4 Money Blunders That Could Leave You Poorer

A "not-to-do" list for the new year & years to follow.

Provided by Joseph A. Garafano, CFP®

How are your money habits? Are you getting ahead financially, or does it feel like you are running in place?

It may come down to behavior. Some financial behaviors promote wealth creation, while others lead to frustration. Certainly other factors come into play when determining a household's financial situation, but behavior and attitudes toward money rank pretty high on the list.

How many households are focusing on the fundamentals? Late in 2014, the Denver-based National Endowment for Financial Education (NEFE) surveyed 2,000 adults from the 10 largest U.S. metro areas and found that 64% wanted to make at least one financial resolution for 2015. The top three financial goals for the new year: building retirement savings, setting a budget, and creating a plan to pay off debt.[1]

All well and good, but the respondents didn't feel so good about their financial situations. About one-third of them said the quality of their financial life was "worse than they expected it to be." In fact, 48% told NEFE they were living paycheck-to-paycheck and 63% reported facing a sudden and major expense last year.[1]

Fate and lackluster wage growth aside, good money habits might help to reduce those percentages in 2015. There are certain habits that tend to improve household finances, and other habits that tend to harm them. As a cautionary note for 2015, here is a "not-to-do" list – a list of key money blunders that could make you much poorer if repeated over time.

Money Blunder #1: Spend every dollar that comes through your hands. Maybe we should ban the phrase "disposable income." Too many households are disposing of money that they could save or invest. Or, they are spending money that they don't actually have (through credit cards).

You have to have creature comforts, and you can't live on pocket change. Even so, you can vow to put aside a certain number of dollars per month to spend on something really important: YOU. That 24-hour sale where everything is 50% off? It probably isn't a "once in a lifetime" event; for all you know, it may happen again next weekend. It is nothing special compared to your future.

Money Blunder #2: Pay others before you pay yourself. Our economy is consumer-driven and service-oriented. Every day brings us chances to take on additional consumer debt. That works against wealth. How many bills do you pay a month, and how much money is left when you are done? Less debt equals more money to pay yourself with – money that you can save or invest on behalf of your future and your dreams and priorities.

Money Blunder #3: Don't save anything. Paying yourself first also means building an emergency fund and a strong cash position. With the middle class making very little economic progress in this generation (at least based on wages versus inflation), this may seem hard to accomplish. It may very well be, but it will be even harder to face an unexpected financial burden with minimal cash on hand.

The U.S. personal savings rate has averaged about 5% recently. Not great, but better than the low of 2.6% measured in 2007. Saving 5% of your disposable income may seem like a challenge, but the challenge is relative: the personal savings rate in China is 50%.[2]

Money Blunder #4: Invest impulsively. Buying what's hot, chasing the return, investing in what you don't fully understand – these are all variations of the same bad habit, which is investing emotionally and trying to time the market. The impulse is to "make money," with too little attention paid to diversification, risk tolerance and other critical factors along the way. Money may be made, but it may not be retained.

Make 2015 the year of good money habits. You may be doing all the right things right now and if so, you may be making financial strides. If you find yourself doing things that are halting your financial progress, remember the old saying: change is good. A change in financial behavior may be rewarding.

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Citations.

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