
Financial Traps to Avoid

There's a good reason so many athletes, entertainers and businesspeople who made seven figures and higher suddenly find themselves filing for bankruptcy.

Money mismanagement can eat through even the biggest bankrolls.

Here are some specific threats to financial stability that people can avoid to help effectively manage their wealth.

No Budget

In 2019, CNBC reported that even though [93% of Americans¹](#) believe everyone should have a budget, only one in three actually does. Budgeting does not have to mean skipping coffee and driving a jalopy for the rest of your life. It does mean paying close attention to how much money comes in and where it all goes. Use your financial goals to guide you in steering your money in the right direction.

Too Much Debt

If you have a lot of debt to pay off, a budget is all the more important. It helps reduce the likelihood of relying on more credit to fill the gaps. A budget also helps you to collect all those extra dollars and cents that you could put toward paying more than the bare minimum on debt. When paying off debt, start with the higher-interest accounts first and work your way through to save money.

No Protection

Insurance can be expensive, but going without insurance can be even more so. Renters, homeowners, auto, health, disability and life insurance policies are the main ones you should consider. If you have a business — especially if it is your main or only source of income — getting business insurance can protect your livelihood in the event of a mishap with a client or customer.

No Retirement Planning

Forbes estimates that roughly 25% of Americans have [nothing saved for retirement²](#). This may be forcing some people to continue to hold stressful, low-paying jobs well into their retirement years. It is never too early to start planning for retirement, no matter how small your contributions are. Remember to take advantage of matched contributions from employers whenever possible.

Too Much Risk

There is no investment that is 100% without risk. If there were, the returns on that investment would be negligible. Even so, taking on too much risk at the wrong time can lead to big financial problems. Taking on high levels of risk is appropriate for young people who have more time to recover and is not advised for people nearing retirement.

Shady Investments

Even worse is when risky investments turn out to be fraudulent or shady. In fact, the more risk-free an investment sounds, the more you should do some digging. This holds true whether the business or individual you plan to invest in is a stranger or your brother. People who miscalculate or fail to do enough research can cause you just as much financial damage as fraudsters.

Poor Tax Management

No matter how much or how little money you make, tax management is a great way to help keep money in your pockets. This is especially important after a large windfall, such as an inheritance. For instance, if you inherit an Individual Retirement Account (IRA) and choose to cash out, you may lose a portion of this in taxes. Divorce is another time of life when tax management is key.

Mismanaged Assets

Stocks are often traded frequently, making them active investments, but you still need to ensure your portfolio stays balanced. Similarly, if you have a home, keeping up with repairs and improvements maintains and grows its value. Unmanaged assets also pose a problem, such as when people allow large sums of money to sit in accounts with low to no interest rates and high fees.

For some people, money management is a talent and financial literacy is almost an inborn skill. Many other people, however, could use a little help making financial decisions. Contact me today for help.

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1. <https://www1.cbn.com/cbnnews/finance/2019/may/1-out-of-3-americans-dont-use-a-budget-but-93-say-everyone-needs-a-budget>
 2. <https://www.forbes.com/sites/niallmccarthy/2019/06/03/report-a-quarter-of-americans-have-no-retirement-savings-infographic/#30e15bb23ebf>

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