

FINANCIAL SECURITY ISN'T JUST A DREAM

In my twenty five years in the financial services business, I have found that there are financial mistakes that are common to many people. These mistakes often act as barriers to achieving the financial independence that most people desire. Here are the top ten mistakes as well as some strategies you can use to reverse course.

1. No well defined goals. Without a goal, it is hard to have motivation. For example, young couples often have a burning desire to own their own home. This is so important to them that they will focus much of their financial energy on this goal until it is achieved. To achieve this kind of focused result, write down the two or three financial goals that are most important to you. Then, develop a brief written game plan for achieving them. If, for instance, you want to fully fund your retirement, you will likely want to begin contribution to your company's 401-k plan. If you want to fund an education fund for your child, start contributing \$50 per month into a 529-college savings plan. Aim to increase your contributions another \$50 per month beginning with your next pay raise.

2. Rotating credit card debt. The typical working adult has at least half a dozen credit cards. The number of cards isn't the issue—it's that most people end up not paying off their entire bills each month. The result is a rising tide of debt that strangles ones financial future. My suggestion is to only have one or two cards and use them only in emergencies until you are able to pay off the balances on all of your credit cards. It will take both time and discipline but paying down your debt will put you back on the road to financial independence rather than financial bondage.

3. No savings for emergencies. Whether it's the loss of a job, an unexpected auto repair, or a serious illness, sooner or later, there will be unexpected bills. Without adequate savings, people end up borrowing. One strategy for dealing with this is to set up an automatic deposit to a savings account equal to 2% of your take-home pay. You can do this at your local bank or credit union or your employer may be able to do this directly from your paycheck.

4. Not capturing your company's 401(k) match. There's no excuse not to participate in your employer's 401(k) plan, especially if the company matches some of your deferral with company money. It is not unusual to find matching contributions of 50% to 100% of the first 6% of pay. I suggest you contact your human resources department and find out if your employer is making matching contributions to the company retirement plan. If the answer is 'yes', sign up now for at least the amount of contribution that is matched by your employer.

5. Buying too expensive a car. Over their lifetime, most people will spend more money on automobiles than any other single recurring purchase. We estimate that the typical couple spends in excess of \$1 million on auto purchases during their lifetime! People are concerned with driving the "right" car and they're often willing to overpay for "stature".

However, cars begin to depreciate in value as soon as you drive them off the dealer's lot. The greatest depreciation occurs during the first two years. What can you do to offset this fact? Try to commit to keep your current auto until your loan is paid off. Then, continue to 'make payments' to a new car purchase account until you have enough money to buy your next car for cash. In the future, buy a car that is at least two years old but still under manufacturer's warranty. This will allow you to own a nice car, free of debt. Generally, the longer you own a car, the better off financially you will be.

6. No cash management planning. Don't groan.... Budgeting does not have to be burdensome or time consuming. If you don't budget, you're far more likely to have no money left at the end of the month. Most people spend more than they earn. The end result is escalating debt and debt payments generally result in it becoming more difficult to get yourself back on track. It is helpful, especially at the start of this new year, to commit to setting up a budget and following it for the next 12 months. The easiest way to do this is to use a computer program such as Quicken (www.quicken.com). Be sure to 'budget for success', which means your budget should include an investing component and reducing debt should be a high priority.

7. Inappropriate insurance coverage. Insurance premiums can easily soak up 15% or more of take-home pay! The biggest abuser is life insurance. Often, I find people are paying too much in premium for too little coverage. If you're the breadwinner for your family, your first priority is to have enough coverage to provide dependents with adequate financial support should you die prematurely. This will often require \$500,000 to \$1 million or so of term life insurance. Make it a priority to schedule an appointment with a trusted financial advisor for a complete review of your current coverage. Find someone who has no vested interest in your buying excess life, disability income or property and casualty insurance. The goal is to have adequate coverage at the lowest costs.

8. No will or living trust. 85% of adults either have no will/trust or one that is seriously out-of-date. Obviously, this is a financial issue that doesn't matter until you die. Then, it can matter a great deal to your surviving loved ones. If you die without a will, who your property goes to will be determined either by property title or by state intestate laws. New Mexico law may well produce an undesirable result, especially if you have children who are minors. Think about your current will. Does it reflect your current wishes? If your answer is 'no' or 'I'm not sure' or you don't have a will, contact an attorney who does this type of work and meet with him or her to discuss your situation. If you have a large estate, you may want to work with an attorney who specializes in estate tax law. I can provide references if you email me a request.

9. No retirement plan. Financial independence rarely happens by accident. It takes a great deal of thought and work. The biggest mistake most people make is thinking this is something that can be done 'later'. The problem is that later is often too late because the key to accumulating enough money for a comfortable retirement is to start a systematic investment program early on. Retirement planning involves many complex calculations and assumptions. Your best bet is to seek the aid of a qualified advisor or financial

planner who can help you develop a detailed strategy tailored to your specific situation. Your strategic game plan should be reviewed and updated often, at least annually.

10. No fitness plan. It may seem strange that I would list poor physical fitness as a top ten financial mistake, but unfortunately, too many people don't take care of their physical well being. The result is poor health which exacts an increasing financial toll just when you would otherwise be ready to start enjoying retirement. Instead of traveling or recreating or just sitting at home, you end up traveling from physician to physician. Try committing 30 minutes per day to an exercise program. It can be as simple as walking for 30 minutes, even if means walking 'in place' in front of the TV. Buy a 'walking meter' that measures how many steps you walk each day. The goal should be to walk a minimum of 10,000 steps each day (about 3 miles). As you progress, introduce weights into your program. Even lifting light weights helps stabilize and increase bone density.

We all want to lead a prosperous and healthy life. By avoiding these top ten mistakes, you will be well on your way to achieving these goals.

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