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Market Matters: New financial habits for 2018

By Joseph Matthews

December 31, 2017

In just a few hours, we will count down to the ball drop and usher in 2018. Most of us will have given a great deal of thought as to how we want next year to differ from years past. Will we resolve to improve our fitness, or our relationships, or our career? For some of us, our goals may involve breaking some habits and replacing them with better ones. This could be a worthwhile approach if one of our resolutions for 2018 is to improve our finances.

If changing a behavior has been a recurrent theme in your New Year's resolution list, you know how hard it can be. Have you resolved, several Januaries in a row, to lose that extra ten pounds by cutting out sugar entirely, only to find yourself sneaking cookies by February?

Resolving to stick to a budget can be just as difficult as sticking to a diet. Changing daily habits and routines isn't easy, but here are a few things to keep in mind that can help.

Cutting unhealthy food choices out of your diet can be easier if you find a viable alternative. Rather than indulging in that heap of rich, creamy mashed potatoes, perhaps you have learned to live with a healthier substitute: mashed cauliflower. By the same token, perhaps you can learn to cut out some of your regular expenditures. Consider this: a \$4 morning macchiato habit can add up to a whopping \$1,460 a year. By trimming down those expenditures to, say, just once or twice a week, you can add

the savings to your investable funds, which can make a difference to your portfolio when viewed in the long term.

Another trick that successful dieters know is to plan ahead. Keeping a healthy snack on hand is a good alternative to the midafternoon doughnut-grab at the office. Planning a week's menu in advance can prevent the need to order a pizza for lack of a more healthful option.

So it is with finances. Make a plan to save a certain amount from your earnings each month. Committing in advance to investing a manageable amount on a regular schedule (known as dollar cost averaging) is an approach that allows you to invest more when prices of shares are low, and less when prices are high.

And just as you diversify your menu to achieve maximum results by eating a wide variety of healthy foods, diversify your finances, too. A well-diversified portfolio might include:

- Growth stocks, if retirement is a ways off; solid dividend stocks if retirement isn't too far off in the future.
- Fixed income investments, for income.
- International investments in strong companies, poised for growth, particularly in countries with vibrant economies.
- Cash, for emergencies and to take advantage of new investment opportunities that may arise in the short term.

Whatever your individual portfolio looks like in the end, keep in mind that the goal of diversification is balance - investments that move in different directions at different times. One zigs while the other zags, and your goal is to profit both from the ups as well as the downs in the overall market.

Finally, consider one of the best-known strategies for dieters: distraction. When you feel the urge to reach for chocolate, some say, distract yourself with a non-food-related activity such as a walk in the woods or a visit with friends. If part of your financial

resolution means cutting back on spending, do the same: distract yourself with an activity that doesn't involve spending money. Perhaps, even, consider volunteering for a local charity.

Establishing healthy financial habits is a worthwhile resolution for 2018, and it might even lead to a wealthier portfolio.

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