BREAKING BAD MONEY HABITS

Changing your behavior may help improve your financial picture.

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Many of us plan thoughtfully for all kinds of life goals. Yet many of us spend impulsively, using our money on the moment rather than saving or investing it for the future.

This last recession caused us to take a second look at where our dollars go. If you seem to be making adequate money and yet dollars still appear to be slipping away from you, maybe it is time to break some budgeting and spending habits.

First of all, have a budget. Many people live without one – and that includes many affluent people. This exercise is starkly simple, but might be illuminating: make a two-column chart, with the left column listing your monthly income and the right column detailing your expenses. Detail them as best as you can, type and monthly amount. Include your credit card expenses. This little exercise shows you how much you are spending on essentials and how much of your income you are assigning to comparative frivolities. Perhaps you will find some dollars you could reassign to planning for your financial future.

Distinguish needs from desires. Do you need that material item or merely want it? Slick marketing and advertising leaves many consumers unable to tell the difference. They run up debts to buy what they want, rather than what they need. How many of them understand that by borrowing, they are actually spending away future earnings?

Discern the difference between good & bad debt. Do you know the difference? A bad debt is a debt you incur on a disposable item or a durable good that will depreciate. It is a debt on something that has no potential to gain value. You want to avoid as many bad debts as you can. Of course, there is also good debt – for example, a mortgage, a business loan or a student loan. These are so-called "investment debts" that can potentially create value down the road.

Educate yourself. Some people are very cavalier when it comes to spending and saving money. Others are convinced that they will never be able to build wealth, so they spend their days addressing short-term financial needs and give no thought to the wealth and income they will need in maturity.

In both cases, the root problem is a lack of education. Those who spend money like water don't understand its value; those who shun financial planning and investing don't understand its potential. People with greater degrees of financial education tend to be more rational when it comes to financial decisions. (Not always, but often.)

Set financial goals and take them seriously. When people educate themselves about money – the ways to potentially make it, the ways to plan to protect it – they start to see how the financial world "works" and they tend to explore their own financial potential. This exploration may lead them to meet with a financial advisor. That conversation can inspire them to set and plan for specific objectives, and get a relationship going - a shared commitment to wealth building. If you haven't had such a conversation, today is as good as any day for that to happen.

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