Some Common Mistakes in Money Management

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Money management is like many things in life. We learn through practice and experience rather than from a textbook, and most of us make our share of mistakes. Here are some common financial mistakes and suggestions on how to avoid them.

NOT KNOWING WHERE THE MONEY GOES

It is not unusual when families do not know how much they spend for insurance, transportation, eating out, and other routine expenses. Families are not budgeting nor are they tracking where their money is going, and with luck they're hoping there will be money left by the end of the month. Not knowing where your money goes demonstrates a lack of ownership over your money and can lead to detrimental outcomes, such as debt.

People work hard to earn a living. Effort should also be put into planning the use of money and savings. Simple arithmetic shows that we must spend less than we earn to accumulate savings. Not tracking your spending is stopping you from saving money because you're unable to see how much you could be saving by taking notice where you are over-spending. Taking control of your money by deciding where each dollar will be spent is key in winning financially. Try tracking your spending for a month, without changing the way you usually spend; that way you're better able to analyze and see where you need to make corrections with your money.

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FAILURE TO SET PRIORITIES AND GOALS

When financial priorities and goals are not established, too much money can be frittered away on inconsequential items that are not financial assets. The term "standard of living" is often used incorrectly in place of "level of living." Your standard of living is what you can reasonably hope to achieve. Your level of living is the way you actually live from day to day. In terms of financial goals and priorities, your standard of living and your level of living can be quite different.

The importance in setting goals is so you have something to work toward. Sometimes we can get so caught up in day-to-day problems that we end up with little to show for all our efforts. Recognizing this fact 20 years down the road may make some of your goals unattainable. Saving money just to save money is like digging a hole without knowing where you're going or what you're looking for. There are many things to look forward to in the future that your future self will need your present self's help with. You'll need to set goals for retirement (How much? By when?), your children's college, house down payment, and a dream vacation.

THE TENDENCY TO BE TOO TRUSTING

It's amazing how many people take advice from strangers without questioning their expertise or experience. Advertisers and salespeople are experts that tell you what you want to hear so that you will purchase their product and do business with them.

As the consumer, you need to be wise and gather the facts first before you do business with someone. Take time to do your homework before parting with your hard-earned money. Don't be rushed into financial decisions. If you are being pressured into a fast decision, take this as a signal that something may be wrong.

Keep in mind that you are not expected to be an expert in all areas. Learn to be comfortable saying, "I need to study this type of investment (purchase, offer, deal) before I make a decision. I'll get back to you."

LENDING MONEY TO RELATIVES AND FRIENDS

Lending money to relatives is risky business. If you can't afford to give the money as a gift, don't lend it. The sad fact is that family loans are the most difficult to collect. And if you co-sign a loan for a relative or friend, be prepared to possibly pay off the loan. The reason the bank requires a co-signer is if the borrower is unable to provide collateral or does not qualify on their own for the loan.

The best answer to most family money requests is "no." In the long run, this may be the best way to avoid hard feelings. Too often, payments go to other bills, and relatives are last to be paid, if at all. Lending and borrowing money from friends and relatives is personal. It's hard to be a debt collector with family because it will strain their relationship when it's time to collect. The best transaction with family and friends is to just give.

WAITING TOO LONG TO PLAN FOR RETIREMENT

According to the U.S. Census Bureau (2017), 16.9% of New Mexico's population is over the age of 65. Fewer people than you might think have pensions to count on when they retire. According to the National Compensation Survey by the Bureau of Labor Statistics (2018), 71% all U.S. employees are eligible to participate in some type of retirement plan, but only 55% choose to participate. Many are relying on those pensions, but be sure to verify with your workplace about what you will receive, if anything, after you're done working for them.

Another major factor for retiring over the age of 65 is because people are not receiving the expected amount from their Social Security benefits. Right now, it's estimated that by 2034 the Social Security Administration will no longer have enough money to pay off scheduled benefits (SSA, 2018a). In 2018, 21% of the population in the U.S., which is about 67 million people, received their Social Security benefits (SSA, 2018b).

To solely rely on your workplace and on the government can be a risky bet. Therefore, be sure to set up a retirement fund on your own, such as a Roth IRA. If your workplace has a retirement plan where they match your contributions, then you can invest in a 401(k) or 403(b).

PAYING INTEREST RATHER THAN EARNING IT

The overuse of credit prevents some people from achieving financial goals. The enemy that can come with credit when you don't manage it properly is debt. It's important to make more than the minimum payment on any of your debts so that you're able to pay it off more quickly and pay less in interest over the life of the loan.

Debt and paying interest are the enemy of our wealth-building; therefore, it's important to distinguish between paying interest (borrowing money) and earning interest (investing). The best way to earn interest for the long-term future, such as retirement, is by investing your money in a retirement account like a 401(k), 403(b), or Roth IRA. There are other investment accounts you can invest in, such as mutual funds, stocks, and bonds. With these types of investments, be sure to weigh the risk with the benefit that comes with it. When your money is invested in those types of accounts, your money is working for you and is earning compound interest. In the life of the investment, you're expected to have a larger return on your money than what you initially invested.

Overall, you want your money to work for you, not you working to pay off debts. Understanding the difference between paying interest and earning interest will provide you with financial freedom and future wealth. Truth is, no one should retire in the United States without being a millionaire. There are options out there to make your money grow quicker than sitting in a jar under your bed, sitting in your savings account, or constantly making payments.

INSTANT GRATIFICATION AND "KEEPING UP WITH THE JONESES"

Impulse buying is buying without thinking carefully about the purchase. If we see something we want and have a way to obtain it, such as using our credit cards, then there's no reason not to get it...right? Well, wrong. If you're spending money you don't have, then you shouldn't be buying it! It's common sense. Although today, everyone is trying to stay on top of the latest technology, clothes, and cars, which is hard to keep up with since there are always new advancements being made.

We make these impulse purchases by trying to keep up with everyone—we call this "keeping up with the Joneses." What this means is we buy things, with money we don't have, to try to impress others. Buying by rationalization is different from impulse buying. A definition of rationalization is "to devise self-satisfying but false or inconsistent reasons for one's behavior" (Dictionary.com, 2018). So, we feel like we need the latest smartphone because everyone else has the latest smartphone. We feel like we need a new car because everyone else has a new car. We need to go out to eat because our friends and family are always inviting us to go eat. We need to travel the world because celebrities and social media personalities are traveling the world. You are not them, your financial circumstance is different, and you have different goals—prioritize yourself.

LACK OF AN EMERGENCY FUND

Squirrels are smart. They put away resources, such as acorns, to use for a future situation when they're unable to gather food in unsafe weather conditions. Financial counselors report many financial problems are the result of an unexpected event such as a hospital stay, car accident, or job loss. As much as we don't want that to happen, emergencies will happen. Because we know that emergencies will occur, we need to be prepared like our fellow squirrels.

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