❾ Ways To Go Bankrupt

Most financial experts strongly suggest that clients in financial distress should do everything in their power to avoid filing for bankruptcy. The repercussions of this action can last for 10 years on your credit score, and bankruptcy proceedings are fairly complicated. It may seem obvious, but anyone who continuously spends more than they are making will be facing bankruptcy in no time - but there are some other ways to become flat broke. Here we'll examine 9 habits that can put you in the poorhouse.

Obtaining Too Many Credit Cards

Credit card abuse is one of the leading causes of consumer indebtedness. After obtaining a first credit card, you may find that they multiple rapidly; soon your wallet holds a card for every store you've ever been to. The general consensus is that credit cards are necessary in order to achieve a better credit rating, but unfortunately, 20 credit cards will not give you a 20 times better credit rating. In addition, these cards add to the temptation to purchase unnecessary items that would not otherwise be affordable. This will inevitably lead to a dire financial situation.

Paying Credit Debt With Credit Cards

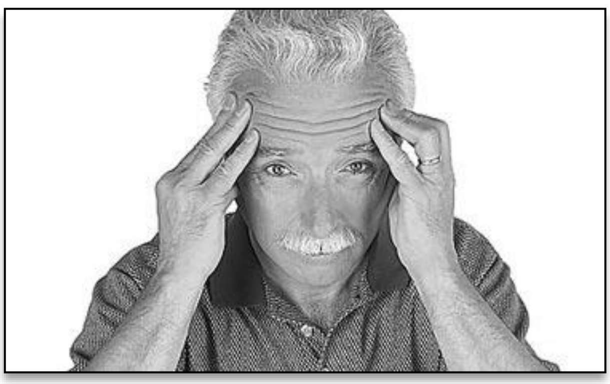
Most people who hold a credit card will receive offers from competing credit card companies or banks for a balance transfer with introductory rates as low as 0%. All this will do is extend the deadline for payment on your bill and put you in a worse situation where you can assume even more debt. Furthermore, most balance transfers charge transfer fees, and their low introductory rate will often skyrocket after a few months. This new interest rate could be much higher than what you had with the original card.

Buying Too Much House

When it comes to buying a home, bigger isn't always better. On top of the mortgage, taxes, maintenance and utilities will take a significant chunk out of your monthly budget, and homeowners who buy more house than they can afford can quickly become overwhelmed. Furthermore, certain types of mortgages, such as adjustable-rate mortgages (ARMs), allow homeowners to purchase an expensive home with lower mortgage payments for a certain period of time. However, when short-term interest rates rise, homeowners with ARMs feel the squeeze as lenders raise their rates.

Putting All Your Eggs In One Basket

Another way to lose your money is to put all of your eggs in one basket by investing in one company or industry. For example, if your portfolio holds only airline stocks and it is publicly announced that all airline pilots are going on an indefinite strike and all flights are canceled, share prices of airline stocks will drop. Your portfolio value will decline considerably. However, if you diversify into stock from other forms of transportation, like trains, you will see a less noticeable decline. If you invest in stocks from companies across a variety of sectors, you will be reducing your risk even more.

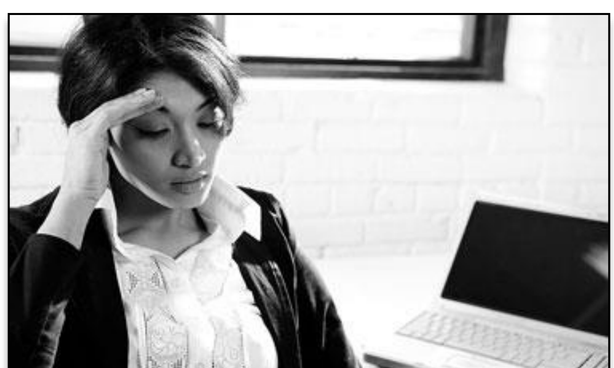


Not Building An Emergency Fund

Living life on the edge can involve filling your life with exciting (and sometimes dangerous) activities such as surfing and skydiving, or it can involve being on the brink of bankruptcy. If losing your job would mean being evicted from your apartment, defaulting on your mortgage, or having your utilities shut off, you are living too close to the edge. Putting three to six months' worth of your income in the bank so that you have it on hand should you need it is a great way to give yourself some breathing room if your paychecks come to a temporary halt.

Ignoring Identity Theft Tactics

According to the Federal Trade Commission, approximately 10 million Americans are victims of identity theft each year. You can help protect your credit rating and finances by educating yourself about identity theft and safeguarding your personal information. For example, shredding any documents containing social securities numbers, bank account numbers and other personal information prevents would-be thieves from obtaining your information through dumpster diving.



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Getting A Divorce

Before April 2005, bankruptcy was often used during divorce proceeding by an ex-spouse who was looking to avoid alimony and other family obligations. In April 2005, President George W. Bush signed the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 (BAPCPA). The BAPCPA limits bankruptcy abuses by classifying divorce, separation and domestic support obligations under non-dischargeable debts. However, for divorcées who are unable to adjust to receiving a single income, filing for bankruptcy is still possible provided that certain conditions are met.

Ignore Your Current Financial Situation

The worst thing to do when facing rising debt is to ignore the situation completely. If debt-collection agencies are calling you, instead of avoiding their calls, negotiate with them. Even if you owe a lot, a creditor will often settle for something rather than nothing.

Using Risky Investment Strategies

You should be careful not to put too much of your money in risky investments. Markets don't always go up (as we have learned recently) and even the best investments have risks. You should spread your money among MANY different investments: some in stocks, some in bonds, some in mutual funds, and some in … you get the idea. Even though it may be tempting to invest it all in a stock that your buddy has made a fortune in … because that fortune could be lost tomorrow.

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ASSIGNMENT

Summarize each of the nine ways to go bankrupt from this article. Type your responses in Word. Here's the catch: **you MUST use 9 words to describe each one** (no more, no less). This is probably harder than it sounds!