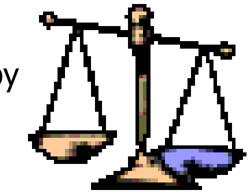
The Old Is New Again – How to Stop Making the Same Mistakes



Lately I've been thinking a lot about how the things we adopt early in life help or hurt us. It happens with food, with relationships and with our finances. Often these attitudes (often misled thinking) are pretty ingrained by the age of 10.

Listening to a program on PBS over the weekend, the host was talking about how people make the same mistakes over and over until they finally realize it isn't working (if they are lucky they realize that) and seek help from an expert. Often in their family of origin they saw these mistakes being made and sometimes their parents sought help – but that was usually after the kids were grown and gone.

Coming from a family of origin that was great with nutrition and pretty good with relationships but not at all good with money, I had a lot of things to un-learn. And, thankfully, the Big Guy upstairs put me into a field where I could do that. Financial Planning.

Over the years I learned to put things on automatic pilot, how to design pension plans, how to avoid paying too much income tax, how to read contracts - among many topics - and how to communicate to clients the importance of having a written plan to follow.

A lot of what I learned was learned from helping fairly successful people correct the mistakes they were making (or about to make in retirement) with their finances. After more than 30 years I think I have some insight from the psychology side as to why so many mistakes happen.

Take spending, for example. Many people lived on a budget in their 20's to accumulate money for a house or a wedding. That was good. Then they spent all the money, bought a house, started a family and went for a ride on the financial rollercoaster. Maybe they even made a lot of money. Maybe they even saved a little. They were income rich. But not asset rich. Big Hat, no cattle as they say in Texas. That's like a charity that spends their endowment, the endowment that is supposed to add income annually to their bottom-line budget.

When we reach retirement – or semi-retirement – the money we earned over our lifetime has to support us. Even if we acquired assets through no fault of our own through automated saving in a 401k, or stock options, or an inheritance – we did not learn how to think differently. Over and over I see people retire with a million or even much more, spend too much money in early retirement. Our projections show they are likely to run out of money before they run out of time. Sometimes they buy too many houses or cars or they just have too much of the wrong kind of money and the taxes they have to pay to use it suck the life out of their retirement savings. They don't know about the tax triangle early in life and pay the price later on. They don't factor inflation and bad markets or low interest and tax increases and possible future legal hassles into their projections. They take the wrong pension option and their spouse ends up paying the price.

Of course, we also see the opposite. Not too often. People who are not spending enough money and need to increase their fun budget. People who defer spending and end up giving NYS or the IRS a big chunk of taxes when they die.

Which one are you?

Keeping a financial life in balance requires wisdom without emotional involvement, a written plan and at least annual oversight.