Managing Your Finances: Mistakes to Avoid

Time and time again, I get asked by people, "What can I do to manage my finances more effectively?". While the answer to that question can be largely individual, people that have the most success managing their finances generally avoid most of the mistakes noted below.

Mistake #1 No Plan

If you were to decide that you were going to take a driving holiday, chances are that you would pull out a map to determine the best or most scenic route to get to your final destination. Some people would call CAA to get their map service and others would buy available software that would let them map out their own course. The point is that not many people would get in their car and start driving without a plan on how they are going to get where they are going.

Your finances are no different and yet a staggering number of people have no real plan in place to help them achieve their goals and objectives. Individuals who are most successful with managing their finances have developed a short and long-term plan as a road map that will assist them in getting to where they want to be financially.

Mistake #2 No Goals

The reason many people do not have a plan in the first place, is that they have not determined what their goals and objectives are. There are the obvious goals such as retirement date, and estate goals but most people have many other goals over the course of their life—both financial and non-financial goals. Many individuals, while they have some idea of their goals, have not taken the time to articulate their objectives and then subsequently develop a plan for achieving them.

Mistake #3 Time....As a Friend

Time is probably your best friend when it comes to financial planning. It is very difficult to replace time without increasing your risk. The earlier you get started towards achieving your plan, the sooner you will achieve it.

Mistake #4 Time....As an Enemy

Time is also an enemy for most people. Not only from the perspective that they procrastinate in terms of executing their plan, but also in terms of how much or how little time they spend managing their finances or their plan. If you spend more time when you look for a new stereo, refrigerator, or car than you do managing your finances in a particular year, then time is probably an enemy.

Mistake #5 "Chasing" Mentality

Too many people have a "chasing" mentality—that is chasing the latest, greatest, best idea or investment The key to determining if an idea or product is appropriate for you means determining whether or not it contributes to the achievement of your financial plan—which means you need a plan to even know if you have this problem.

Mistake #6 I Can Do It Myself

Most people need some kind of professional advice to manage their finances. Whether it is tax, investment, legal or other advice, most people cannot do everything themselves. Too many people try and do everything because they think they should be able to or they don't want to pay the fees that professionals may charge. Don't be foolish—know you limitations and get help. You wouldn't perform open heart surgery on yourself, would you??

Mistake #7 It's My Money

This is a mistake that some couples make. For reasons that are usually non-financial (probably emotional) many couples manage their money separately. There are a number of reasons to look at the total resources of a family, not the least of which are tax reasons. The best reason to manage your money together is to make sure you achieve your shared goals and objectives.

Mistake #8 "Lock-In"

Remaining flexible in your planning is very important. Many people make decisions that they cannot get out of or if they can it is very expensive to change their minds. Setting up your plan to achieve your goals while maintaining flexibility is very important as both your plan and your goals and objectives will change over time.

To read further information on how to avoid these common mistakes, ask your ScotiaMcLeod Advisor about our Wealth Planning Series. These publications assist clients with tax, estate and retirement planning.