

# 10 Common Financial Pitfalls

By *Brian Madigan*



A friend of mine, Lyman MacInnis C.A., once provided me with the 10 most common pitfalls which he encountered in his a financial and wealth management practice.

This applies to high-rollers or low-income earners, people make the same personal financial planning mistakes over and over again, it's based on their personality type.

Here is MacInnis's list in order of frequency of occurrence:

1. **Buying too much on credit** - too many people are not content to save for purchases. MacInnis says: "Make the magic of compound interest work for you, not against you."
2. **Borrowing at the wrong places and paying too much interest** - shop around for the best loan, and don't be tempted by interest rates alone. For example, a loan with interest compounded quarterly costs more than one with the same interest rate, but compounded annually. Credit cards should not be a substitute for borrowing. With the cards, you pay interest of 18% or more (sometimes 28% to 32% on store cards), and you miss out on the discipline involved with actually applying for a loan.
3. **Not paying off debt as quickly as possible** - be concerned particularly with debt on which interest is not deductible, such as credit card balances and mortgages.
4. **Renting instead of buying accommodations** - for a large number of people, this is the most costly mistake, MacInnis says. Over short periods, when interest rates are relatively high and property values are flat, renting could be advantageous. But over a lifetime, buying a home is clearly the winner. His rationale: your principal residence is probably the only investment on which you won't have to pay tax.

While not a perfect inflation hedge, it's a good one. Besides providing a roof over your head, a house is one of the few investments from which you can derive personal enjoyment.

5. **Not setting money aside for irregular expenditures** – such as insurance, vacation, gifts for the holiday season, a new car, or unexpected repairs to the house or car
6. **Not budgeting at all** - you don't have to prepare a formal document; some jottings on a scrap of paper will suffice. But it's important just to think about your income and expenses over the next year or so.
7. **Buying on impulse rather than shopping around and evaluating alternatives** - MacInnis is referring to big-ticket items, such as a new car. Too often, people buy from the dealer they've always bought from, from the most conveniently located dealer, or from a salesman who intimidates them the most. Also, consider renting seldom-used items - such as the boat trailer that you hitch to the car twice a year.
8. **Trying to make a quick investment buck, instead of going for lower, safer returns** - MacInnis agrees Canada needs risk capital, but suggests leaving this area to those who are knowledgeable. His concern is that those who lack sophistication put their blind trust in risky investments recommended by advisors "for no other reason than to make money fast."
9. **Making investments you can't really afford** - not that you shouldn't borrow to invest, but MacInnis warns against highly leveraged investments which, if they turn sour, could leave you strapped. The test: Can you weather the storm if things go wrong?
10. **Thinking the future will take care of itself** - this category covers people who feel contributions to registered retirement savings plans are unnecessary because their salaries should double before retirement, young parents who haven't thought of saving for a child's education or those who assume employer group life insurance is all the coverage they need.

*Brian Madigan LL.B., Realtor is an author and commentator on real estate matters, Coldwell Banker Innovators Realty Inc. 905-796-8888 or [BRMadigan@Rogers.com](mailto:BRMadigan@Rogers.com) or visit [www.OntarioRealEstateSource.com](http://www.OntarioRealEstateSource.com)*