

Why We Can't Keep Our Financial Resolutions?

Here are the 10 most frequently broken promises and why they are broken

By Glenn Freed

Key Takeaways:

- The vast majority of New Year's resolutions fail—and fail quickly.
- Framing discussions with your clients as a set of financial planning New Year's resolutions can be an effective method of communication.
- Take a common set of personal resolutions and adapt them to financial planning.
- Checking up with clients about their resolutions throughout the year can be the key to helping them reach their financial goals.

At the beginning of each new calendar year, it's human nature to make specific resolutions about how to improve one's life. And our financial lives are no exception. We set lofty goals and vow to be better this year but here we are, just a few months into the new year, and how would you say you are doing? That's what I thought. But now is not the time to beat yourself up and go on a reckless spending or investment binge. That's like eating a tub of ice cream in one sitting just because you missed a weight loss goal.

While everyone has the best intentions to follow their New Year's resolutions, most of the time we break them. According to researcher Richard Wiseman, half of all Americans set themselves a New Year's resolution. Unfortunately, about seven out of eight of those resolutions (88%) fail. As Wiseman once quipped, that's about 156 million failed resolutions and disappointed minds each and every year!

Beating the odds

Trying to modify your financial behavior can be quite challenging, but it can be highly rewarding if true changes result. The key is to use resolutions as a way to check in with yourself throughout the year. Here are some of my favorites.

We start with some classic often-broken personal resolutions and then apply the resolutions in a financial planning context. Please share your list of financial planning resolutions (email: glenn.freed@vericimetry.com).

1. Personal Resolution: Get in shape.

Financial Planning Resolution: Keep in financial shape by sticking to your financial plan; keep your portfolio in shape by staying disciplined and rebalancing.

2. Personal Resolution: Quit smoking / give up bad habits.

Financial Planning Resolution: Quit chasing the "smoking hot" returns; avoid trying to "keep up with the Joneses." Today's hot trend is all too often tomorrow's toxic asset. Ultimately, bad habits are frequently destructive to your wealth (and your health).

3. Personal Resolution: Learn something new.

Financial Planning Resolution: Be open to new investment approaches; consider new investment methodologies and asset classes; do not be satisfied with the status quo. Radical change is not required, but evolution can often be beneficial.

4. Personal Resolution: Eat healthy.

Financial Planning Resolution: A financial plan should be followed carefully in order to make it work. A modest amount of nibbling on unhealthy assets or investment techniques can be accommodated if it brings the client satisfaction, but keep those “indulgences” in moderation.

5. Personal Resolution: Get out of debt / save money.

Financial Planning Resolution: Look to save on costs such as investment expenses and taxes, but don't be penny-wise and pound-foolish. Know and understand the value of your financial plan and its components.

6. Personal Resolution: Spend more time with your family.

Financial Planning Resolution: The purpose of a financial plan is to reduce worry, provide more security and thus allow more quality time with your family.

7. Personal Resolution: Travel to new places.

Financial Planning Resolution: Travel to new places because you don't need to worry about your wealth all the time. With a good financial plan you should feel comfortable spending money on a planned trip. See that island you've always wanted to visit.

8. Personal Resolution: Reduce your stress level.

Financial Planning Resolution: Diversification is the only free lunch in investing. It smooths the ups and downs of a more concentrated portfolio, thus dampening volatility and stress. Make sure all your eggs are not in one single basket.

9. Personal Resolution: Volunteer.

Financial Planning Resolution: Recall that the point of having a financial plan is to enable you to help others—your family, your community, your church or synagogue, or other worthy causes. Take optimal tax advantages through use of charitable contributions such as donating appreciated assets.

10. Personal Resolution: Drink less.

Financial Planning Resolution: Avoid drinking too much of the Kool-Aid; keep asking questions and search for understanding. There are few certainties in finance, so keep a skeptical eye out for things that appear too good to be true.

Not every resolution in this list will work for you, but we hope the list is a good starting point for creating your “financial resolutions.”

Of course, many personal resolutions are soon broken—often because they are too ambitious. They also tend to get broken because there is lack of commitment and follow-through and because there is no one to help motivate the resolution maker. That's where your financial advisors come in!

Conclusion

Elite advisors help their clients follow up on resolutions not only in January but also throughout the year. Framing the financial planning discussion in this way at the start of the year and then following up consistently can be an effective way to keep you on the path to financial resolution success. Make 2016 a great year, no matter what the markets, economy and geopolitical factors throw at us.

About the author

Glenn S. Freed, PhD, CPA, PFS, is a leading investment and tax expert in the investment management industry. Dr. Freed is the Co-Chief Executive Officer of Vericimetry Advisors LLC, an investment adviser registered with the Securities and Exchange Commission. Dr. Freed has 25 combined years of experience in investment management, tax and accounting research, education, and tax advising. He received a PhD from the Graduate School of Business at the University of Southern California and a BS in accounting from the University of Florida. This paper is ©2016 Glenn S. Freed; All Rights Reserved.

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