

Navigating Financial Planning Pitfalls

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WHILE EVERYONE AIMS FOR FINANCIAL SECURITY, the detailed planning needed to make it a reality often goes unnoticed. Recognizing the destination — financial security and independence — is one thing, but mapping out the journey to reach it is an entirely different and crucial step. Consider financial planning as your personalized road map. It's a critically important tool to get you where you're going. But, with all the ups and downs in the economy, it's all too easy to lose your way. As a financial advisor, I help by pointing out those common detours and equipping you with the smart navigation tools needed to stay on course.

Here are some of the most common financial planning pitfalls I've seen and some tips on how to avoid them.

OVERLOOKING YOUR EMERGENCY FUND

Emergencies happen, often when we least expect them. When you're driving along and suddenly your car breaks down, having a spare tire gets you back on the road without a hitch. Your emergency fund is like a financial spare tire. It helps you cover the emergencies that will pop up without derailing your budget or forcing you to rely on high-interest debt. Lacking this safety net could force you to rely on high-interest credit cards, creating a burden of debt. According to Bankrate's 2024 annual emergency savings report, more than a third of adults (36 percent) in the U.S. are in a situation where their credit card debt surpasses their emergency savings.

This fund isn't just a buffer; it's peace of mind for maintaining financial stability in the face of life's unpredictable challenges, ensuring that a small hiccup doesn't turn into a major financial setback.

IGNORING INSURANCE

When life decides to go off-script — whether it's an unexpected trip to the hospital or a leaky roof — insurance is your backup plan. Going without it can be a risky bet that could leave you exposed to financial setbacks. Insurance is frequently overlooked or inadequately addressed in financial planning. Essential coverage, such as life, health, and



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investment
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disability insurance, plays a crucial role in safeguarding against unforeseen life events that can have severe financial consequences.

A quarter of today's 20-year-olds are projected to face a year or more of joblessness caused by a disabling condition before reaching retirement age. For Workers' Compensation to cover absences, the illness or injury must be directly related to the workplace. However, most cases won't be covered by Workers' Compensation. In 2019, less than one percent of workers in the United States had to miss work due to occupational illnesses or injuries. This is where the right insurance becomes crucial, serving as a financial safety net to keep your goals on track amidst life's unpredictability, especially when the causes of joblessness extend beyond work-related incidents.

UNDERSTANDING LIABILITY IN RISK MANAGEMENT

Risk management in financial planning often involves considering insurance as a safeguard against unforeseen liabilities. Owning a home or driving a car, for instance, can expose you to significant risks. This becomes even more apparent if you have young or teenage drivers on your automobile policy. It's essential to be aware of the liability limits on your homeowners and auto insurance, especially in scenarios where an accident could cause harm to others.

Equally important is giving thought to umbrella liability coverage. This becomes critical when your potential liability exceeds what your standard home and auto policies cover. Umbrella coverage acts like your financial plan's airbag, deploying an additional layer of security in the event of a significant, unexpected financial collision, protecting your assets beyond the usual safeguards. Despite its importance, umbrella liability coverage is often an overlooked part of financial planning. Addressing these liability risks comprehensively ensures robust protection, integral to a well-rounded financial strategy.

FAILING TO DIVERSIFY YOUR INVESTMENTS

Putting all your eggs in one basket in investing is much like only having one plan in life — risky and potentially limiting. Diversification means spreading your investments across different sectors and asset types. Think of it as having multiple layers of financial protection. This way, if one sector dips, the others can help balance your portfolio, reducing the risk of a major financial fall.

Navigating the complexities of diversification can be daunting — different industries, market sectors, and asset classes each come with their own set of risks and rewards. A financial advisor can act as an expert navigator along your journey. They stay up-to-date on market trends and economic changes and provide guidance on when to make strategic moves or stay the course.

NOT ADJUSTING YOUR PLAN OVER TIME

Life is full of changes — new jobs, growing families, evolving goals — and your financial plan should evolve with you. This is not something you can “set and forget.” That's like

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using an outdated map; it just won't reflect your current reality. Regular check-ins and adjustments are vital. They ensure your financial strategy keeps pace with life's ups and downs, grabbing new opportunities and steering clear of bumps in the road. By having this regular check-in with your finances, your plan stays strong, adaptable, and right on track with where you're headed.

DRAWING KNOWLEDGE FROM REAL WORLD EXPERIENCES

Many clients come to our firm with complex financial situations. They have a variety of investments, including traditional assets like savings bonds and paper stock certificates, spread across multiple accounts with different custodians. Their investment strategy might be heavily focused on equities, leading to excessive management fees that are eating into their returns. Additionally, they struggle to keep track of their assets due to the fragmented nature of their portfolio.

To address this, I would implement a systematic approach aimed at simplifying their financial landscape by consolidating their accounts, reducing them to a more manageable number under a smaller number of custodians. I would digitize their paper certificates to streamline oversight, allowing them to easily monitor all their assets through a single client portal. I would also optimize their Required Minimum Distributions (RMDs) and significantly reduced the number of tax forms they receive, minimizing administrative burden.

The overarching goal is to not only mitigate risk through diversification but also to tailor the portfolio to long-term financial goals, including considerations for succession planning. By developing a comprehensive financial plan, we provide a clarity and confidence in the retirement strategy. This experience underscores the transformative impact of strategic financial management, bringing clarity and assurance to what was once a complex financial situation.

TIPS TO AVOID THE PITFALLS

Now that you know some of the pitfalls, here are some tips to help you avoid them:

- **Build that Essential Emergency Fund:** Start small if you must, but start. Aim for a fund that covers between 3-6 months of living expenses. Monthly living expenses include things like rent, utilities, food, and healthcare. If your monthly expenses average around \$3,000, your emergency fund should be about \$9,000-\$18,000.
- **Have Regular Insurance Check-Ups:** As your life evolves, so do your insurance needs. Getting married? Having a baby? Got a new job? These are the perfect times to reassess your insurance coverages.
- **Diversify, Diversify, Diversify:** Investment isn't just about stocks or bonds. Think broader — real estate, international markets, different industries.
- **Talk to an Expert:** Need a hand with your finances? A financial planner can provide expert advice personalized to your goals.



For any successful journey, including your financial one, it's important to remember that the path you take is just as important as the destination. By understanding and avoiding these common pitfalls, you'll be well on your way to achieving your financial goals with a clear vision of the road ahead.

If you're looking for personalized assistance or more information specific to your unique financial situation, feel free to reach out to our HBKS team of experienced financial planners. We're here to help you make informed decisions and reach your financial goals with confidence!

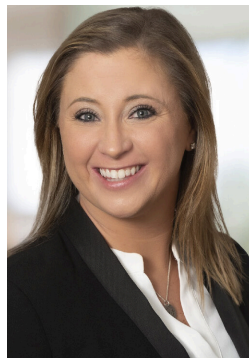
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