMINING YOUR SCORES

Your scores will help you identify your money personality profile. The higher the number for each profile, the more this tendency may motivate your money behavior. It's okay to be high in several profile areas. It just shows that your financial decisions are based on a variety of motivators or beliefs. The closer together the totals, the more balanced you may be in your motivators. If you have one or two profiles that have high numbers, it may mean that your financial decisions are more strongly influenced by those motivators. Now, score your answers.

a. Add up the number of your “a” statements and put your total here:

_____ **Frugal Focus**

b. Add up the number of your “b” statements and put your total here:

_____ **Pleasure Focus**

c. Add up the number of your “c” statements and put your total here:

_____ **Status Focus**

d. Add up the number of your “d” statements and put your total here:

_____ **Indifference Focus**

e. Add up the number of your “e” statements and put your total here:

_____ **Powerful Focus**

f. Add up the number of your “f” statements and put your total here:

_____ **Self-Worth Focus**

This exercise is modified and reprinted from 4HCCS BU-07710 2002, Money Fundamentals; “Money Personality Profile”. With permission of the National 4-H Cooperative Curriculum System, Inc. © (2004) 4HCCS. Attitudes About Money

NOTE: ANY OF THESE “PERSONALITIES” MAY HAVE POSITIVE AND NEGATIVE TRAITS



DEFINITIONS

FRUGAL

- Loves to hold and save money
- Believes that money is security
- Saves money because it provides some protection against uncertainties
- Being good at budgeting, prioritizing, and waiting until things are on sale.

PLEASURE

- Loves to spend money on whatever will make them happy
- Doesn't like saving
- Being generous to themselves and others
- Borrows money to spend now

STATUS

- Having money and "things" bring happiness
- Thinks more money and "things" will bring more happiness
- Believes that people can't be happy without possessions

INDIFFERENCE

- Avoids money
- Feels nervous about money
- Rather spend time on things they enjoy doing, such as hobbies, sports, outdoors

POWERFUL

- Wants to make things happen
- Believes money is power, the more one has the more powerful he/she will be
- Believes money makes one feel in control of his/her life
- Takes risks to make more money

SELF-WORTH

- Measures own value by how much money one has
- Thinks people judge others on the amount of money they have
- Values how much they have accumulated, not relationships with other people

CHARACTERISTIC TYPES

You just learned that there are six major characteristic types in how people view money. They are Frugal, Pleasure, Success, Indifference, Powerful, and Self-worth.

Frugal: Frugal people seek financial security by living below their means and saving money. Frugal people rarely buy luxury items and some even have a hard time buying necessities. They save money because they believe money will offer protection from life's uncertainties; money makes them feel more secure.

Pleasure: Pleasure seekers use money to bring pleasure to themselves and others. This money profile is more likely to spend than to save. Pleasure seekers often live beyond their means by spending more than they make. Pleasure seekers can find themselves in deep debt if they are not careful.

Status: Some people use money to express their social status. Having the best and buying popular brand names are important to people in this profile. Status-spenders like to “show off” their purchases.

Indifference: People who treat money with indifference tend to place very little importance on having money. Having money makes them nervous. They would rather spend time and resources being independent by growing their own food or making their own clothes. They are hobby-oriented and involved with arts and crafts.

Powerful: Some people use money to express their power. This profile may also use money to control other people, including their spouses, children and friends.

Self-Worth: People who spend money for self-worth tend to judge their own worth by how much money they have. They believe that people only judge them based on the amount of money they have. They value how much they have accumulated.



CHARACTERISTICS ACTIVITY

Choose one of the six characteristics listed on the previous page and answer the following question, that is not your own.

Which characteristic did you choose?

Define your understanding of how individuals use this characteristic.



Developing a Positive Financial Attitude about Money

Think of your money profile as a “diagnosis.” Now that you know what you are, what kinds of goals do you need to set to move toward where you want to be? Remember, these goals can be short, medium and long-term.

Does this scenario sound familiar: Cheryl lives paycheck-to-paycheck. She gets a raise every 1-2 years. Each time her salary is increased, she increases her spending. Her financial picture is stagnant. She never puts money away for a rainy day and constantly adjusts her living to her income. What should Cheryl do to change her financial future?

By letting her paycheck dictate her monthly spending, Cheryl has lost control. Cheryl needs to create a budget and control her spending on her own, allocating money for savings.

For most people, money is a limited resource. Do you manage this resource or does this resource manage you?

Now is the time to take control of your money.

You can build a positive money attitude by overcoming five major obstacles:

- 1) **Fear**
- 2) **Cynicism**
- 3) **Laziness**
- 4) **Bad Habits**
- 5) **Pride**

Even if you feel you already have a positive money attitude, it is important to keep these obstacles in check.

State which one(s) of these obstacles you have faced

Fear: Fear of losing what you have is the top reason why people struggle financially. Everyone has a certain amount of fear when it comes to his or her finances. There is uncertainty with employment, illness, or unexpected expenses (car and home repairs). People can become so fearful of their finances, that they live in denial. How can you turn fear into a positive motivator?

Cynicism: Cynics always see the glass as half empty. Does this statement sound familiar: "I'll never get ahead." Our friends and family can contribute to cynicism by saying things like "You will never amount to anything." The key to overcoming cynicism is to combat negative thoughts with positive ones (remember the little blue engine who made it up the hill by chanting "I think I can"?). How can you keep cynical statements away from your daily thoughts?

Laziness: Laziness is failing to act, or saying "I'll do it tomorrow." People fighting the laziness obstacle fail to make financial matters a priority. This person fails to seriously review their financial situation, make a budget, or even pay bills. What are some steps you can take to cure laziness?

Bad Habits: Bad habits develop over time. Most bad habits are developed because of convenience or comfort. It is convenient to pay bills at the end of the month, no matter when they are due. On the other hand, it is comfortable to buy breakfast every morning rather than preparing breakfast at home. Our bad habits cause us to spend more than we should and miss important deadlines. What actions can you take to overcome a bad habit?

Pride: Everyone has an opinion about personal finance, but not all opinions are correct. As adults, we are expected to know how to manage our finances. It is difficult to admit what we do not know. Finance is a topic where many have strong opinions but few have knowledge. What do you recommend when someone doesn't know or understand a financial issue, but is too prideful to ask for help?

DEVELOPING A FINANCIAL ATTITUDE

The key to creating a positive financial attitude is to remain open to learning and putting new behaviors into action. The following are simple steps you can take to get started:

- Go to your bank and talk about your accounts with a bank representative. Ask questions. Go to financial seminars hosted by the bank. Don't purchase or utilize costly bank services until you've compared against other banks.
- Have an open discussion with a family member about what you have learned in class.
- Balance your checkbook.
- Have lunch with a friend and discuss a financial product such as savings accounts.
- Watch a financial show on TV.
- Start using an online budgeting tool, like the one provided at mint.com or through your banks online checking.
- Find someone you trust who appears to manage money well. Ask them to be your financial mentor.

By taking action, you will develop a better understanding of finances.

THE JONES FAMILY ACTIVITY

Maria took your advice and has now saved \$2000 in an interest-bearing (no fee) savings account. She rests easy now knowing that she has several months' rent put away "just in case."

Maria is confused about her money attitude. "If I actually had some money, I might know what my money attitude was..." she tells you in your financial planning session. "But the fact of the matter is that I've never had money and I don't think I ever will."

"Is there a box for pessimist?," she asks.

How can you help encourage Maria to envision a future with money in it? What advice can you give her to believe in her own abilities to improve her financial situation? As a financial planner, you need to motivate and inspire your client.

List five strategies for helping Maria envision a positive money future.

1. _____
2. _____
3. _____
4. _____
5. _____

Now that you have identified your money personality profile, how do you think you would react to the advertisement below?



4. TAKE YOUR TIME

What technique is this advertisement using to promote sales?

People are more likely to overspend when they are pressured and rushed. This is why sellers of big ticket items (cars, appliances, electronics) rely on "limited time offer" marketing. By pushing you to make a fast decision, sellers are limiting your ability to:

- Think your purchase through
- Comparison shop

If you are being pressured to make a purchasing decision in a short amount of time, here are three pieces of advice to help you resist a tempting offer.

1. Tell yourself: There's always going to be another deal.

Have you ever noticed the same store holding a "liquidation sale" every month? Or an auto dealer offering "limited time only" deals all year round? The fact of the matter is that there are always going to be deals. Buy on your terms and your calendar, not those set by others.

2. Sleep on it.

By instituting a "24 hour rule," you will be better able to defend yourself against 'impulse buys.' You will be surprised at the number of items you DON'T want to buy the next morning.

3. If it sounds too good to be true, it probably is.

This is a good piece of advice your grandmother may have told you. If something doesn't "feel" right, don't do it. Keep your money and wait for the next purchase/investment opportunity.

4. Leave the \$ at home.

When you are researching a large purchase, don't take your credit cards, checkbook or cash with you to the store. This way you will not be tempted to make a quick decision.

5. DO YOUR RESEARCH & SHOP AROUND

Have you ever filled out a credit card application you received in the mail? Did you know that when it comes to credit cards, you have 1000s of options? Why settle for the one that arrived in your mailbox?

Don't let financial products choose you. You need to choose them based on interest rates and fees associated with them, not based on being "pre-approved."

Studies show that most people do not comparison shop when it comes to credit, checking and savings accounts, and even mortgage loans. Just like with any purchase, the more research and comparison shopping you do, the more you'll be able to save.

MAKE THESE GOALS

- Find no-fee checking and saving (check out advertisements in the newspaper and visit at least three banks/credit unions)
- If you use credit cards, examine the terms of each. Cancel those with high interest and fees, apply for one with better terms. Compare card offers at creditcards.com
- Before making a major purchase (car, appliance, computer), research prices by visiting stores, reviewing sales in your local newspaper and going online (if you have access)

COMPARISON SHOPPING CHALLENGE (YOUR HOMEWORK)

Use Research to find the Lowest Cost Fridge

Use the newspaper, the internet, and/or your telephone to get a great deal on an 18-10 cubic foot refrigerator.

Store #1 _____

Store #2 _____

Store #3 _____

Store #4 _____

Store #5 _____

6. THE BEST THINGS IN LIFE ARE FREE

Let's face it, we all spend money to feel good. Some of us are able to keep our spending under control while others splurge and throw their entire budget off.

What are some items or services you purchase to feel good about yourself? If you are trying to build up your emergency fund and meet specific financial goals, it is hard to go long periods of time without splurging on "treats." One way to help with temptation is to teach yourself that the best things in life are free. Your task is to find a way to feel good that does not involve spending money. Here are some ideas:

- Enjoy nature (beaches, parks, nature walks)
- Socialize with friends by holding a backyard BBQ (not going out to eat)
- Visit the library with your children, take out books by the dozen & rent movies too
- Trade services with friends, instead of paying for them (hair, nail care, babysitting)
- Cultivate a handicraft or other hobby that does not involve spending money



Brainstorming Exercise

Each person should spend 5 minutes brainstorming enjoyable activities that cost low to no money. Then we'll take turns sharing our ideas.

THE FRUGAL KITCHEN

OVEN-FRIED FISH

- 1 pound flounder
- 2 tablespoons mayonnaise
- 5 tablespoons fine dry crumbs
- ½ teaspoon paprika

Cut flounder into serving-size pieces. Coat with mayonnaise on both sides. Combine bread crumbs and paprika in a shallow dish. Press fish into crumb mixture to coat both sides. Place on nonstick baking sheet. Bake at 450 degrees for 15 minutes. Makes 4 servings.



HOMework

- Comparison Shopping Challenge (page 18)
- Bring in a frugal recipe to share with the class (if you haven't done so yet)
- Find one expense you can reduce immediately – tell us about it next week.