Financial Mistakes You May Be Making

Contributed by Steve Gillman
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1. Making A Competition Of Financial Decisions

Trying to "beat" anyone else in a financial transaction is a bad habit, unless you are playing poker or negotiating a business or investment deal. The first people to buy new technology get to show it off, but they also get the worst version at the highest price. If you "win" at an auction it means you paid more than anyone else was willing to pay. Looked at that way it doesn't seem so smart.

Evolutionary economics explains why we feel this need to "win." It developed as a way to gain a better position in the tribe, which increased one's survival odds thousands of years ago. This tendency of ours is of very little value in a modern economy, so ignoring such urges is wiser.

2. Believing You Are Owed Something

Nobody owes you a thing unless you have a contract or a promise. Dwelling on what is "owed" to you is a financial mistake because it gets in the way of doing what is necessary. And why does anyone owe you a thing? For example, health insurance came to be expected of large employers based on nothing more than the fact that many provided it. Had enough companies provided cars to employees, we would think we are "owed" a car by our employer.

Forget what is "owed" to you. Just work honestly to get what you can. Ask for a raise, but if you're not paid enough, find another job. Collect that unemployment benefit if it's available, but don't think others have an obligation to provide your income for you. Once you stop looking for your "due" you can start looking at how to make money and create what you need for yourself. Usually this means seeing what others want, and finding a way to provide it for a paycheck or a profit.

3. Believing Value Is About Prices

Suppose a television normally sells for $900 and is on sale for $400. Is that a good value? Most people may think so, but the value of personal items is measured by what the individual user needs. If you're as happy with a $200 television, then the other is over-priced from your perspective. Such personal purchases are worth only what it makes sense for you to pay. If a $20,000 car is worth just $3,000 to you, then that's that (and you don't buy it).

4. Believing Value Is All About You

I once saw a man lose $30,000 by pricing his home too high and leaving it empty for years - one of the more common financial mistakes. With investments, value has nothing to do with what you think a thing is worth. The only important measure is what the market will pay for it.

People often confuse personal consumption items with investments, thinking, for example, that a car is an investment. A $22,000 kitchen remodeling project isn't an investment either, if future buyers will pay only $10,000 more for the home afterwards. The owner might like to think it added $30,000 in value, but his ideas are irrelevant. He better enjoy that new stove and cupboards, because they were not investments, but a $12,000 personal purchase (that's his net loss).

5. Believing High Profits Are Unfair

In any honest sale, the price is fair, or it wouldn't have been paid. Consider if your own house had a market value of $400,000 and you wanted to sell it. Would you lower the price to make it more "fair?" Not likely, so why expect any business to charge less than what the market dictates?

How much profit is made on something is entirely irrelevant to what its value is. Your choice is to buy it or not. It's a financial mistake to waste time complaining about a profit you would gladly accept if you were on the other side of the transaction. The truth is that you wouldn't buy it if it wasn't a fair price, and nobody (in a free country) is forcing you to. Spend your energy looking for a better alternative or finding ways to make more money instead.