Consumer News & Views

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In this Issue…

- **Don't Sabotage your Own Financial Stability!**
- **Quorum Federal Credit Union Supports Consumers and Businesses in New York State**
- **Healthcare Scams - Don't Be Folled!**
- **ACC's *Friend of the Consumer Award* Recognizes Mortgage Marvel of Wisconsin.**
- **JSTC Federal Credit Union Champions Financial Loans for Students and Consumers in Western PA.**
- **Apply for the 2013 Green C^{SM} Certification Program.**

Nine Ways You May Be Sabotaging Your Own Financial Stability

By Mandy Woodruff

As human beings, our brains are booby-trapped with psychological barriers that stand between making smart financial decisions and making dumb ones. The good news is that once you realize your own mental weaknesses, it's not impossible to overcome them. Here are nine of the biggest barriers...and some good strategies for fighting them:

Scenario 1: You're about to buy an engagement ring so you do some research on prices. Most people say three months' salary is the general budget, so you freak out and request a credit line increase.

What's really going on: Anchoring.

Anchoring happens when we rely too heavily on the first piece of information offered when making decisions. After encountering the "three month" rule, you find it hard to make a logical decision based your own financial reality or your relationship. You may not have three months' worth of salary to splurge on a diamond, but you decide to spend within that range because you are anchored to that idea.

Scenario 2: You're 27 years old, in excellent health and just got promoted. You're so high on life that you can't fathom a time when you'll no longer be young, fit, and financially stable.

What's really happening: Myopia.

Because you are unable to picture yourself in old age, bad health, or cash-strapped, you're less likely to save for unexpected events or your retirement. Myopia can be blamed for many depleted retirement savings account in the U.S. "Seduced by temporal myopia in their younger years, many people get around to saving seriously for their retirement far too late in their career, in their forties and fifties in many cases, which greatly reduces the amount of money they will have available for their retirement," says Shlomo Benartzi, a behavioral finance economist and author of "Save More Tomorrow."

If you're lacking motivation, try this handy experiment: Use Merrill Edge's Face Retirement generator, which will take a photo of you as you are today and generate an image of what you'll look like in retirement. Benartzi's own research has shown that this kind of reminder can actually give people the kick in the butt they need to start saving for retirement.

Scenario 3: You're watching the market closely and see that a certain stock has been tanking over the last few months. You give it another month, watch it drop again and decide to sell it off before history repeats itself.

What's really going on: Gambler's fallacy.

When investors rely on past events to predict the future, they're shooting themselves in the foot. If a stock is flying or floundering for a year, that doesn't mean it will continue to do so in the next year, or even few months to come. The same thing happens when you buy a lotto ticket because your buddy next door just won $10,000 in a drawing. Just because he won doesn't change the odds of you winning at all.

Keep your decision-making grounded in the real facts. Analyze your investments before making any sudden moves or following trends.

Scenario 4: It's open enrollment season for your company's health care plan and the list of plans is so confusing that you put it off for days until, finally, the deadline rolls around. You give up, re-enrolling in whatever plan you already have.

What's really going on: Avoidance.

This is a form of procrastination that could really cost you. There are a lot of meaty topics in finance, most of which are about as fun to research as it is to get a root canal. But if you miss a dentist appointment, you can easily reschedule. Screw up your health care election and you could be stuck with the wrong plan for an entire year and pay dearly for it.

Another area prime for avoidance: 401(k) plans. You know you've got to enroll so you just skip around until a decent plan name "speaks to you." Not only could you have signed up for a plan with high fees or the wrong allocations for your risk tolerance, but you will only wind up paying more fees when you finally realize your mistake and have to switch plans.

In addition to a wealth of helpful tools and articles online, many retirement plan providers offer free advisors who are on call to help navigate you through the elections process. If they don't, it could be worth it to book a one-time consult with a fee-only financial advisor.

Scenario 5: A tech company you love just went public and you're dying to buy in. You decide to do your homework, but you skirt over the negative headlines, instead clicking on posts singing the company's praises.

What's really going on: Confirmation bias.

Investors aren't machines. We've got feelings and like any normal human being, we can't help but selectively filter out opinions that don't mirror our own. In doing so, we create a false sense of security that can lead to some pretty boneheaded decisions.

If you want the full picture, you've got to seek out information that contradicts everything you thought you knew about a company before you can hope to form a balanced opinion.

Scenario 6: It's April 2008 and the stock market has just hit rock bottom, taking half of your retirement savings down with it. Shell-shocked and devastated by the loss, you demand that your financial advisor pulls every last investment out of the market immediately.

What's really going on: Loss aversion.

Loss aversion plagues even the most experienced investors, making them avoid potential gains because they're too afraid to take a risk.

Anyone who ditched the stock market for fear of further losses after the 2008 crash can blame loss aversion. The average pre-retiree 401(k) balance actually doubled since the recession. People who fled the stock market and never rebalanced their portfolios only rebounded by 25%.

Loss aversion can also have the opposite effect, causing investors to cling too tightly to losing investments. Because it hurts to admit that they picked a loser, they focus on selling off winners and hope the losers will rebound over time. If they aren't careful, they wind up with a portfolio full of duds.

Scenario 7: You're a savvy investor and you know you've got the goods to beat the market. So you jump in and start trading like a madman, trusting your gut and your own due diligence not to lead you astray.

What's really happening: Overconfident investing.

It takes seriously overconfident investors to kid themselves into thinking they can beat the market when even the people whose full-time job is to beat the market fail so frequently.

Terrence Odean's oft-mentioned study, "Trading is Hazardous to Your Wealth," isn't just a cute bedtime story for investors looking to stroke their egos. It actually shows that frequent trading caused by overconfidence can kill your returns.

Of more than 66,000 households using a large discount broker in the mid-1990s, those who traded most often (48 or more times a year) saw annual gains of 11.4 percent, while the market saw 17.9 percent gains, Odean found.

Scenario 8: You're still working on building up your emergency fund and you just got a birthday check for $100. Instead of adding it to your savings account, you treat yourself to a new coat or a haircut.

What's really going on: Mental accounting.

Mental accounting takes place when we assign different values to money depending on where we get it from. If you had earned that $100 by working overtime one week, chances are you'd treat it more like regular income and save it.

Mental accounting is a big reason why we spend more money with credit cards than using hard cash. It just feels "less" like money to us and therefore it's much easier to spend.

Instead, repeat this mantra: "Money is money, no matter how I get it." And the next time you use your credit card, ask yourself if you'd be spending that money if you were using cash instead. If the answer is no, hold off.

Scenario 9: A housing development in your county just went belly up and you've heard investors are snapping up cheap plots for a steal. You've got no experience flipping houses but what the hell? You're not about to miss out on a hot ticket like that.

What's really going on: Herd mentality.

You've spotted a hot trend and you don't want to be the only person out there who didn't book a seat on the bandwagon. As human beings, it can be very uncomfortable standing still while the rest of our peers head the other way looking like they're having a ball. It's in our nature to want to join the party.

This causes a lot of problems when it comes to investing. If you're willing to change course every time the herd moves, you'll end up trading a lot more frequently and seeing your returns nibbled to bits by transaction costs alone, not to mention what will happen if the herd leads you astray.

Cotton on to a trend too late and you'll just lose out when the herd moves on to hotter territory later on and your stock plummets. It's just a vicious cycle that will only lead to selling low and buying high. The only way to profit from a trend is to get there before anyone else and the odds aren't in your favor.

Avoid Healthcare Scams – Don't Be Fooled!

On October 1st, millions of people will begin sorting through their health insurance options as open enrollment under the Affordable Care Act begins. Trying to wade through all of the choices -- figuring out premiums, copays and deductibles -- might have you throwing up your hands in defeat. That's exactly what scam artists are hoping you'll do. They'll be quick to swoop in, promise you help and take your cash.

Estelle Taylor nearly became a victim. She recently got an unexpected phone call from someone claiming to be a government employee. "He had an Indian accent," said Taylor. "He asked me if I was on Medicare and that they were going to send me a new Medicare card. And I thought, 'okay.' "

But the caller wanted Taylor's bank account number, but she didn't fall for it. "I knew something was fishy," said Taylor.

The Federal Trade Commission says getting a phone call should be a big red flag. "If they tell you they are from the government and they are calling, whoops -- it's a scam," said Cindy Liebes of the FTC. "The government won't call you." That's just one tactic scammers seem to be testing out, as the Affordable Care Act gets underway.

The FTC also warns that some may contact you claiming to be health care navigators and offering to help guide you through the health insurance marketplace -- for a fee. The real navigators are not allowed to charge consumers. Another scam claims you could face prison time if you don't sign up for health care coverage immediately. It IS true that under the Affordable Care Act, most people must have health insurance. But the penalty is not jail -- it's a fine of one percent of your income or $95, whichever is higher. Estelle didn't fall for another common scam.

"Consumers are getting calls from scam artists telling them they need to get a new Medicare card under the Affordable Care Act and they have to pay money to get this new health insurance card," said Liebes. "Oftentimes, they'll be asked to provide their social security number and when they provide their social security number, of course, they can be victims of identity theft."

If you think a scam artist is on the other end of your phone line, hang up and report it to the Federal Trade Commission.

ACC's *Friend of the Consumer Award* Recognizes Mortgage Marvel with Bronze Level Award.

Mortgage Marvel of Mequon, Wisconsin has earned a Bronze level ***Friend of the Consumer Award*** from the American Consumer Council.

Mortgage Marvel is rooted in two simple, powerful ideas. First, for most consumers, taking out a mortgage to buy a home is the largest, most complex financial decision they'll ever make. People need to weigh and understand the relationship between interest rates, points and closing costs to find the combination that works best for them. Second, their privacy matters, and they should be able to obtain this data without divulging all kinds of personal information.

The creators of Mortgage Marvel saw already in the late 1990s that the Internet had the potential to aggregate and deliver mortgage-related information to consumers and to respect their privacy while doing so. Executives at Mortgagebot, the company behind Mortgage Marvel, made the first version of the website as a way to make side-by-side comparisons with the few companies that were providing rate quotes online.

Today, about 1,000 lending institutions rely on Mortgagebot for the computing solutions they need to process loans online. This customer base is the driving force behind today's Mortgage Marvel. Hundreds of quality lenders throughout the United States, like community banks and credit unions, take part in Mortgage Marvel, making available real-time information about their rates, closing costs and the impact that paying points will have on payment schedules. Consumers using Mortgage Marvel can do so without revealing their identity, and they have access to complete, solid, accurate information from lenders who are ready to do business with them.

"It's been our great pleasure to see Mortgage Marvel grow from the rudimentary service it was in the late 1990s to the powerful consumer tool it is today," said Scott Happ, the founder of Mortgagebot and Mortgage Marvel. "We're committed to continuously improving the site and hope people will turn to us for the wealth of mortgage information we deliver."
For more information on Mortgage Marvel, please visit: www.MortgageMarvel.com

Is your company or organization a ***Friend of the Consumer?*** Are your policies and corporate practices winning the hearts, minds and wallets of customers? If so, you should apply for The American Consumer Council's prestigious *Friend of the Consumer Award*.

Throughout the year, the American Consumer Council receives numerous applications from companies and organizations seeking to be recognized for their commitment to consumers and providing consumer-friendly products and services.

To apply for the *Friend of the Consumer Award*, complete the online application and return it to ACC with the application fee. Applicants will be notified within 5 days of receipt of their application. Thereafter, a panel of independent judges will review your application and make a formal recommendation within 45 days of receipt of your award application.

For more information, visit: http://www.americanconsumercouncil.org/awards.asp

JSTC Employees Federal Credit Union Attracts Students and Consumers from Pennsylvania with Great Loan Rates

JSTC Employees Federal Credit Union (JSTC) has become a popular place for high school and college students who want to start a banking relationship with a strong financial institution. JSTC enjoys helping students open a new account, apply for a credit card or debit card, and make a student loan application. Pennsylvania consumers are flocking to JSTC because they have built a reputation as a consumer-friendly credit union and an easy place to do their financial business. And, JSTC has a new location at 969 Eisenhower Blvd. in Johnstown, PA. Visit them soon!

If you’re a student who needs to open a financial account, contact JSTC Employees Federal Credit Union at www.jstc.net If you’re a small business or Pennsylvania consumer who wants a friendly, supportive financial institution where you can conduct all your financial transactions, contact JSTC today! Let them know you heard about JSTC through the non-profit American Consumer Council.

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Lobby Hours:
Monday - Thursday
9:00am - 4:00pm
Friday
9:00am - 6:00pm
Learn more at http://www.jstc.net/

Green C℠ Certification Accepting Applications for 2013 Fall Cycle:

If your company or organization would like to increase its credibility with consumers, you should consider applying for the **Green C℠ Certification**. Applications for the 2013 Fall cycle are now being accepted through December 13, 2013.

It's a proven fact that consumers want to do business with companies that are eco-friendly and practice Corporate Social Responsibility (CSR). The process is straight-forward and all applicants are recognized by ACC and the Green USA Institute.

All applicants complete the criteria and submit their responses to ACC's Green Consumer Council for review, assessment and feedback. Program details and the **Green C℠ Certification** criteria can be viewed at ACC's website located at: http://americanconsumercouncil.org/greenc.asp