



of San Diego

HOME

PLANNER RESOURCES

8 WAYS TO SABOTAGE YOUR HOUSEHOLD FINANCES

1. Don't plan. Many people earn, spend, save and invest their money without a great deal of thought or planning. They have only vague goals and don't analyze whether their limited financial resources are being put to the most productive uses to achieve those goals and provide financial stability. In short, without a financial plan, and accompanying tools such as a budget, it's difficult to know where you're going or how to best get there.
2. Don't communicate. Spouses frequently have different styles of investing and managing money. These differences need to be discussed and then either reconciled or accommodated. Otherwise, financial conflicts can damage the overall household finances and even lead to marital problems. Leaving a spouse out of the "financial loop" also can be devastating should the other spouse die first. But financial communication should extend beyond your spouse. Financial planners strongly recommend that couples discuss finances with their children, particularly adult children who may inherit family wealth. A financial discussion with one's parents also can be critical in the event you have to take care of them or eventually settle their estate. Withholding from your financial advisor personal and financial information, or your true feelings about your goals or comfort level regarding financial strategies, severely undermines effective planning.
3. Wait to save and invest. People, particularly young people, often say, "I'll start saving later when I can afford to save." This overlooks the tremendous power of compounding. Catching up takes a lot more money than most people realize. Consider this example: A person invests \$100 a month for 30 years at an average annual return of 8 percent. At the end of 30 years, the person will have accumulated almost \$150,000. If they wait ten years before they start saving, they'll have to sock away \$260 a month for the next 20 years to reach roughly the same amount. If they wait until the last ten years, they'll have to sock away \$800 a month to achieve the same results.
4. Don't diversify your personal finances. The extended bear market has painfully illustrated the benefits of diversifying among a variety of investment categories. But diversification might well involve more than just investments. Take, for example, a couple where both work in the same industry, perhaps even for the same company. In addition, they invest heavily in stock options and employer or industry stock in their retirement plans. If that employer or industry suffers hard times, they could lose their jobs and much of their savings in one fell swoop. Furthermore, if their employer dominates the region where they live, the value of their home could suffer at the same time.
5. Chase the market. In the 1990s, many investors chased higher-risk stocks right over a cliff. Now some observers worry that investors are overconcentrating on bonds, with the potential for bad results when interest rates rise. The goal of investing is not to beat the markets-it's to achieve your life's goals. This usually can be accomplished by investing regularly, early and with modest risk. Constantly trying to

outwit the market year after year frequently causes investors to take excessive risks that in the long run leaves them well short of their goals.

6. Assume bad things won't happen. Newspaper headlines should convince most people that personal catastrophe or life changing events with negative financial consequences can occur unexpectedly at any time. Yet families routinely fail to prepare financially for such events. For example, they don't have sufficient emergency cash funds in the event of job loss or carry disability or long-term care insurance. They assume these events won't occur; yet if they occur, financial recovery can be long and painful, if they even recover at all.

7. Procrastinate. Families may have good intentions to get wills, develop an estate plan, rebalance their portfolio, update their insurance, or take an inventory of their financial health, yet never quite get around to doing it-until it's too late. This is especially common in estate planning, with its overtones of mortality.

8. Do it yourself. Yes, you should always be involved in the details of your finances, even if you hire financial advisors. But often it's beneficial to consult or work with an outside financial planner. A qualified planner who takes into account your entire financial picture can provide impartial, technical advice and, often most importantly, motivate you to put your financial house in order.

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