YourMoney.com.au
Herald Sun Melbourne Monday 26.09.2011

Mistakes that shred your finances

Learning the hard way is no fun, so do it easy, writes **Karina Barrymore**

NO ONE plans to waste money or make bad financial decisions but make them we do.

Often our first and hardest lessons are from our mistakes. So *Your Money* polled the experts to come up with the top 10 money mistakes that people make – so you won't have to learn the hard way.

The No.1 mistake, and the one that sounds the easiest to overcome, is probably the hardest of all lessons to stick to.

It is this small mistake that triggers a chain reaction that can cause financial havoc for the rest of our lives.

1 SPENDING MORE THAN YOU EARN

"This happens to rich, poor and in between. It seems to have nothing to do with what income group you are in," Financial Counselling Australia executive director Fiona Guthrie says.

"Of course, there are people who simply don't earn enough, such as those living on a Centrelink income, but for many others spending more than they earn is a decision," Guthrie says.

For regular expenses, only buy what you can afford to pay for without using credit.

2 APPLYING FOR TOO MUCH CREDIT

Just because you can get credit doesn't mean you should accept it, experts say. "Don't increase your credit limit unless you can pay it off in full every month," Consumer Action Law Centre chief executive Carolyn Bond says.

Overestimating your repayment ability is a common mistake. Include all debt repayment amounts in your budget.

3 NOT HAVING A PERSONAL BUDGET

If you don't have a budget, you don't know if you are spending too much – simple, says Hewison Private Wealth adviser Glenn Fairbairn.

"People often do it the wrong way around – they get a mortgage and then they work out how much is left over to live off," Fairbairn says.

"But first, they should work out the budget and then decide if they can afford a mortgage."

Only 7 per cent of Australian households have a budget, according to debt research company Veda Advantage.

Working out a budget, even if you don't stick to it, means you have calculated all your expenses and income, which is better than having no idea.

4 FAILING TO PLAN FOR THE WORST

"Australians are probably the most underinsured people in the world," Fairbairn says. "Lots of people might insure their houses or cars but they don't insure their biggest asset, their ability to earn an income.

"If you capitalise your income every year, that would be your largest asset, by far, so to protect this you need income insurance, life insurance and disability insurance to protect your family if you die or are unable to work."

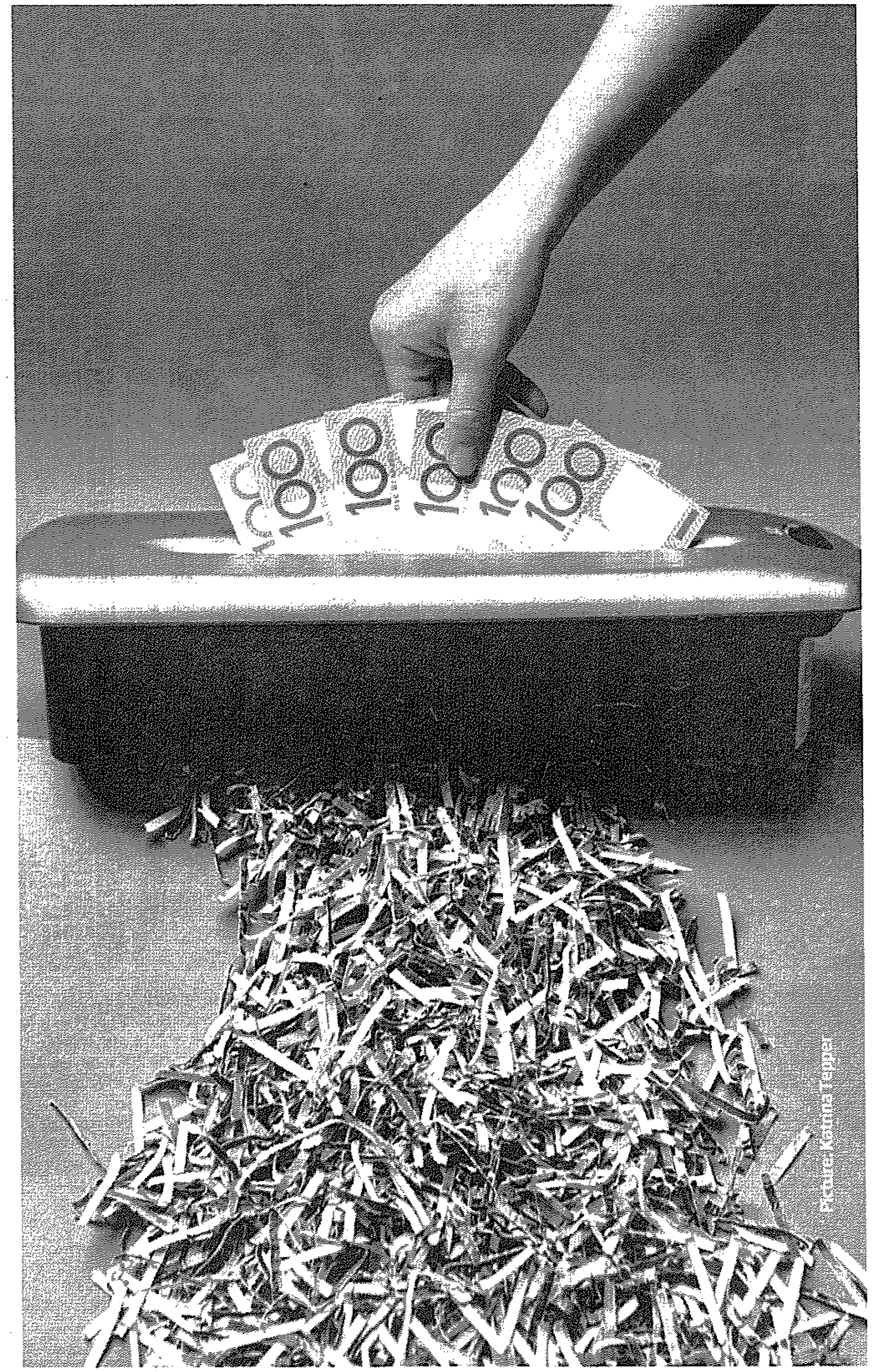
5 NOT HAVING A SAVINGS PLAN

Saving money or making contributions to your superannuation or a small investment plan is one of the best long-term moves you can make for your financial future, even as little as $5 a week, experts say.

"Everybody should be setting a savings goal, even if it's just for something you have to buy in the next 12 or 18 months – at least that's better than paying 20 per cent interest on a credit card," Fairbairn says.

"Longer-term wealth accumulation often starts out small, that's the beauty of compound interest."

[Continued Page 2]

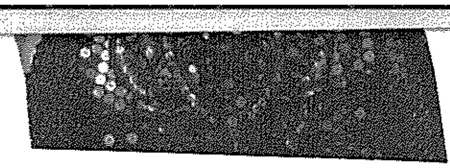


Picture: Karina Tepper

DAVID & LIBBY KOCH
How to be a millionaire
[P2]

[PROPERTY]
Ashleigh Camping is living the dream
[P3]

Building a buffer



certainly be cushioned as Asia's growth, in particular China's growth, continues to be solid.

So keep all the bad news in perspective.

Money mistakes that should be avoided

[FROM PAGE ONE]

6 GOING GUARANTOR FOR SOMEONE'S LOAN

This can be one of the most devastating money mistakes. Not only does it usually signal the end of a close relationship or trust but it can leave the guarantor in debt for the rest of their lives.

Never co-sign or guarantee someone's loan. If the lending institution doesn't think they can afford it on their own, then the chances are they can't and you'll be left with the debt.

7 GIVING YOURSELF A BAD CREDIT RECORD

Defaulting on any loan repayments and bills that come your way will usually end up as a black mark on your credit record.

There is also a range of less-obvious things that signal a potential bad risk to credit providers.

Veda Advantage spokesman Matt Strassberg says shopping around for credit, even if you don't accept it, can also look bad on your credit record, as it indicates that you are potentially being rejected by other lenders because you are a bad risk.

Check your credit record and if there is a mistake, don't let it slip. Make sure you get it corrected.

8 SIGNING FORMS YOU DON'T UNDERSTAND

This not only applies to loans and purchases but also investments and other financial products. Read the fine print and if you don't understand it, don't sign.

Instead, ask for a copy of the contract and take it to your nearest free counselling or legal service for their advice.

This mistake can also apply in reverse, if you misrepresent your finances within a contract – especially when applying for credit.

According to Veda, one in 10 Australians tend to overstate their income or understate their expenses, leading to dire personal and legal consequences.

9 HIDING MISTAKES FROM OTHERS

Financial Counselling's Fiona Guthrie says that people are often embarrassed about their financial troubles.

"They put their bills in the bin, hide them from their family, all types of things," she says.

"But financial difficulty can happen to all of us, no matter what our income level. Being upfront is the best policy. Speaking to a financial counsellor can provide you with many options, such as hardship programs and negotiating with creditors."

If possible, get advice or contact the organisation before you default or are late with your payment, as this can often trigger a better response and also avoid a black mark on your credit record, Veda's Matt Strassberg says.

10 THINKING THERE IS AN EASY WAY

Last but not least are the financial problems that often stem from so-called easy money.

"There's just no easy way to make money," Hewison adviser Glenn Fairbairn says.

"A lot of people think they can make money quickly through certain investment strategies but it's the long-term view that counts, not the short-term race," he says. "If it's too good to be true – it's probably not (true)."

032