

6 wealth-building mistakes – and how to avoid them

BY Sarah Max, Fidelity Interactive Content Services — 01/29/10

It's easy to come up with excuses not to save and manage our money wisely – we all do. Breaking down barriers and coming up with solutions can lead to greater financial success, both now and later in life.

If there's an upside to the down economy it's that it has inspired – or forced – many of us to think about how we budget our money – our saving, spending and investing habits – possibly for the first time. But if you can't get past the “think” stage and move to the “do” stage it's time to take a close look at what's standing in the way.

For many people, the biggest impediment may be the word budget itself, says Justin Krane, a certified financial planner and president of Krane Financial Solutions in Los Angeles. “It connotes that you can't spend or have fun.”

That's an easy fix. Ditch the “b” word and call it a “saving and spending plan.” Or maybe “wealth-building plan” works better for you. If your resistance extends beyond semantics, here are six common roadblocks that stop many of us from keeping better track of our monthly finances – and ideas for getting around them.

Excuse No. 1: I just don't know where to start

It's understandable. Budgeting isn't a part of standard school curriculum and it's often not taught at home. Many of us scrape by in our early years only to quickly revel in the apparent ability to live *without* a budget. And while there is no shortage of books, software and online programs promising help, that's often part of the problem. There's so much information it's easy to get overwhelmed, especially if you don't know the basics. The good news: You can make budgeting as simple or as complicated as you'd like.

“You don't have to click down to the lowest level to glean some insight into where your money is going,” says Chris McDermott, a certified financial planner and senior vice president of investor education, retirement and financial planning for Fidelity Investments. The important thing is to find a system you're comfortable with and just do it.

For that reason, Wilton, N.Y., certified

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financial planner Bill Losey tells clients to start with a sheet of paper. "Draw a line down the middle, devoting one side to the money coming in and one side all the money going out," he says. "This gets to the heart of the question 'Where does all the money go?'"

Tally your monthly non-discretionary expenses – things like your mortgage and utility payments – then move on to your regular discretionary expenses (think movies and dinners out). Finally, account for vacations, holiday shopping and other expenses that don't show up every month but can wreak havoc on your budget.

Keep yourself honest by looking back at one year's worth of bank and credit card statements. (That shouldn't be too difficult if you access the information online.) You get extra credit if you go a step further and write down every dollar you spend for at least one month.

Once you've laid out where you spend your money, you can think about making some adjustments. It makes sense to try to trim discretionary expenses first, says McDermott, but you should also put non-discretionary expenses under the microscope. For example, how much can you save by refinancing your mortgage or revisiting your insurance policies?

Excuse No. 2: I've tried budgeting and it didn't work for me

"They didn't set a goal or their budget wasn't realistic," says Syble Solomon, a financial behavior specialist and creator of Money Habitudes, a card game designed to help identify money

WEALTH-BUILDING BASICS

- ✓ Identify your financial goals for the short- and long-term.
- ✓ Estimate your monthly after-tax income. If it varies month to month, come up with a conservative annual estimate and divide by 12.
- ✓ Tally your non-discretionary expenses, making sure to include any costs that catch you off guard. If you carry credit card debt, be sure to account for monthly payments.
- ✓ Review last year's discretionary expenses. Keep yourself honest by looking at your annual credit card report and online bill-paying summary.
- ✓ Plan ahead. Add big-ticket expenses you expect to incur this year and consider setting up separate savings accounts or envelopes earmarked for those costs.
- ✓ Reconcile your income and your expenses. How much is left to put toward the goals you identified in step 1?
- ✓ Look for ways to save. It makes sense to start by trimming your discretionary costs, but also look for ways to save on the non-discretionary side of the equation (such as refinancing your mortgage).
- ✓ Map out a spending and saving plan. Go back and add your saving and debt reduction goals to the expense side of your balance sheet. Rather than lump all of your savings

habits and attitudes.

In fact, before you track your expenses or vow to cut costs you need to consider why you're doing so in the first place. It's okay to dream a little, especially when it comes to long-term goals. But for more immediate goals, be specific, says Solomon.

Don't just say you want to pay off your credit card debt or save for a down payment on a house. Put a dollar amount and a time line on your goals. Still, you have to be realistic, about how you've been spending your money and whether your new spending plan is sustainable. "If your budget is too strict it won't work," says Solomon.

For some people, it's the little things that eat up their income. Other people live frugally most of the time then go on spending binges. Look for patterns in your spending. Do the floodgates open when you're with certain friends? Does your mood affect your spending? You may not be able to radically change your behavior, says Solomon, but you can at least plan for it.

Excuse No. 3: I earn enough; I don't need to budget

If you earn enough to cover all of your bills and still have money left in the bank, you probably think you need a budget as much as Kate Moss needs a diet. Yet a budget isn't simply about making ends meet. Just as eating better can boost your energy and add years to your life, budgeting can lead to smarter financial decisions.

"You can't manage your money if you don't know where your money is going," says Rob Wilson, a financial adviser in Pittsburgh who works with entertainers and professional athletes. In fact, setting financial goals and devising a spending plan may be even more important if your income is high, because chances are your expenses are high as well. Establish guidelines for spending and saving now, says Wilson, or risk a dose of cold water down the road. If you need an unbiased reality check – or simply don't have time – enlist a financial planner to help you see where you stand and help you set some boundaries.

Excuse No. 4: I'm all for a budget, but my spouse has other ideas

Nan Sterman, 51, has spent much of her 25 years of marriage "pleading and cajoling" her research scientist husband to get on a budget. "He simply resists," says Sterman, a garden designer and author in Encinitas, Calif. "And you can't do a household budget when one of the two money spenders simply refuses to participate."

This is a common conundrum, say planners, but the solution is in the approach.

"It all comes back to talking about goals," says Solomon. Instead of confronting your budget-

together, categorize by purpose, such as monthly fun money (dinners out, new clothes), near-term savings (emergency fund, vacation fund) and long-term savings (retirement, college).

- ✓ Follow through. Come up with a system for staying on track, whether by using multiple accounts, online software or old-fashioned cash.
- ✓ Revisit your budget annually — or when your expenses, income or goals change.

averse spouse about spending less, have a conversation about your short-term and long-term goals. Do you want to buy a new house, start a family, retire, take a trip to Europe? "Keep the conversation positive," says Krane, the Los Angeles planner. Talk about the fun stuff, then move on to the details – when, how much and, finally, how. Once you've identified a common purpose, a discussion on budgeting comes naturally. One spouse may still take the lead role and that's fine. Just make sure both of you buy into the plan and agree to stick with it. How you adhere to a plan is a matter of personal preference. Some couples set up a shared account for common expenses and separate accounts for "fun money." Others agree to spending guidelines, while others simply use cash. Whatever your method, agree to revisit your plan for an annual or biannual "money summit."

Excuse No. 5: My income isn't predictable. How could I possibly budget?

On the contrary. If you don't earn a regular paycheck because you're self-employed or work on commission, it's even more critical to budget, lest you not be caught off guard if you hit a dry patch.

The trick, says Krane, is to effectively pay yourself a salary based on a conservative estimate of your annual income, taking into account how much income you need to cover your regular expenses. When times are good, pay yourself that salary and bank the rest. When times are lean, you can use some of your banked income to make up the difference.

If the money starts accumulating, you can gradually move some of it into a long-term savings vehicle, such as a retirement account, or allow yourself a bigger income. Just don't get too carried away. "If you're self-employed, you want a minimum of six months to a year's worth of living expenses in cash," says Krane.

Excuse No. 6: Life's too short to waste time on a budget

True, but life is also too short to lose sleep worrying about whether you have enough money, or worse, suffer serious financial setbacks because you insist on managing your affairs by the seat of your pants.


Here's another way to look at it: "Think about how much you earn an hour," says Solomon.

When you account for late fees, overdraft fees, poor investment choices or spontaneous spending, chances are you'll "earn" more spending some time on a budget. And if you think your time is worth more than that, hire a professional to scrutinize your spending for you. Eventually, you can budget on autopilot, either by tracking your expenses with an online service, by making budgeting a part of your monthly routine or by using cash – or a designated checking account and debit card – for your discretionary expenses.

"Eventually you see progress and you'll want to keep doing it," says Jim Dailakis, 41, an actor and comedian who started budgeting out of necessity when he moved to New York 10 years ago. His initial goal was to build an emergency fund, but as his savings grew he was able to pay off his home in his native Australia and, eventually, buy a second home.

"I'm by no means rich," says Dailakis. "But because I budget I don't have to worry about money." That frees him up to think about other things, like his next punch line.

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