Five Common Financial Mistakes

The start of the New Year is always a good time to take a long and hard look at your family's financial picture. Because we have the opportunity to talk to many people over the years, we've been able to pinpoint many of the most common financial mistakes people make. Here we point out just a few of these pitfalls and offer some suggestions about how to avoid them.

1. **Giving Uncle Sam a free loan.** If you have been in the habit of getting a tax refund every year, ask your employer for a Form W-4 and recalculate the amount you are withholding. Form W-4 lets you take into account some of the deductions and credits to which you are entitled, in addition to personal exemptions. If you can increase your withholding allowances, do so. The money that you have been giving to Uncle Sam interest free is better off in *your* hands, where you can invest it and get a return on your investment.

2. **Paying too much tax.** Although top tax rates are coming down, taxes will hardly be insignificant. So the need for finding tax-exempt income remains critical. Investors still will find municipal bonds an attractive way to eliminate the federal tax on investment income. Interest income may be subject to the alternative minimum tax. It is federally tax-free, but other state and local taxes may apply. Those able to do so should take maximum advantage of retirement plans [401(k), Keogh plans] that allow them to defer tax on current income until after retirement.

3. **Neglecting your estate plan.** Family events (births, deaths, marriages, etc.) or a rise or fall in net worth always called for reviews and revisions of your will. Now a changing estate and gift tax structure makes it all the more important for you to assure yourself that you are taking maximum advantage of all the possibilities for tax saving that are currently available. Using a trust plan can reduce significantly your federal estate liability.

4. **Failing to manage your portfolio properly.** It's one thing to read about the latest developments on Wall Street and then make a few investments. It's another to be able to develop a sensible investment strategy, keep up with all the paperwork involved and know when to sell or when to keep your impatience reined in. Monitoring your investments can be a complex, time-consuming job. Be sure to allot enough time to do so or consider delegating all or part of the work to professional asset managers.

5. **Getting less-than-professional advice.** An article in a financial periodical makes a particular investment sound attractive. Your cousin Ted made a "killing" recently. A phone call from an investment company makes you an offer that sounds interesting. The suggestions are numerous, but the risks may not be known fully, or the investment advice be unbiased. Be sure to find out everything that you can, not only about the investment but also the person offering the advice.

   If this short list has raised any questions in your mind, we'd be glad to discuss them with you further. Please feel free to give us a call.