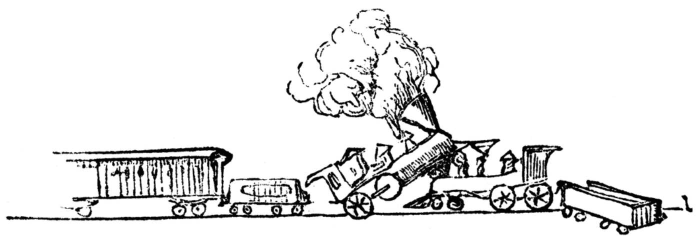
Top 10 Mistakes That Derail Your Finances



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Mistake #1: Not Knowing Needs Vs. Wants

This mistake leads to:

- Spending more than you earn
- High debt
- Low credit scores
- Little or no regular savings for long term goals

Mistake #1: Not Knowing Needs Vs. Wants

Examples

Need	Want
Transportation	New Car every 5 years
Shelter	4 Bedroom house with 3-car garage, granite counter tops and a back yard hot tub
Food	Dinner out twice per week and buying lunch every day at work
Clothing	$100 shoes "because I'm feeling sad."
Healthy lifestyle/exercise	Liftetime Fitness membership at $150/month

Mistake #2: Buying Too Much House

As a general rule, your monthly mortgage payment INCLUDING taxes, insurance, principal and income should be less than 28% of gross income.

On average, homeowners will pay 1%-4% of the value of a home each year in maintenance costs. Using 2%, that means a $400,000 house costs $8,000/year in maintenance. A $300,000/year home would be $6,000

Mistake #3: Insurance – Having Too Much or Too Little

Life Insurance: Primarily used to replace the income of the owner while he/she has others dependent on that money. When kids are grown and savings are enough, time to stop paying those premiums!

Umbrella Insurance: A cheap way to protect your assets if a person is hurt on your property or due to your negligence. A must for people with teenagers!

Mistake #4: High Car Payments

Overall Debt Ratio: Your total debt ratio including car payments, credit cards, student loans, and mortgage should be less than 36%

On average new cars lose 19% of their value in the first year of ownership.

Many people who have frugal habits drive cars for 10-15 years and over 200,000 miles.

Mistake #5: Stealing From Yourself

Loans from retirement accounts

Did your grandparents get to take a loan from their pensions to buy a house?

Can you take a loan from your Social Security to pay for credit card debt?

NO!

Retirement money is NOT YOURS to spend! It is your future self's to spend when you can no longer earn a living working.

If you can't afford a thing by saving outside of your retirement account, you don't get to have that thing and you probably don't need it (see Mistake #1).

Mistake #6: Making Payments Instead of Saving Up

Cost of a trip if you have the money in advance to pay for it: $5,000

Cost of a trip if you use a credit card with 15% interest and take 5 years to pay it off: $10,000

Cost of a Coach purse: $500
Cost of a Coach purse on a credit card with 12% interest paid over 2 years: $627

Mistake #7: Saving Only When You Have Money Left Over

Long term saving should be treated as a fixed cost as important as your house payment or utility bill.

A person who starts saving 10% towards retirement in their 20s will likely have a comfortable nest egg by age 65.

A person who waits to save until their 40s will need to save at least 20% for the rest of their careers to catch up on lost savings.

Mistake #8: Not Having an Emergency Fund

People who live paycheck to paycheck are more likely to be unhappy with their finances than those who have an adequate savings account for emergencies.

If you have no emergency fund, you are more likely to get into credit card debt or steal from your retirement accounts for unexpected expenses.

Mistake #9: Excessive Trading of Your Investments

Generally people who buy and hold investments for a long period of time have more money in the end than frequent traders.

Frequently trading accounts often leads to a pattern of selling investments after they've gone down in order to buy the latest hot thing. Selling low and buying high is not a good way to grow your money.

Trading often can incur more fees and taxes for an investor.

Mistake #10: Not Getting Professional Help

You wouldn't give yourself a physical or inspect your own new house before a purchase, would you? Why don't people at check in with a financial advisor at least periodically to see of their investments are on track?

Just as a CPA can help you avoid tax mistakes, a financial planner can help avert pitfalls such as:

- Retiring too early
- Spending too much in retirement
- Investing too aggressively or conservatively for your goals
- Making large purchases that are unaffordable in the long run
- Inefficient use of Social Security

Questions?