

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. One financial planner says most people can't account for 20% of their income.

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. Once a year, itemize family expenses and analyze them.

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 that which 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. One's standard of living and one's level of living can be quite different.

The importance in setting goals is so you have something to work towards. 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.

The Tendency to Be Too Trusting

- This land will double in value in 24 months.
- Earn hundreds of dollars in your spare time.
- You will save the purchase price in just one year.
- A franchise guarantees you security.

It's amazing how many people take advice from strangers without questioning their expertise or experience. A *Wall Street Journal* article had this headline: "SEC Files Show How Easily People Take Dubious Investment Advice."

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, family loans are the most difficult to collect. And, if you cosign a loan for a relative or friend, be prepared to pay off the loan. The reason the bank requires a cosigner is that the borrower is unable to provide collateral or does not qualify on his own.

"Kids put the biggest burden on women," says a financial planner. "They ask for money for cars, house down payments, tuition, and so on. I'm

always warning women to steel themselves against such requests. If you want to lend money to your children, get a promissory note," he cautions. "Always charge interest and don't make it ridiculously low."

One woman loaned \$3,240 to a nephew to buy a car. He said he'd lose his job without one. He hung onto the job but never paid her back. 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 the butcher, the baker, and the candlestick maker. Relatives are last to be paid, if at all.

Waiting Too Long to Plan for Retirement

Fewer persons than you might think have pensions to count on when they retire. In 1984, only 30% of those over 65 received a pension. This figure includes those who worked for the federal, state, or local government, as well as those who worked in the private sector.

Only half as many women as men received pensions, whether as retired workers or as spouses of retired workers. The median income for women from pensions in 1984 was \$233 per month, about half of what men receive.

One important factor contributing to these shocking statistics is the fact that the only source of income for most older women is Social Security. Currently, only one woman in five receives any type of pension, private or public, to supplement her Social Security income. Social Security was designed as a safety net to help avoid total poverty, not as a pension plan.

Although the number of men over 65 that receive pensions is twice as high as women, the number is still low. Only 30% of black men and 44% of white men received pension income in 1984.

Counting on Prince Charming

Jane Bryant Quinn, financial columnist, says, "I find this Cinderella syndrome in single career women and wives alike. The singles put off serious thought about savings, insurance, and investing because their lives seem so temporary without a man. The wives assume their husbands will always be there to love and support them.

"The bad news is that Prince Charming might never come along. If he does, he might leave or not make as much money as you do. A young woman today should organize her life for herself from her very first day in the business world. Every wife should have business skills in case her husband dies, leaves, or doesn't earn enough. Ultimately, the only person who will see you through the hazardous years ahead is you."

Overuse of Credit

The overuse of credit prevents some people from achieving financial goals. When next month's paycheck is continually promised for goods purchased today, economic security is jeopardized.

There are various rules of thumb for the amount of credit one can safely use. A sensible approach is to find out how your money is currently being spent. Next, set aside a sum to be saved monthly. If there is money left over after expenses and savings, you can decide whether to take on additional debts.

Help is available for people whose bills have become unmanageable. There is a Consumer Credit Counseling Service in Albuquerque and El Paso. Both will accept clients from other areas. They are non-profit organizations.

Poor Shopping Habits

Poor money managers often own lots of things. Some items are inexpensive trinkets, but some are costly items. Impulse buying is buying without thinking carefully about the purchase.

Buying by rationalization is different from impulse buying. A definition of rationalization is, "to devise self-satisfying but incorrect reasons for one's behavior."

We should think of purchases in terms of trade offs. Most of us can't afford everything we want, so choices must be made. In other words, what will I give up in order to have this item? If I decide on a recreational vehicle will I have to give up or wait several years for the addition on the house?

Insufficient Attention to Financial Details

Every family has its own system of handling the details of its finances. Some systems are excellent, some barely exist.

Some women spend more time clipping and filing recipes than they spend on family finances. On the other hand, some men spend more time on hobbies than they spend on money management. Ideally, both spouses should be familiar with the family financial affairs, even if one person tends to details.

Lack of a Regular System for Savings

Squirrels are pretty smart. They put away resources to use when needed. Financial counselors report many financial problems are the result of an unexpected event such as a hospital stay, car accident, or job loss. Although unforeseen and

unavoidable, financial distress or disaster can occur when there are no savings to fall back on.

Accumulation of money starts with savings. Next comes investments. Have a family meeting and discuss how to start or increase your savings program. You cannot afford to be complacent or procrastinate.

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