Financial mistakes you should never make

By Mike Slotopolsky

WHEN IT COMES TO YOUR MONEY being aware of some common blunders could mean the difference between failure and success. Not being aware of your financial affairs is the biggest mistake of all and, oftentimes, when you become aware of financial missteps, it's too late. So boning up on what not to do is step one to financial prosperity.

Financial mistakes create major problems if not resolved immediately. But it's a lot smarter to circumvent those problems before the resolution stage. Herein, tried-and-true tips to being financially sharp.

- Not having an emergency fund is a common problem for most folks. But life shows us there's always some financial disaster lurking to cause stress without the funds to take care of it. To remedy this, do not live above your financial means. You should target 20% of annual pay into a reserve fund for emergencies with at least six months (a year is better) of living expenses saved. I always suggest my clients create budgets they can realistically live with and include an emergency fund in it.
- Do not live with debt. Spending more than you earn is not only stupid, it's deadly. It's easy to spend money on frivolous items and get in over your head. Backtrack to the advice in the previous tip: make a budget and stick to it. The stress of living in debt is a nightmare that zaps the life out of you. Get rid of every credit card except one. Credit card interest is extreme and you should never pay credit card interest. If you don't pay off the balance every month, stop using your cards. If you must, never let your debt get to 90 days. A single 90-day payment can damage your score for as long as seven years. The only good reason to use credit cards is to improve your credit.
- Borrowing money when you don't need it isn't smart. While credit markets have tightened after the prolonged recession, there's still plenty of credit lines available because institutions make money on interest payments. Zero-interest credit cards, low-interest soft loans, and interest-free car loans cut into investor's pockets. My mailbox is inundated with credit card offers. Opening up accounts provide opportunities to draw on funds without worrying about consequences. I support borrowing money you can pay back right away to establish a good credit track record, but that's where I draw the line. It's important to have some debt because that allows you to build credit which helps when you want to buy a home and other big life events. But build it the right way. And make sure you look at your credit report at least once every six months to check for identity fraud or other errors that may be affecting your credit score.
- Living under-insured or with no insurance is ridiculous. You must protect yourself and your assets. You will not only feel more in control of your life, but you will be more in control because you will be safeguarded in case of any tragedy. I continually meet people who are underinsured for financial disasters and who have no life or disability insurance. You should not only have insurance, but you should review policies yearly with a financial planner or accountant. Often, people in financial distress cut their insurance because they don't see a return in investment. But you never know what's going to happen and those are the moments when insurance is critical.
- Not saving for retirement is a no-no. Young people think they have plenty of time so they don't make the effort. But it's essential to save as much as you can as early as you can to have a financially secure retirement. Starting early means investments grow tax free for a long time. And if your employer matches your contribution, pony up the top amount.
- Pay the minimum balance on student loans. Letting the debt just sit there means accumulated interest. Even if you qualify for a deferment, many deferments continue to tack on interest. The average student debt is almost $28,000, a 58% increase in the last decade. Work to pay off the loan as quickly as possible by paying more than the monthly minimum amount due. If you can only afford minimum payments, make sure they're on time so you avoid lowering your credit score and getting hit with late fees.

You save money when you avoid costly financial mistakes. So having a better understanding of a few common financial flaws will help you make better financial choices in future. And that means one thing to the bottom line: more money in your pocket. ❑

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