12 SIGNS THAT YOU'RE "IN OVER YOUR HEAD" FINANCIALLY…

AND HOW TO GET BACK INTO THE SHALLOWS

When you get over your head financially, it is easy to look for a single event to explain how you got there. But, it is not always a catastrophic event that leads to a large amount of debt. Instead, it is more often the accumulation of bad financial habits that lead to an increase of debt beyond what you can handle. Read this list of five of the most common mistakes people make. See if you are starting to fall into any of these financial sink holes.

1. YOU DON'T HAVE A BUDGET

No one likes to budget. They think they won't stick to it, so why bother? Or they fear it will prevent them from buying things they want, or even need. But a budget has been shown to be one of the most effective ways to create financial stability…beyond even creating additional wealth.

2. YOU DON'T HAVE AN EMERGENCY FUND

Disasters happen. They will happen. It could be loss of a job, a death in the family, medical emergency, car breakdowns, roof leaks, etc. Don't rely on credit cards for emergency funds! While having an extra emergency credit card is a good idea, an even better idea is to put away six months of living expenses. Historically, a figure of 10% per paycheck is recommended for emergency savings.

3. YOU OVERUSE CREDIT AND THINK YOU'LL PAY IT OFF

Watch the warning signs when you purchase. Are you thinking you'll pay the purchase off before high interest kicks in? Are you thinking it's not a huge purchase and you'll be able to handle a small increase in payments? Are you thinking you deserve a reward and isn't that why you have a credit card? All of these are warning signs that you may be ignoring the realities of high interest. While the concept of usury has been muddied by the acceptance of high interest rates, consider that you have a personal usury level…some interest is just too high for you to escape once it has a pull on you, and you'll pay a huge amount over your original purchase price. Get used to saving up for things you want.

4. YOU MAKE MINIMUM PAYMENTS ON YOUR CREDIT

Once you have made a purchase, you may be thinking the minimum payments are sufficient to maintain your credit standing and allow you to live a comfortable lifestyle. But those minimum payments will catch up to you, piling up like a backed-up drain. At first you don't notice, but gradually the backup grows until it bubbles up and you have a real mess on your hands. Keep your credit card debt to no more than 20% of available credit.

5. YOU SPEND BEYOND YOUR INCOME

You want that nice car, that new furniture, that cool phone. The companies make it easy with credit and low payments. You want those new clothes, those game tickets, that night out. You deserve it! Instead, adopt a perspective that's within your means. Then plan ahead for extras that you want, and figure out how to create the income you need to get what you want. If you need a new car, don't get sucked into the easy $200 payments for your dream car when the $99 payments on the base model will do just as well.

6. YOU MISS PAYMENTS OR OVERDRAW YOUR CHECKING ACCOUNT

Even missing one payment is a strong warning sign that you're sinking financially. It may be an accident—you simply forgot. But even that is a sign you're not paying enough attention financially. A missed payment can, of course, lower your credit score and prevent you from getting important credit in the form of a car loan or house loan, or make that credit more expensive. Missing payments can also add to your stress, which can make it harder to focus on getting back on financial track. Stay positive and figure out how to get make your payments.

7. YOU DON'T SAVE FOR THE FUTURE

Along with saving for emergencies and saving for desired purchases, you need to save for retirement, when you may have no or a reduced income. We all need to be responsible for our own old age care, and that means starting young to put money away in a retirement account, investments, and possibly a house purchase. Little bits matter! Start with even $50/month and add to that as you can. Make it automatic, such as withdrawals from paychecks.

8. YOU DON'T HAVE A ROUTINE PROCESS FOR PAYING BILLS

This is an item you may not usually see on lists of how to create financial stability, but it's an important detail. Routines create stability. Have a place for your bills. Pay them immediately when they come in, or have two days each month when you pay all the bills that have accumulated. Make sure each bill goes into the right time frame so that it is paid before it's due. Keep envelopes and stamps handy, or online login and account numbers in one secure location so you won't have to hunt for those things each month.

9. YOU DON'T HAVE ENOUGH INCOME

In the past, you could rely on a single job to supply all the money needed to live a comfortable life. But those days are slipping away. Sure, if you live within your means, you'll do fine, but it is becoming increasingly difficult to save and spend wisely even on a regular job income. If you don't make enough on your job, consider creating an extra income source. Even a little extra can help. $100 or $200 can be your car payment, or go directly to your retirement. Look for an online job or something you enjoy doing that won't take a lot of time.

10. YOU'RE NOT TAKING CARE OF WHAT YOU HAVE

By not repairing or maintaining what we have, we end up spending more over time. The world has developed a disposable mentality. Because of that, many of us have lost interest in sewing, rebuilding, patching, calibrating, cleaning, and reusing. We break a cup and toss it out instead of gluing the handle. We break a chair leg, we toss it instead of having a carpenter repair it. Our upholstery looks tired, we get a new couch instead of re-covering it. Part of the problem is purchasing low quality, disposable products in the first place. There may be a case for spending more on higher quality with the intention to keep it longer and maintain it, rather than spending repeatedly on lower quality products.

11. YOU'RE SPREADING CREDIT OUT FOR THE LONGEST PERIOD POSSIBLE

Taking a 6-year car loan may lower your payments considerably, but you'll spend a vast amount more on that car than you would with a shorter-term loan. Same for furniture, housing, and other term-based credit purchases. Taking long-term loans is a sign that you may not be able to afford what you're purchasing, and by making that purchase, you're making your future financial stability less certain. With the exception of housing, where a 30-year mortgage is standard, most long-term financing should be avoided, either with a higher down-payment or a lesser priced item.

12. YOU'RE WORRIED ABOUT MONEY

You know you're over your head financially when you worry about money. That's when you need to look over this list and spot the problem areas. Then develop a plan around those problem areas to combat them. As soon as you create the plan, you'll start to feel better. Taking action on your worries will improve the situation, even before the actual problem is handled. That's because our intention tends to create movement in the right direction, which reduces resistance.

This is a long list of financial "shoulds," but it's also a realistic list. Notice that many of the items are about perspective and process more than lack of income. By living below your means, avoiding credit card debt, taking lower term loans, saving, budgeting, creating extra income if needed, purchasing wisely, and maintaining what you have, you can live a comfortable and financially stable life. There is nothing so wearing on a person's psyche than financial troubles. So starting right now, look over your finances and start creating a plan.

USE FINANCIAL CONTROL TECHNIQUES

- For instance, **use the rapid credit card pay-off strategy**: If you have a lot of credit cards, for instance, start paying extra on the highest interest rate card. Once that's paid off completely, roll all of that card's payment into the next highest rate card you have, and pay that one off even faster! Then do the same for the third highest card, which you may be able to pay off in just a few payments.

- Or **the envelop spending control system**: This is a strategy for controlling variable expenses...the ones that vary from month to month and are easy to lose track of. For instance, clothing, groceries, and entertainment. Grab an envelope for each of your variable spending categories. Write the name of each category on the envelopes. Look at your budget for each item and write it on the front of the corresponding envelope.

  Let's say you have budgeted $500 a month for groceries. When you receive your first paycheck of the month, cash $250, and put the cash in your grocery envelope. No money, zero, comes out of the Groceries envelope except to pay for food at the store. If you go food shopping and leave the envelope at home by mistake, turn the car around and go back to the house to get it. Make sure to take enough money to cover your groceries for that trip. If you take $150 and you tally up a bill for $160, take some things out of the cart. Don't overspend. If you get change, put it back in the envelope. When you get paid again, write another $250 check. That's your $500 for the month for food. Repeat the process with each envelop.

WHY BOTHER?

Student debt, car debt, house debt, store debt, not enough income, disasters…all of these things equal pressure, and no one likes to feel stressed. Stress makes it harder to live a happy life, to appreciate what you have. Getting control of your finances, getting above water, will make you feel better about life than any number of luxury purchases. And curiously, by feeling more in control financially, you may very likely start to see more financial opportunity.