

Breaking your bad habits before they break your bank

These behaviours can mean the difference between security and bankruptcy



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We all have bad habits: Biting our fingernails, for instance, or eating too much junk food. But when it comes to money and investing, our bad habits can mean the difference between achieving financial security and living on the edge of bankruptcy.

That's especially true during recessions, when folks who stretched their finances during the good times, or made impulsive investing decisions, can be pushed over the edge by a sudden job loss or market meltdown.

Here are some of the most common bad habits with respect to money, and tips on how to break them.

SPENDING MORE THAN YOU MAKE

Spencer Sherman, author of *The Cure for Money Madness*, says it's one of the most common mistakes: "You buy things you really don't use and wish you hadn't bought in the first place. You often buy expensive things on impulse."

People who spend beyond their means have nothing left over to invest, of course. What's more, they're often plagued by remorse once the initial buying rush wears off.

One way to prevent impulse buying is to take a 10-second "money breath," Mr. Sherman says. "Ask yourself what you're really buying; if some of what you're trying to obtain is power, prestige, love or identity, it's your money madness do-

ing the buying, not you."

TRYING TO HIT HOME RUNS

"You're out to make a killing. Now. Making money slowly strikes you as tedious and boring."

If that sounds like you, Mr. Sherman has some advice to cope with your inner gambler: Set aside a small amount of cash and book a flight to Las Vegas. But if you want to create lasting wealth, nothing beats a diversified portfolio of stocks, bonds, real estate and commodities. You won't get rich overnight, but it's the surest way to financial success over many decades. So have patience.

TRADING TOO MUCH

When markets are volatile, the temptation to buy and sell frequently can be overwhelming. "It's often hard to buy a stock and then give it time to perform to your expectations," says The Investment Reporter, a newsletter aimed at conservative, long-term investors. "But if you're too impatient, you'll end up paying a lot more in brokerage fees." Instead, try to tune out daily price fluctuations, and keep your "turnover ratio" – the proportion of your portfolio that changes every year – to 20 per cent or less.

INVESTING ON IMPULSE

Just as buying a sports car or laptop computer on impulse is a bad idea, so is buying a stock on a tip from a friend or relative. To cool your urge to invest on impulse, The Investment Reporter suggests you write down your investment objectives – whether you're looking for growth, income or tax efficiency, for example – and make sure your investments fit the criteria be-

fore you make an order.

REACHING FOR YIELD

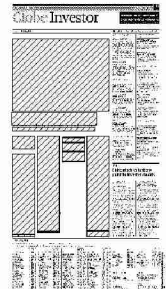
Now that the stock market has plunged, dividend yields of 10 per cent or more aren't uncommon. But as tempting as it may be to stuff your portfolio with stocks sporting super-high yields, remember that if something seems too good to be true, it usually is. A high yield is often a sign that the dividend is about to be cut, so check the company's fundamentals – including the percentage of its profits being paid out as dividends – and err on the side of caution.

LETTING OTHERS MAKE DECISIONS FOR YOU

Gail Bebee, author of *No Hype: The Straight Goods on Investing Your Money*, calls it her No. 1 rule of investing: Think for yourself. The financial industry is rife with conflicts of interest, from the financial adviser who receives a fat commission for steering you into a particular mutual fund to the broker who recommends a stock because his firm wants to reduce its inventory. By educating yourself and learning to think critically, you'll be able to know when an investment is serving your needs, as opposed to someone else's.

NOT MANAGING RISK

Before you invest a penny, you need to understand the potential risk and rewards, Ms. Bebee says. It sounds simple enough, yet many investors went into the current bear market with far too much exposure to stocks, seduced as they were by many years of outsized returns. Managing risks means, among other things, diversifying among stocks, bonds and other asset



classes in line with your financial situation, time horizon and other personal factors. Now that the stock market has plunged, dividend yields

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