TOP 10 FINANCIAL HABITS THAT MATTER THE MOST

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Introduction

Habits can make or break any aspect of your life. ***Whether it's your health or the cleanliness of your car, your habits are the most important influence.*** After your health and your family, your finances might be the most important aspect of your life. Consider everything that's impacted by your financial health:

- Your ability to borrow money
- The ability to purchase the necessities in life
- Sending your kids to college.
- Handling life's mishaps, like flat tires, broken washing machines, a failing roof on your house, and braces for the kids.

Poor financial habits can create situations that require years to rectify. They can even lead to bankruptcy. Fortunately, habits can be changed with intelligence and determination. A clever approach and perseverance are all that's required.

The power of eliminating a few poor financial habits and adding a few good habits is staggering, especially when viewed with a long-term perspective.

> ***"Our character is basically a composite of our habits. Because they are consistent, often unconcious patterns, they constantly, daily, express our character."***
>
> ***- Stephen Covey***

Identifying and Eliminating Your Poor Financial Habits

Bad habits are one of life's greatest obstacles. ***Few things can get in the way of success more than a bad habit.***

No one likes dealing with their unhelpful habits. They're hard to get rid of for a reason. But eliminating detrimental financial habits allows for greater financial freedom and success.

Not all bad habits are created equal. Some are especially damaging:

1. **Failing to track your spending.** When the credit card bill arrives in the mail each month, are you ever surprised? Do you stare at the unopened bill for a while, heart pounding, while you mentally tally up your purchases for the month?

    - This is a common habit among those with financial challenges. ***If your money is important to you, track it.***

2. **Purchasing impulsively.** Impulsive buying is purchasing things you didn't intend on buying when you left the house or turned on your computer. You know you have a challenge with impulsive purchasing when you run to the store for a pair of brown socks and come back with socks, 2 pairs of shoes, and a leather jacket.

    - Determine what you need and then purchase it. This is especially true for larger purchases.

    - It's easy to rationalize in the heat of the moment. Avoid falling into that trap. If you know you're weak in this situation, be diligent.

3. **Not taking debt seriously.** It's easy to convince yourself that a $67 payment each month is manageable, and it probably is. However, when that $67 monthly payment continues for 60 months, it adds up to a lot of money.

    - Consider how much interest you're paying.

    - Consider how much you could have earned by investing that money instead.

- How long will the item last? It's not uncommon to still be paying for things that have found their way to the trash.

- Dealing with debt is like riding your bike against a wind that never stops blowing. It continuously takes from you. Avoid accumulating debt.

4. **Failing to save automatically.** The common mindset works like this: "I'll pay my bills, live my life, and then I'll save whatever is left at the end of the month." You stand a better chance of walking on the moon than making this strategy work.

   - ***With this strategy, there's never anything left over at the end of the month.***

5. **Failing to understand the latte factor.** Those little purchases might not seem important, but they quickly add up. That $5 coffee each day is over $1800 each year. That's enough to take a vacation with your family. How many other small purchases do you make on a regular basis?

   - Cigarettes

   - Magazines

- TV Guide
- Newspaper
- Candy bars
- Ice cream / frozen yogurt
- Soda
- Going out to lunch instead of bringing your lunch.
- Make an honest assessment of how much you spend each year on coffee and these other items. What else could you buy with that money that's more meaningful to you?

6. **Paying bills late.** Are you habitually late when paying your rent, mortgage, credit cards, or utility bills? Did you know that credit card companies make more money from late payment charges than they do from the high interest rates they charge?

    - If you're consistently late paying your bills, it's costing you dearly. If you're late paying your bills, you're not handling your financial business. This is a sign that you're likely not handling the other business in your life effectively either.

These are the primary poor habits that lead to financial struggle. ***If you have one or more of these habits, your financial future is seriously limited.*** It's well worth the time and effort to change these habits into positive habits that support your financial goals.

This list isn't intended to be exhaustive. ***It's intended to stimulate your thinking about your own habits that are hurting your financial health and future.*** You can't change something if you're unaware of it.

Make yourself fully aware of your negative financial habits:

1. **Make a list of your current financial troubles.** Examine the following areas:

    * Savings
    * Income
    * Debt
    * Retirement
    * Spending

2. **Determine which habits are creating these financial challenges.** Think about your spending habits, how you pay your bills, and how you save. ***Which of your habits are causing you the most grief?***

3. **Find a replacement behavior.** For example, if your poor habit is buying expensive coffee on the way to work, a replacement behavior could be drinking the coffee at work, making coffee at home, or drinking tea instead.

   * Make a list of all the options. Select the option that's most appealing to you. Consider the cost, hassle, and likelihood of compliance. For example, if the coffee at work is horrible, it's probably not a viable option.

4. **Make a commitment for one month.** If you can avoid your harmful habit consistently for a month, you're in great shape. Expect to deal with some negative feelings and impulses during the first 30 days.

5. **Remind yourself of how great it will be to drop this habit.** In the coffee case, imagine how much money you're saving and what you can do with those funds instead of drinking coffee on the highway.

6. **Deal with slippage.** There's a good chance you might have a slip or two along the way. Accept that you're not perfect and resolve to do better tomorrow. ***Determine what led to your slip-up and find a solution.***

7. **Reward yourself for success.** After a month of avoiding your bad habit, reward yourself in some small way. Rewarded behavior is more likely to reoccur.

Poor financial habits can leave you in the poorhouse. ***Eliminating detrimental financial habits can have a bigger impact on your finances than developing good financial habits.*** The steps and strategies for changing habits are well-known. The motivation and determination are your contribution to the equation.

> ***"It seems, in fact, as though the second half of a man's life is made up of nothing, but the habits he has accumulated during the first half."***
>
> ***- Fyodor Dostoevsky***

Good Financial Habits that Make a Big Difference

Good financial habits lead to good results. ***When you control your habits, you control your future.*** The best financial habits can be subtle, but powerful. However, they aren't always easy to implement. For example, it's not fun to live below your means, but it's fundamental to achieving any financial goal.

Ensure that you have good financial habits in place:

1. **Live below your means.** No financial success can be achieved unless you're spending less than you earn. ***Spending more than you earn is the primary cause of financial difficulties.***

    - If you're consistently spending more than you earn, you either have to tap your savings or accumulate debt to pay your bills. You could also stop paying some of your bills, which obviously creates great challenges down the road.

2. **Avoid debt.** It could be argued that debt is necessary to purchase a car or home. Maybe. However, there are few other cases that justify debt. Vacations,

furniture, TVs, dining out, and so on are not good reasons for debt.

- ✳ These first two habits are enough to avoid 95% of potential financial challenges. Avoid spending more than you earn and avoid unnecessary debt.

3. **Save money first. *Save part of your income before you ever get your hands on it.*** This is easy to achieve by having your employer deposit part of your paycheck into another account separate from your checking account. A brokerage account can be a great idea. The money is more challenging to access and it's easy to invest.

- ✳ You can also set up your checking account to do the same thing at regular intervals. Just avoid temptation before the transfer is made.

4. **Pay off debt aggressively.** Most debts take more in interest from you than the stock market will ever provide to you. Therefore, paying off debt can be better than any investment.

- ✳ A credit card debt collecting 22% interest is devastating. Paying off that debt is like an investment earning 22%. You won't earn that in your conventional investing activities very often.

5. **Separate wants from needs.** Food, clothing, and shelter are examples of needs. A second computer, a boat, and new curtains are examples of wants. When you're thinking about spending money, ask yourself if it's a want or a need.

    - ***Not every "want" should go unsatisfied.*** However, spending this money is optional. If you're struggling financially, there's a good chance that you're spending too much money on your wants.

    - Keep the long-term impact in mind before purchasing an item that you don't need. A $100 dinner would have resulted in $859 over 20 years when invested at 10.8%. Was that dinner worth $859 to you?

6. **Have a budget and follow it.** Even billionaires need a budget. Some incredibly wealthy individuals have lost everything due to excessive spending. Few topics have received more coverage than budgeting. There are books, videos, web pages, and apps dedicated to budgeting. Take advantage of them.

- Find a reliable source of budgeting information and put it to use today. Make a reasonable budget and follow it.

7. **Pay close attention to financial habits that impact your family.** Your family needs more than just money in the bank. What if you die or are unable to work? If you're married or have children, there are other people to consider besides yourself.

   - Life insurance
   - Health insurance
   - Disability insurance
   - Estate planning
   - Making monthly insurance premium payments isn't an enjoyable habit, but it is necessary for the protection of your family.

8. **Keep the future in mind.** If you're not regularly contributing to a retirement account, you're planning to fail. There are options for those with conventional employment, as well as those that are self-employed. Consider these options:

- 401(k)
- Solo 401(k)
- 403(b)
- Traditional IRA
- Roth IRA
- SEP IRA
- Make a goal to max out your contributions to one or more of these types of accounts. Your future will be all but guaranteed.

9. **Pay your bills automatically.** Provided you have the money in your account, there's no reason to ever be late paying a bill. Most bills can be paid automatically. It's a simple process to ensure that your bills are paid on time so you can avoid paying late fees.

   - In those instances that a bill can't be paid automatically, develop the habit of sitting down once a week and paying all of your bills.

10. **Review your finances each month.** Sit down with your significant other once each month and review your finances. How much did you save and spend?

How are your investments doing? How much money is in your retirement accounts? What adjustments need to be made? Are there any large purchases looming in the future?

These 10 financial habits are the habits that matter the most. How many of them do you currently possess? ***A few good financial habits can completely change your financial situation.*** Start with these fundamental habits and make them a high priority.

> ***"An unfortunate thing about this world is that the good habits are much easier to give up than the bad ones."***
>
> ***- W. Somerset Maugham***

Tips for Creating These Beneficial Financial Habits

Habits are interesting. Once they're in place, they're very challenging to change. Even habits that don't work well are difficult to alter. Logic clearly isn't sufficient alone to alter a habit, or we'd all be doing a lot better!

You can be 100% certain that daily candy bar is bad for your health and your finances, but the drive to purchase and consume it seems impossible to resist.

Use these strategies for altering your habits:

1. **Reduce your discomfort.** Slow changes are more successful. ***The key to changing your habits is to minimize the amount of discomfort you feel.*** Change is uncomfortable. Big changes are more uncomfortable than small changes.

   ✴ Whether you're eliminating a bad habit or adding a good one, accumulate small changes over time.

   ✴ For instance, making the changes needed to save $500 more each month can be overwhelming if attempted all at once. Instead, save an extra $25 each week. In a month, increase the amount to $50. You'll be at $125/week in no time.

2. **Limit yourself to only one habit at a time.** Dealing with one habit is tough enough. Taking on multiple habits is a recipe for failure. Get a good foothold with one habit before turning part of your attention to another. When is the last time you successfully achieved multiple goals at the same time? Stick to one for your greatest success.

3. **Know why.** Understand logically and emotionally what you're getting out of this change. When you know why you're doing it, it will be easier to persevere. Answering these questions will provide the motivation you need to change:

   * What will you gain from the new habit?
   * What is the long-term impact of dumping your bad habit?
   * What negative consequences will you avoid?

4. **Predict your obstacles.** With forethought, you can know what you're up against. Imagine yourself driving to work without your beloved café latte. Imagine looking at your paycheck and seeing $200

less because of the automatic savings plan you put in place.

- What obstacles are you likely to face?
- What can you do about them?
- Make a list of obstacles and your plan for either avoiding or overcoming them.

5. **Examine your triggers.** What leads to your bad habits? Is it driving by Starbucks or window shopping at the mall? Does being bored and alone lead to online shopping? What can you do to avoid these triggers? Call a friend? Take a different route to work? Find a hobby other than window shopping?

6. **Put your commitment on paper.** There's something powerful about putting your desired changes down on paper. ***It brings it out of your mind, where your daydreams live, and into reality.*** Write down your goal and keep it nearby. Look at it several times each day.

Building new habits is hard work. It can be frustrating when dealing with how little control we actually have over ourselves. ***This is because habitual behavior is largely unconscious and challenging to control consciously.*** To combat this fact, create a plan and be prepared. Any habit can be changed with an effective plan and perseverance.

> ***"Achieve success in any area of life by identifying the optimum strategies and repeating them until they become habits."***
>
> ***- Charles J. Givens***

Putting It All Together

You have an idea of how to drop a bad habit and how to create a good habit. Let's consider a detailed example that puts all the pieces together. No two situations are exactly the same, but a reasonable example can serve as a guide.

Our protagonist, John, wants to stop drinking coffee at Starbucks each morning and save that money for a family vacation.

So, John's goals are to:

- Drop the habit of spending money on expensive coffee.
- Add the habit of saving $150 each month ($5 x 30)

John attacks his bad financial habit and creates his new financial habit intelligently:

1. **Find a replacement behavior.** John has decided to make his own coffee at home and take it to work with him.

2. **John gets his mind in the right place.** He makes a list of what he'll gain by dropping his old habit and adding the new one. He imagines his family and himself enjoying a trip to the gulf coast of Alabama. His wife and kids are happy, and he's proud of himself for making the necessary changes that made it possible.

3. **He considers his obstacles and develops a plan to deal with each one:**

    - ***Getting up on time to make coffee each day:*** John finds a coffee maker with a timer. He can set everything up the night before and his coffee will be waiting for him when he wakes up.

    - ***Driving by Starbucks each weekday morning:*** John thinks he can handle the temptation. But there's a new route to work that he has been thinking about trying. There are no Starbucks stores on this new route. He's going to give this new drive a chance for the next week and see how it works out.

    - ***He's worried about spilling his coffee on his suit and new car:*** He knows that he doesn't have a suitable travel mug, so he purchases two. That way he'll always have one that's clean. He'll also be covered if he leaves one at work.

- ***He doesn't believe he'll remember to transfer $35 each week from his checking account to his savings:*** He sets up an automatic transfer with his bank. He was able to do this online in just a few minutes.

4. **John decides to make incremental improvements.** Eliminating one cup of coffee each morning for another seems like an easy change, but John wants to make sure.

   - He normally gets the largest size coffee. He decides to bring a small amount of coffee from home and purchase the smaller size at Starbucks. His total coffee consumption will remain unchanged, but ***he's weaning himself off the expensive coffee.***

   - He also alters his saving plan to only transfer $15 the first week.

   - Over the next few weeks, he'll continue the trend. It won't be long before the transformation is complete.

5. **He examines his triggers.** John has triggers that stimulate his coffee habit. The first is driving by the Starbucks store. He's taken care of this with the new route to work.

- ✳ His second trigger occurs during his morning shower. That's when he starts thinking about how great it's going to be to have that first sip of his café latte. He decides to combat that trigger by thinking about his future vacation and the satisfaction he feels while drinking his homemade coffee.

6. **John is prepared for slips.** He knows that there's a chance he's going to break down during a stressful morning, dump his homemade coffee out the window, and pull into Starbucks. He figures if he's compliant 90% of the time, he's doing well enough to consider himself successful.

7. **John has a reward in mind.** If he can make it 30 days without a slip, he's going to reward himself with an espresso machine. He loves the idea of the shiny machine sitting on his kitchen counter and he's sure he can make better coffee than he can currently make at home. It's within his budget, and he considers it an exciting reward.

John does have the occasional slip, but he's eventually able to purchase his espresso machine and take his family on that vacation. It wasn't very challenging because he was prepared, proceeded slowly, and found suitable substitute behaviors that provided the same benefits at a lower cost.

> ***"Habit is habit, and not to be flung out of the window by any man, but coaxed downstairs a step at a time."***
>
> ***-Mark Twain***

Conclusion

Putting smart, effective financial habits in place ensures financial health, just as poor financial habits guarantee financial disaster. Changing any habit can be a challenge. ***Financial habits are not an exception.*** The same strategies to change any other type of habit are applicable to financial habits.

Find a substitute behavior that delivers the same benefits without the negative aspects. Predict the likely obstacles and develop a plan to deal with them. Change slowly and expect a few setbacks. Look at your triggers and find a way to work around them.

The same process can be used to change your eating habits, adopt an exercise program, quit smoking, or get yourself to practice the cello each day.

Financial habits are especially important due to the relevance of financial resources. Money is a great tool for dealing with many challenges. Everyone in your family benefits from your financial health.

Address your poor financial habits and start creating new, more effective habits. Begin slowly, but begin today.