

## Money and You: Common blunders - Personal finance resolutions for 2008

by *Carrie\_Schwab\_Pomerantz*

When most of us make resolutions for the new year, we phrase them as "things to do": "I'm going to lose 10 pounds this year," or "I'm going to join a gym (and actually go)." But I'm taking a slightly different tack with my slate of 2008 resolutions.

My list includes common mistakes people make when it comes to money - and when I say "people," I definitely include myself. Let's all resolve not to make these blunders in the new year. And make sure you get through the entire list: I've saved the most important point for last.

- Spending without a budget.

A surprisingly large number of folks don't really know where their money goes. A simple budget, income on one side and expenses on the other, will give you valuable insight into opportunities to cut spending as well as boost savings.

- Keeping a balance on your credit card.

Here's one of the more costly personal finance mistakes: Maintain a balance on one or more of your credit cards. Credit card debt is notoriously expensive. According to Bankrate.com, the average standard credit card interest rate is 13.42 percent. If you can afford to pay it off today, do so. If you can't, pay more than the minimum and get that balance down to \$0 as soon as possible.

- Not having an emergency fund.

Remember what our parents taught us? "Save something for a rainy day." As old-fashioned as that sounds, it's a great idea for everyone to have something set aside for emergencies. A good figure is three to six months' worth of normal living expenses stashed in something very liquid and safe like a high-yield savings account. If you own a home, consider establishing a home equity line of credit; you may never need it, but if you do you'll be glad you have it.

- Ignoring the necessity of estate planning.

Most people know this: If you have children, you really need to have a will. But many people wrongly assume that estate planning is the province of the very rich or the elderly. It's painful to acknowledge your mortality, but it's important to make some decisions about how your assets will be divided when you die.

Start thinking about your financial legacy - security for your spouse, education for your children, or donations to charitable causes. Get your wishes in writing with the help of a lawyer; if you are truly wealthy, enlist the professional advice of an estate planner.

- Having too little (or too much) insurance.

Insurance is a necessity of modern life, a way to hedge against risks: The potential catastrophic financial consequences of a major health issue, damage to your property, or loss of life. Most bankruptcies, for example, are caused by uninsured health problems.

Take a little time this year to make sure you've got your insurance bases covered. And make sure you're not overinsured. Some people are so afraid of risk that they buy too much coverage.

- Not investing, or not investing enough, for retirement.

Thanks to the widespread adoption of tax-advantaged 401(k) plans, more and more people are investing for the biggest financial challenge of all: a financially secure retirement. Still, too many people aren't saving enough. As I noted in an earlier column, one survey found that about 60 percent of people age 45 or older have less than \$100,000 in retirement savings. If you run the numbers for what retirement costs and what you're likely to get from Social Security, that's nowhere near enough. If you have the means to do so, contribute the maximum to your 401(k) or IRA.

- Putting off tax planning.

Every December, it seems that every financial news source publishes an article on "trimming your tax bill." These are usually filled with good advice, but don't wait until December to devise tax strategies. Throughout the year, select appropriate investments for your taxable and tax-advantaged accounts. For example: In tax-advantaged retirement accounts, consider investments that have the potential to generate a lot of taxable income; however, in taxable accounts, shift the focus to long-term capital gains and/or qualified dividend income. Offset realized gains with losses. Consider tax-free investments if you live in a high-tax state. And if your situation is at all complicated, you might do well by getting customized advice from a tax professional.

- Not understanding risk.

This is critically important: Risk and reward go hand-in-hand. If you're too risk-averse, your portfolio may not grow enough to help you meet long-term goals. Take on too much risk, especially in the short-term, and you might suffer catastrophic losses. Last year, the equity markets were quite volatile, and most market watchers expect more of the same in 2008. But remember that the markets' ups and downs are inevitable. If you're investing for the long-term (a minimum of five years), you should be able to endure the swings. If you're investing for a goal in the next few years, the equity markets are probably not for you.

- Not having a plan.

A lot of people manage their money by the seat of their pants; however, at the end of the day, successful personal finance requires planning. Craft a budget and use it to make decisions about spending and saving. Articulate your financial goals - calculate amounts and time horizons for college for the kids and retirement - so you can make appropriate investment choices. Plan your financial future to help you devise strategies for getting there.

- Letting emotions govern financial decisions.

Finally, I can't say this too forcefully: Try to remove emotion from your personal financial decision-making. Emotions are your enemy. They can cause you to buy at a market peak and sell at a market low, which is exactly the opposite of what you should do. If you can't make financial decisions objectively, consider working with an objective adviser who can help you avoid rash moves.

I wish everyone the best - financially and personally - in 2008!

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