Advisor Article

Personal Finance Mistakes to Avoid

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Raymond Eustace
ray@eustaceadvisors.com
910-377-5021 office

www.eustaceadvisors.com

There are many articles and podcasts that discuss the "biggest financial mistakes" that people make and some tips on avoiding them. We see a lot of examples of how peoples' activities, such as not having a budget, making minimum payments on credit card debt, and missing opportunities to improve investment returns lead to undesirable financial results. These mistakes tend to be rooted in a failure to adhere to basic financial planning and guidance. Here are tips related to some of the more common mistakes we see.

Not Understanding the Basics of Financial Management

No matter how simple our financial lives seem, several factors may impact our futures. An ever-expanding tax code, a growing number of financial products to choose from, and impacts of insurance and estate planning can all have effects on our financial futures. It's important to become financially educated, so you are better equipped when making financial decisions. While a DIY approach to learning may be a start, you might also want to consider talking to a financial professional, especially one who demonstrates a focus on client education and collaborative financial plan management. Their experience may help you put financial information in context so you can apply it to your situation, needs, and goals.

Not Setting Realistic Financial Goals

In finances and life, deliberate action and highly-specific goals are often considered essential to achieving anything. Many people find that establishing these goals as part of a written plan increases the likelihood of achieving these goals. Whether it's paying off debt, retiring when and how you want, or helping your child pursue higher education, long-term goals usually need a clear, well-defined action plan to guide you along the way.

Not Monitoring Progress Toward Financial Goals

Once you establish financial goals and build a plan to achieve them, your work is not complete. A vital part of financial management is to periodically monitor progress towards your financial objectives and make adjustments to your long-term financial plan to account for life events (getting married, starting a family, retirement, etc.). A sound financial plan will include guidelines to review and adjust the plan, and the frequency for such reviews.

Not Saving for Emergencies

According to a 2021 survey by The Federal Reserve, more than a quarter of adults surveyed said that they wouldn't be able to cover a $400 emergency expense in full. Nearly 17% of adults will experience an unexpected illness or accident that leaves them unable to work for a period of their working life. Life happens. Cars stop running, unexpected medical bills occur, and people lose their jobs. Unexpected expenses like these are believed to be one of the biggest reasons people spiral into debt. Consider building an emergency fund into your budget so if something happens, you're better prepared.

Paying Too Much Attention to the Noise

With access to so much information via websites, podcasts, social media, etc., individuals are often subjected to information overload, which may lead to fear and doubt about their financial status or, even worse, taking actions that don't align with their financial goals and philosophy.

This can be avoided. People who want to plan for a better financial future should balance the intention of being aware of financial market news with the discipline to align any actions taken with their financial plan. Successful investors focus on the long term, regularly monitor their portfolios to ensure their investments are structured to meet their objectives and demonstrate patience and discipline when dealing with short-term events.

Not Monitoring Your Credit

Credit often plays a role in several points in your life - buying a house or car, financing a business, the cost of insurance, etc. Your financial life is shaped by your credit score, which can change often. A point change in either direction may translate to hundreds or thousands of dollars in savings or costs. Another important reason to monitor your credit is the growing threat of identity theft and fraud. Periodic monitoring of your credit score and record is an integral part of personal financial management.