Avoiding Financial Mistakes
"Leads to Financial Prosperity"

Educating yourself about money

The material has covered many financial topics you will encounter throughout your life. This knowledge provides the skills necessary to map out your future and begin planning for financial security. There will be many bumps and obstacles along the way that may blindside you. This section discusses some of the more common financial mistakes people make. The awareness you gain ahead of time about financial errors will enable you to make wise financial decisions. The key to your financial security, as indicated throughout the material, is to **educate yourself**! The more you read about financial information and apply it to what you have learned, the easier it will be to reach your financial goals. Knowledge is power that no one can ever take from you, so, **learn**, **learn**, **and learn**!

Save! Save! Save!

Start creating positive habits while you are young. Stash money away in an interest-bearing account every time you earn it or it is given to you. You'll be amazed at how quickly it grows. Savings, investments, or stock market accounts will make money on your money. Remember the concept of compound interest? The more you save now, the more it grows into your retirement years.

A couple of reminders to consider:

1. **Pay yourself first.** Calculate the first hour of pay from work every day and save that amount.
2. **Create an account that equals between six and nine months of living expenses.** This savings, referred to as an emergency account, is established in case you lose your job or need immediate cash to pay your monthly bills.
3. **Open a retirement account.**
   Don't wait. The longer you do, the harder it is to catch up and the slower your money grows.
4. **Create a vacation account.** You will be working a majority of your life, so treat yourself to rest and relaxation now and then. Instead of vacationing with money needed to pay bills, contribute a certain amount regularly to a vacation fund.

Unnecessary spending

Too many times, people accumulate wealth only to lose it one dollar at a time. The **latte factor** refers to spending money frivolously on items that aren't necessary. The name is derived from people going to a coffee shop daily and purchasing a latte. Think about it. If you spend $3 on a latte every day during the week (5 days), this equates $15 per week ($3 x 5 days) or $780 per year ($15 x 52 weeks). Wow! Wouldn't you rather put $3 per day into a vacation fund, and use the $780 you saved to go on a vacation?

The latte factor refers to spending on other items, too. It could be eating out more than once a week or buying sodas or snacks from the vending machine. Many of these items can be bought in bulk, stored at home, and taken with you to school or work. This will save the extra prices at the vending machines, coffee shops, etc. Every dollar counts, so spend wisely, not frivolously. It's ok to play the latte game once in a while, but don't make it a habit if you want to build wealth.

Continuous payments

Continuous payments are a problem when you purchase items or services on a **subscription basis**. For example, music and cable contracts, such as Comcast and Sirius, can easily add up. Ask yourself if these services are necessary. You may be able to save for them in the future when you are making more money and have more wealth. Although the purchase of a car is not a subscription, it usually takes three to five years to pay off a car loan. Once you pay off this loan, **consider not buying another car for a few years but continue making the same payment into a savings account.** This allows you to save money and reduce your future payments by helping you create a bigger down payment.

Small vs. Big house

There is a saying "keeping up with the Joneses." This means buying everything your friends and neighbors are buying. Sometimes this means buying fancier and bigger items to make yourself look good and supposedly improve your status. Keeping up with the latest gadgets and models can easily deteriorate wealth quickly!

One of the biggest purchases you'll make in a lifetime is a house. Many times, people buy more house than they need. Bigger is not always better. Consider purchasing a house that is adequate and meets your needs. A house with a smaller mortgage payment allows you to save and invest instead. In addition, within time, your house will more than likely appreciate in value. Sell it and make enough money to purchase a larger home, if required. Intelligent homeowners build equity and don't struggle paycheck to paycheck to pay the monthly mortgage payment on time.

Habitual spending

Habitual spending refers to creating **spending habits that are hindering your ability to build wealth.** The latte factor was mentioned above; however, there are other spending habits that can also be detrimental to your financial security. **Gambling is a bad habit to develop.** Many people get the "luck" urge. They gamble at casinos; purchase an abundance of weekly lottery tickets; and/or bet at the local horse race track. Although fun and great entertainment, your chances are slim you will win the big jackpot. Most people who gamble rarely win or come out ahead.

Getting hooked on some form of drugs is also a bad idea financially. People who become dependent on substances spend lots of money to do so. Their spending spirals out of control. Their addiction forces them to beg, borrow, and steal from friends, relatives, and others to find the money to buy drugs. Seek help immediately if you realize you have become dependent on something that is causing you to lose your money. Eventually, it leads to unhappiness and damages the relationships around you.

Surviving on borrowed money

People borrow money often; unfortunately, Americans borrow more than they should. Let's start with credit cards. If you recall from the credit card topic, if used appropriately, using credit cards has several advantages. The major **drawback to credit cards is overspending. Purchases** charged on a credit card can rack up thousands of dollars and finally reach the point where the debt can't be paid off.

Tip: Use credit cards only if you are able to pay your monthly credit card bill in full on or before the statement due date.

By doing so, you save money in interest and late fees. If you are unable to do this, at least pay more than the minimum balance. It's also smart to not eat out, go to the movies, or purchase gas and groceries on a credit card. Limit your credit card purchases to emergencies and situations where you are making purchases for yourself instead of for others.

Beware of get-rich schemes

There are many people out there that believe they can get rich fast with a small investment. Don't fall into this trap. It can be quite costly for you, and you can end up losing thousands of dollars or your hard-earned money.

A **Ponzi** scheme is a method of luring you into a venture that promises you the ability to make lots of money. You are enticed to invest a large sum because other people are investing their money just like you, and you are getting some of their buy-in to the scheme. Eventually the system breaks down because the people at the top are keeping a large percentage of the money that you and everyone else are still investing. Similarly, a **pyramid** scheme is a method where someone at the top of the pyramid recruits a second person who is required to invest some money, knowing that they will see a return many times over what they put in. The second person then recruits several more people to invest money. These people then go out and recruit more people to invest. The money continues to flow to the top. Eventually, there are no more people to invest and the entire pyramid collapses.

Don't be fooled by someone who promises you that you can make lots of money with very little effort or time. Anytime someone promises you big profits without having to work, be leery; you can lose thousands.

Budget, budget, budget

It was advised earlier in the material to set up a budget and control your income and expenses so you know what you can afford. Setting up and following a **budget keeps you from the dangers of overspending** and helps you to not fail financially. It may be difficult at first, but it's a rewarding habit once you have mastered it.

Keep it simple (KIS). First, start with a goal; remember **the SMART goals**? It might be establishing a $2,000 emergency fund; saving for a $1,000 vacation; or better yet, saving for a $10,000 down payment on a home. Whatever the amount, determine how much you need to put away weekly, monthly, or yearly. It's best to put money away **weekly or biweekly**. As mentioned above, **KIS** at first. For example, limit yourself to only a few categories, such as "living," "debt," and "savings." In the old days, people used pencil and paper to track their spending. With today's technology, there are budgeting sites that track your spending for you. Find a site or a free app, link it to your accounts, and let it do most of the work for you. Also, be honest with yourself when setting up a budget. For example, say you eat out three times a week and spend $30. If it's not in your budget, you are overspending. Put "eating out" as a line item in your budget and stick to it; otherwise, refrain from doing so.

Tip: Use a reward system to stay on track.

For example, tell yourself if you stick to your budget for a period of time (say three months) you will reward yourself with a nice dinner (or something similar). This will make you feel good about managing your money appropriately.