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Avoiding Common Pitfalls

Certified Divorce Financial Analysts™ offer their best tips to help you avoid some of the most common mistakes made by divorcing people.

Edited by Diana Shepherd, CDFA

Understand your financial and emotional limits.

When you understand yourself, you are better equipped to be objective. This saves time, which leads to cost savings. If you are not prepared to look at reality — without the emotional entanglements — the outcome will never be what you need, let alone what you want. Instead of asking "why" questions, which lead to people becoming defensive, try asking questions that start with "how." For instance, asking, "How did you come to that conclusion?" leads to a discussion about process. It allows both people to step back from the brink and look at things as they are.

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Settle out of court.

When given the choice to settle at mediation or settle at trial, always try to choose the former for two reasons. First, going to trial is very expensive: typically, the only ones who win are the lawyers and experts, which leaves a smaller "pie" for the divorcing husband and wife to divide. Second, going to trial is risky because all of the decisions are left to the judge who has known the parties for a few hours at most; in mediation, the divorcing parties still have 100% control over how things will be settled (assuming they can come to an agreement). *Joseph P. Mirandi (CPA, CVA, CDFA™, MST) devotes a large portion of his practice in Lakeland, FL to assisting lawyers and their clients in divorce-related matters. He also has an extensive tax practice, and is certified in preparing business valuations. He can be reached at (863) 607-4222 or via www.huttomirandi.com.*

Know what you have — and what you need.

It is very important to know what assets you own, the value of those assets, and how they are held. This should cover everything from retirement to investment to bank accounts, as well as future pensions and social security. Make copies of your and your spouse's tax returns. These returns can help explain to a financial advisor a lot more than your income and taxes paid: they can help find assets, capital gains and losses, depreciation, and business expenses. The tax returns are also helpful in uncovering assets that a spouse might have hidden. Before splitting your assets, you should think about what you need: you must create a budget, identify which assets will help ensure your financial security, and negotiate for this. *Jim Newman (AWMA, CSA, CDFA™) is the Senior Vice President — Wealth Management at Janney Montgomery Scott in Ponte Vedra Beach, FL. He can be reached at (866) 226-9935.*



Identify your priorities.

It's important to be frugal given that you have to manage the cost of separation and divorce, along with meeting your basic life needs. Try to follow a balanced approach, and don't let your pride get in the way of accepting and/or asking for help from family and friends when you really need it. If your ex-to-be is prone to unpredictable behavior, you must find a safe place for you and your children to live. Don't forego your personal security; prioritize this above other more "materialistic" items. *Dr. Linda Cousineau (Ph.D., CDFA™) is a divorce survivor who is committed to helping*

others through the separation and divorce process through education and financial advice. In practice in Toronto, ON, she can be reached at (416) 988-2399 or via drcousineau@rogers.com.

Do your financial homework.

If you do your financial homework, you will be able to recognize a fair offer rather than settling for too little or rejecting a reasonable offer. Even if you have never seen a retirement plan, investment account, or bank statement, information is available if you know where to look. Contact the Human Resources Department at your spouse's employer and ask about any and all benefits. As a spouse, you are entitled to know about current and future benefits; be sure to ask if there's a pension plan in place. Review your last two or three tax returns, which will list any interest earnings, dividends, or capital gains that were reported. By comparing the financial affidavit to the tax return, you can reconcile assets and look for omissions. Finally, prepare yourself for the post-divorce lifestyle change by figuring out what your long-term needs will be and making a budget. *Gina Gallo (CFP®, CDFATM) provides objective financial consultations for an hourly fee in Melbourne, FL. She can be contacted via ggallo@galloandrussell.com or www.galloandrussell.com.*

Don't Let Your Emotions Rule Your Divorce

Going through divorce can make you feel like the captain of a leaky boat on stormy seas — there seems to be a new crisis at every turn. But don't let uncertainty whip you into an emotional tizzy: the more frenzied your emotions, the longer the proceedings and the more costly the divorce. Here are five strategies to help you separate emotions from economics:



- **Don't let guilt rule you.** "Please release me, let me go" goes the country song, but don't give up everything to buy your freedom. Your spouse will still be unhappy, and you'll be equally unhappy when you find yourself impoverished by your foolish gesture.
- **Don't make nice to get him or her back.** Even if you hope your divorce will end in reconciliation, don't bend over backward to make it happen. Stand up for yourself and get your share. If you reconcile, that's fine, but if you don't, you'll still be able to take care of yourself financially.
- **Leave revenge at the door.** Legally, it probably doesn't matter who did wrong. Revenge is costly, and a wild rampage is bound to turn out poorly. You might even end up paying your spouse's attorney fees.
- **Don't succumb to threats, or threaten your spouse.** Money and power are emotionally linked, but you can't use money to control your spouse and get your way. Whatever you can't agree on will end up being split between your attorneys.
- **Focus on problem-solving, not fighting.** Don't let meetings with your ex turn into posturing to show who's in control or how smart you are. Settling your divorce is the problem you must confront, and it won't get solved by fighting.

Ginita Wall (CPA, CFP®, CDFATM) is the author of several books, including The Way To Save, The Way To Invest, and Your Next Fifty Years. She also originated the "Second Saturday" workshop on divorce, and is the co-founder of www.wife.org (the Women's Institute for Financial Education). In practice in San Diego, CA, she can be reached at (858) 792-0524 or via www.planforwealth.com.

Pensions can be worth more than houses.

Trading their share of a spouse's pension for the marital home is one of the most common mistakes divorcing people make. The marital home and the retirement plans are likely to be the largest assets in your marriage. Many people have such an emotional attachment to their home that they cannot fathom life in another house. The house, though, usually comes with high mortgage payments, maintenance and repair bills that can devastate a person's finances. Even though the value of the house might be equal to the value of the pension at the time of divorce, they are apples and oranges. A house requires repairs, maintenance, improvements, property taxes, and assessments — all of which require income; a pension, however, simply produces income. Before you become satisfied with a 50/50 division of assets, you must consider your needs for liquidity post-divorce: you can't sell a windowpane to put food on your table. It's not how many assets you have — it's what you can do with the value of those assets that matters most. *Garrick G. Zielinski (CFP®, CDFATM) is president of Divorce Financial Solutions in Milwaukee, WI. He has been providing divorce financial counseling and divorce financial analysis to individuals and attorneys since 1986 and has testified as an expert witness in many court cases relating to the financial aspects of divorce. He can be reached at web@divfinsolutions.com.*

Make the best use of your lawyer.

You can help your lawyer (and cut your costs) by making sure you have copies of all important financial documents related to your marriage, and by keeping track of expenses during the divorce process. Remember that your lawyer is not your psychiatrist: there is no point in telling your lawyer all the feelings you have towards your soon-to-be-ex-spouse. Letting your lawyer hear about your feelings will only make your wallet thinner. If you need to talk to someone, hire a psychiatrist — or talk to a friend if you don't need professional help. Finally, ask your lawyer and/or financial advisor to help you identify which decisions absolutely need to be made now, and which can wait until your emotions are under control. Big decisions made in an emotionally unstable state of mind usually turn out to be expensive and non-sustainable ones. *Stacy Francis (CFP®, CDFA™) practices in New York, NY. She can be reached at (212) 374-9008.*

How To Get Your Fair Share

When it comes to divorce, two old adages are worth remembering: Knowledge is power, but ignorance is not bliss. The vital first step to a financially-fair divorce is to get organized as soon as possible. If you know little about your family's money situation, you must gather information and take other important financial steps:

- Copy and understand income tax returns and investment reports
- Review current pay stubs with deductions, bonuses, and expense reimbursements
- Establish a credit history in your own name
- Order a copy of your joint credit report
- Research and verify the ownership of all assets (e.g. stocks, bonds, annuities) and how they are registered
- Review life, medical, and disability insurance policies
- Understand employee benefits summaries, mortgage terms on the family home, vacation and rental properties
- Clarify the terms of pension and profit-sharing plans.

This level of organization will help your advisors be more efficient with your time and may save you money in the long term. It also will begin the process of empowering you with financial decisions and allow you to control your divorce.

It will also help pave the way for a new beginning, setting new life goals worth pursuing and a release of the emotional baggage of the past. When women protect themselves in divorce, they feel engaged in many other areas of their lives; ultimately, they move forward into a powerful financial future and a secure life.

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Take a "big picture" approach. Clarify the issues that are most important to you and keep your primary focus there. These issues should concern both finances and parenting. Consider refining these issues with the help of a financial or mental-health professional who can provide the focus, objectivity, and long-term vision that may be difficult for you at this tumultuous time. By clearly articulating your needs and goals, you will expend less time, money, and emotional capital over the small stuff — or by seeking to redress emotional hurts in ways that the divorce process really can't address. *Amy Whitlatch (CFP®, CDFA™) has been specializing in divorce issues since 1998. Based in Cincinnati, OH, she has assisted in more than 300 cases; she can be reached via www.amywhitlatch.com.*

Four keys to surviving divorce. There are four basic things that you will need to survive divorce: a place to live, little or no debt, retirement assets, and liquid money. You should strive for a balance of each of these. You need a mix of each of these categories — not an abundance of one category and none in the others. There are three different general phases of the divorce process: the beginning, the middle, and after the divorce. In each of these stages, your budget may be different, so you should make sure that you have liquid money available at all times. In the beginning, you will need liquid money for the retainer to hire a lawyer. You should consider putting this liquid money in a money market account rather than a savings or checking account; this is a vehicle where you are able to earn more interest on your money. Make sure you understand what a money market account is and what it can do for you before making any decisions. *Nicole N. Middendorf (CDFA™, LPL Financial Advisor) focuses on divorce and retirement planning in Plymouth, MN. She can be reached at (763) 231-9500.*

Understand your disposable income after divorce. After divorce, you may be receiving different types of income — employment earnings, spousal, or perhaps child support — some of which will probably be taxable. In the midst of support negotiations, you need to know how much you'll actually be left with each month to understand the impact of a proposed settlement. To figure this out, you first need to separate the taxable and tax-free income amounts you will be receiving. Total all your taxable income, estimate and subtract the tax payable, and then add the tax-free income amount to the after-tax figure. Be aware that additional taxable income may move you to a different tax bracket, so be mindful of the tax rate you use. Compare your after-tax income to your expenses to create your new budget. If you're not sure how to do this, get help from a financial professional. Calculating your net disposal income is critical to helping you budget and to understand your new financial reality after divorce. *Eva Sachs (CFP®, CDFA™) is the founder of Women in Divorce Financial, located in Toronto, ON. She can be reached via www.womenindivorce.ca.*

This article is part of a series of helpful tips offered by members of the Institute for Divorce Financial Analysts™ — the premier national organization dedicated to the education and certification of financial professionals in the divorce arena.

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