Prudential Investment Managers
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8 Financial mistakes to avoid in your 40s

Life, they used to say, begins at 40. And this decade of your life certainly brings some big events. As you continue to lay the foundations for your financial future, here's a look at 10 mistakes you'll want to avoid in your 40s, to help ensure that your 50s (and the golden years beyond that) are financially on track.

Mistake #1: Overspending

As your career advances, you might enjoy a bigger paycheque – along with big-ticket temptations. Enjoy life, but don't fall for the instant gratification of unnecessary expenses when your money may be better spent on appreciating assets (like an extension that increases the value of your home) or on boosting your investments.

Mistake #2: Being too conservative in your investments

As we get older, we all naturally tend to take fewer risks in life in general. This applies to our finances as well, as we try to avoid losses. But this is big mistake that many investors make. If you're 45, you'll likely have another 40 to 50 years of life ahead of you, including 20 before you retire, so your investment horizon is still a fairly long way off. This means you should be able to handle just as much investment risk now as you did in your 30s, and even in your 20s. In your 40s it's important for you to maintain a relatively high exposure to the "riskier" assets like equities and listed property that offer higher returns over time, so that you can continue to build up your savings and meet that long-term retirement goal.

Mistake #3: Treating your bond as an ATM
Your home loan may come with a built-in temptation: an access bond. It may make sense to use your bond as a cheap form of credit (letting you withdraw money as you need it), but when you add up the interest and the hidden costs, you'll see how unwise it is to spend the equity in your home on a short-term boost to your lifestyle.

Mistake #4: Panicking
Whatever you do, don't panic at the first sign of trouble in the markets, or even the second or third. Instead, speak to your financial adviser, whose job it is to keep you from selling your investments at the wrong time. It may not be easy, especially if markets have been weak for an extended period, but keep your focus on the long term, and remember that volatility is a natural part of financial markets. If you sell when prices are down, you're only locking in your losses that would very likely be recouped once the market recovers.

Mistake #5: Neglecting your financial plan
In your 40s your spending priorities are likely to change as your children get older and your career advances. You may need extra funds to help pay for your daughter's wedding, or support her unexpected dream of studying overseas. You or your partner may decide you need further education, or a change in careers, with one of you financially supporting the other temporarily. In your 40s there are still many opportunities left for you to pursue, and you don't want to be caught short. So remember to review your financial plan with your financial adviser annually to ensure it reflects your ever-changing goals.

Mistake #6: Not having an estate plan
Do your 50- or 60-something-year-old self a favour, and get your estate in order. Draft a will, confirm power of attorney, and rest assured that – if something dreadful were to happen to you – your dependents are taken care of, and someone you trust is empowered to make financial and medical decisions on your behalf.

Mistake #7: Prioritising your child's education over your retirement

Much like when you're in your 30s, when you're in your 40s you're likely to have children whose education and financial security are very important. Of course, helping your children pay their way through university can give them a great head start in life; but don't focus so much on their varsity fees that you neglect your own future. Looking after yourself and your retirement should always be your priority.

Mistake #8: Not diversifying

It's never smart to have all your eggs in one basket. Reduce your risk by investing in a broad portfolio of assets which will produce consistent returns over time. A medium-risk fund like the Prudential Balanced Fund, for example, aims to deliver steady, long-term growth from a diverse portfolio of actively-managed South African and global assets.

As always, if you need more information please feel free to contact our Client Services Team on 0860 105 775 or email us at query@prudential.co.za