Money Matters: Financial mistakes to avoid

By Rick Gross

Even people who are financially secure can fall into money traps that put their future at risk, or miss out on opportunities to further strengthen their financial position. Here are several common mistakes made by financially accomplished people – along with a few tips to counteract them.

Overspending. You've worked hard to get where you are. Don't abandon the budgeting strategies that helped you come this far. Give your discretionary fund a boost if you must, but continue to keep an eye on what you spend each month. You can easily fall behind in your financial goals by consistently overspending in small amounts, which add up to large sums over time.

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Not having an emergency fund. If you earn a healthy sum each month and have money set aside in investments, you may not think you need other savings. However, having a workplace plan like a 401(k) or 403(b) plan or an IRA is not an emergency fund. Withdrawing funds earmarked for retirement prematurely can incur costly tax penalties, and make you lose out on potential future earnings. Instead, store away three- to-six months' worth of income in liquid savings to provide a cushion in the event of job loss, natural disaster, illness or another unexpected event.

Prioritizing saving for college over retirement. As the cost of a four-year degree in the U.S. continues to rise, it may be tempting to put your child’s tuition ahead of your own future. Yet, boosting your retirement savings should take priority. Your child has an array of options to finance college tuition, including job earnings, merit-based scholarships, and various loan options. When you retire, you simply won’t have access to these external sources of funding if your retirement savings come up short. If you are on track with your retirement savings and want to set aside funds for your budding student, be strategic and diligent about creating a plan to achieve both goals.

Being underinsured. Take a critical look at what you own. How easily could you replace those items if an unexpected event occurs? Standard policies may not cover as much as you think, especially if you’ve recently upgraded your home or added to your art collection. Check in with your insurance agent and upgrade your coverage as needed. If you live in an area prone to severe weather, you may be able to add a rider for flood or storm damage. Bump up your life insurance if it makes sense and review your potential need for disability income and long-term care coverage.

Failing to diversify. You heard it a million times growing up – don’t put all your eggs in one basket. If your money is tied up in your home, or if your investments are over- or under-weighted in one sector of the market, you may be on risky ground. Work with your financial advisor to evaluate your level of diversification within the context of your goals. Annual or more frequent reviews are recommended to help ensure a productive portfolio that’s within your tolerance for risk.

Rick Gross is a financial advisor and private wealth advisor with Ameriprise Financial Services Inc. in South Lake Tahoe.