

Ten Tips for Avoiding Financial Trouble

No magic rules solve everyone's financial troubles. But these suggestions should help you stay out of financial hot water. If you have a family, everyone will have to participate — one person cannot do all the work alone. So make sure your spouse, partner, and the kids understand that the family is having financial difficulties and agree together to take the steps that will lead to recovery.

- 1. Create a realistic budget and stick to it.** Periodically check it and readjust your figures and spending habits.
- 2. Don't buy on impulse.** When you see something you hadn't planned to buy, don't purchase it on the spot. Go home and think it over. It's unlikely you'll return to the store and buy it.
- 3. Avoid sales.** Buying a \$500 item on sale for \$400 isn't a \$100 savings if you didn't need the item to begin with. It's spending \$400 unnecessarily.
- 4. Get medical insurance if possible.** Even a stopgap policy with a large deductible can help if a medical crisis comes up. You can't avoid medical emergencies, but living without medical insurance is an invitation to financial ruin.
- 5. Charge items only if you can afford to pay for them now.** If you don't currently have the cash, don't charge anything based on future income — sometimes future income doesn't materialize. An alternative is to toss all your credit cards in a drawer (or in the garbage) and commit to living without credit for a while.
- 6. Avoid large rent or house payments.** Obligate yourself only for what you can now afford and increase your mortgage payments only as your income increases. Consider refinancing your house if your payments are unwieldy.
- 7. Avoid cosigning or guaranteeing a loan for someone.** Your signature obligates you as if you were the primary borrower. You can't be sure that the other person will pay.
- 8. Avoid joint obligations with people who have questionable spending habits** — even a spouse or significant other. If you incur a joint debt, you're probably liable for it all if the other person defaults.
- 9. Don't make high-risk investments,** such as investments in speculative real estate, penny stocks, and junk bonds. Invest conservatively, opting for certificates of deposit, money market funds, and government bonds.
- 10. Find alternatives to spending money.** Take a friend on a picnic rather than to an expensive restaurant for her birthday. When someone suggests that you meet for lunch, propose meeting at the museum on its free day or going for a walk in the park. Instead of buying book and CDs and renting videos, borrow them for free from a library.