

Common mistakes to avoid the situation like financial crisis

Mistakes that can derail your financial life and ways to avoid them.

To err is human. But some mistakes can completely derail your financial life. In fact, managing your finances and making smart money decisions can be a challenge and it is inevitable that mistakes will be made.

However, "sometimes even a single financial mistake may be detrimental to your financial goals. In fact, for so many aspects of financial planning, there is no going back, at least without some sort of penalty."

Mistake #1: Having No proper Financial Plan

A staggering number of people have no real plan in place to help them achieve their goals and objectives.

Agents, brokers, bankers, Relatives, Internet and T.V. advertisers etc.. (made for there jobs, target and Commissions, promotions) syndromes is also main reason for delaying in Proper financial plan.

Individuals who are most successful with managing their finances have developed short and long-term plans

Too many people put financial planning on the back-burner until they get older, when panic starts to set in. But having no financial plan or putting off financial planning may be the biggest mistake of all.

"People generally only seek the services of an accountant, for example, when they need to file tax returns. Financial planning is something you can put off easily as there is no requirement for instant gratification - unlike if you have a pain in your body. However, just as putting off visits to a doctor can lead to huge complications, so can delaying an annual check-up with a financial planner. If a visit to a financial planner is put off for too long, it is always too late!"

Therefore, if you want to adequately save for your family and your future or simply retire rich, you first need to get your financial goal in systematic order and that can be done only through proper financial planning.

"Financial planning requires thinking through and setting of lifetime financial goals which enable one to determine the appropriate asset allocation required for oneself and one's family. If this asset allocation is followed in a disciplined manner, goals can be achieved without the uncertainties of the market."

Therefore, figure out where you are, where you want to be and put in place a realistic plan for getting there.

Mistake #2 - I Can Do It Myself

Most people need some kind of professional advice to manage their finances. Whether it is tax, investment, legal or other advice, most people cannot do everything themselves.

- Too many people try and do everything because they think they should be able to or they don't want to pay the fees that professionals may charge
- Don't be foolish - know your limitations and get help

Mistake #3 - It's My Money

This is a mistake that some couples make. For reasons that are usually non-financial in nature, many couples manage their money separately.

- There are a number of reasons for looking at the total resources of a family, not the least of which is tax-related
- The best reason to manage your money together is to make sure you achieve your shared goals and objectives

Mistake #4: Not Starting Early In Life

Even if some people want to plan for their future, they generally think they need not plan early. Depending upon their individual time frame, thus, they do not like planning for more than three weeks or three months or, rarely, three years in advance. "Let's imagine that we are kicking off from the centre in a football match. We need to score a goal more than the other team to win. You can't hope that you will defend your goal for 89 minutes and then attack in the last minute and score the winning goal," It is just like planning funds for retirement about a year before the actual retirement date, or even taking a life insurance policy a month before one's death, . Having a goal and starting early to meet that goal are absolute musts.

Mistake #5 - No Goals

The reason many people don't have a plan in the first place is that they haven't determined their goals and objectives.

- There are the obvious goals such as retirement date and estate goals
- Most people have other goals over the course of their lifetime, both financial and non-financial
- Many individuals haven't taken the time to articulate their objectives and then develop a plan to achieve them

Mistake #6: Not Investing Slowly & Systematically

The problem for many people is that they live month to month and don't develop healthy saving habits until they are in their thirties or forties.

"Contributions to a savings plan should be recognized as the first of your necessary monthly expenses, so that money saved will never be thought of as money that can be spent. Even if you start saving in small amounts now, you can always increase in the future."

Mistake #7: Putting All money In One Basket

Another common mistake is non-diversification of portfolio. In this case, a major part of the portfolio is invested in a single or same type of financial instrument which increases risks, resulting in high losses/profits.

"Individuals should, therefore, diversify their portfolio, i.e. all your money should not be invested in the same asset class. Investment portfolios should be diversified in accordance to one's risk appetite,".

There are two primary reasons to diversify your portfolio - one is to take maximum advantage of the market conditions, and the other is to protect yourself against downturns. The basic concept is to divide your investments among asset classes where returns are inversely proportional to each other.

Mistake #8 - Time As a Friend

Time is probably your best friend when it comes to financial planning

- It's very difficult to replace time without increasing your risk
- The earlier you get started towards achieving your plan, the sooner you'll achieve it

Mistake #9 - Time As an Enemy

While you may have a good idea of what your business is worth, you should still consult with a professional business evaluator to confirm or determine this crucial figure.

Time is also an enemy for many people. Not only from the perspective that they delay executing their plan, but also in terms of how much or how little time they spend managing their finances or their plan.

- If you spend more time looking for a new stereo, refrigerator or car than you do managing your finances in a particular year, then time is probably an enemy

Mistake #10: Having Unrealistic Expectations

There's nothing wrong with hoping for the 'best' from your investments, but you could be heading for trouble if your financial goals are based on unrealistic assumptions. For instance, lots of stocks have generated more than 50 per cent returns during the bull run in recent years. However, it doesn't mean you should always expect the same kind of return from the stock markets. Similarly, if your property prices more than doubled during 2004-07, it doesn't mean you should expect at least 30 per cent annual return from real estate in the future. The bursting of stock market bubbles is a case in point.

Mistake #11: Not Sticking To The Budget

You are more likely to face financial problems if you have been extravagant in your expenses. However, in a bid to tide over the current crisis and also avoid such crises in the future, you need to adhere to some financial discipline -- making a budget and sticking to it is one of them. However, to do that it is important to keep track of your spends on a day to day basis to ensure your money is going to the right places. If you are already in the habit of making budgets, then you can also readjust your budget to suit your aims.

Always remember that a rupee saved is a rupee earned. Therefore, stick to discretionary budgets so you can handle the uncertainty in non-discretionary expenses.

Mistake #12: Having No emergency Fund

The need for having an emergency fund, particularly keeping some cash at home or in a bank account, has always been emphasized by investment planners.

"Even standard financial principles suggest that you should keep aside cash to cover three to three months of living expenses, which would also be able to cover most emergency expenses."

In real life, however, very few people see the importance of keeping an emergency fund in their portfolio. Forget those who can't afford it. It's true even for those who heavily invest in stocks, real estate and other assets - and sometimes pay heavily for their mistake.

Mistake #12: Not Having Adequate Cover

It is pretty evident that an economic recession, a pay cut or higher interest rates on loans would all have much less of a negative impact on your family's financial future than the death of the bread winner of the family. However, few people realize the importance of having sufficient risk cover as most people look at insurance as a no-return investment. Also, as the financial needs of individuals have evolved over time, there is heightened importance of risk protection combined with wealth creation.

"Insurance products can help provide an important protective shield around one's financial goals and retirement savings. They also help in effectively managing a diversity of risks and allows one to enter their retirement years with more confidence."

Mistake #13: Counting on Tomorrow's Income

Counting on tomorrow's income to spend today is a big mistake which has already been proved by the current crisis. In fact, until the financial meltdown hit us, the spending levels of individuals, especially in the 25-35-year age group, have been almost equal to their income, if not more.

"With easily available loans and credit cards, they were tempted to indulge even without being able to afford the expense. Now with pay cuts and job losses, they are facing the worse. However, even if you keep your job now, the prevalence of pay cuts makes it clear that you can't count on an ever-expanding paycheck to make up for your spending" Therefore, you should avoid counting on tomorrow's income as far as possible.

Mistake #14: Being Guided By Fear

Many investors have been losing money, particularly in stock markets, due to their inability to control fear and greed. In a bull market.

Mistake #15 - "Lock In"

It's essential to remain flexible in your planning. Many people make decisions that they can't get out of or, if they can, it becomes very expensive.

- Setting up your plan to achieve your goals while maintaining flexibility is very important
- Both your plan and your goals and objectives will change over time Never put your money in locking period.