8 Financial Mistakes Wealthy People Make

(Ghostwritten, published on website of financial planning firm)

Achieving a high net worth is a great accomplishment. However, the skills required to produce wealth are very different from the skills required to keep and grow wealth.

The world of the affluent is cluttered with business owners and celebrities who earned high incomes only to lose it all at some point. At [ABC], we believe that everyone can learn from the mistakes made by the "once wealthy." Here are eight financial mistakes the affluent often make:

1. They confuse career success with financial know-how.
Hard-charging corporate leaders, highly skilled professionals and creatively driven artists show great ability to generate financial success. Sometimes that leads to overconfidence and a belief they can handle their assets with the same flair. They fail to realize that financial planning requires a different mind-set and skill set. For instance, rising to the top of a competitive business requires a high level of confidence and a willingness to put it all on the line. Successful investing requires a finely tuned sense of balance and an appreciation of short-term vs. long-term risk.

2. They don't consider the effects of losing their health unexpectedly.
When you're young, healthy and on top of the world, the prospect of developing a debilitating illness seems as likely as getting hit by lightning. Yet there are countless examples of people who were at the top of their profession one day only to be brought down by illness or injury overnight. In fact, one in four of today's 20-year-olds will become disabled before reaching age 67, according to the U.S. Social Security Administration (October 2015 Fact Sheet). Assuming that you are immune to such perils can be a recipe for disaster. You not only lose your ability to generate more income, your existing assets will be severely drained by sudden and ongoing medical needs.

3. They don't think about their potential needs as they age.
In your 20s, 30s and even 40s, the certainty of aging seems impossibly remote. For most people, entering your late 50s is a wake-up call signaling that aging is both real and imminent. Choosing to believe you will be in the minority of elderly Americans who remain healthy and energetic into their 80s is a risky outlook: Almost 70% of people turning age 65 will need long-term care at some point in their lives, according to various studies. Long-term care refers to help with activities of daily living such as dressing and bathing. Such care takes place at home with aides, in assisted living centers, at adult daycare centers and in nursing homes. All of these can be very costly options.

4. They don't have an adequate, up-to-date estate plan.
Accumulating wealth brings responsibility along with freedom. Planning a trip to the islands is fun, but you also need a plan to deal with your assets when you pass away. Many wealthy people don't want to take the time to sit down and talk over what will happen to their fortune after they leave the scene. In fact, more than half of all Americans die without even drawing up a will, much less a professional estate plan. Among those with investable assets exceeding $1 million, 38% have not drawn up a formal estate plan, according to a 2015 CNBC survey.

5. They fail to maximize charitable giving.
Wealthy families contribute to charity, most often because they want to make a difference, not because they are looking for tax breaks. Yet it's important to organize giving in a way that minimizes taxes so you'll have still more to give. Also, you need to think about your heirs and use every available means to maximize your assets. A U.S. Trust survey showed that 98.4% of American families with $200,000 or more in annual income and/or net worth of at least $1 million gave an average $68,580 to charity in 2013. Three out of four households cited a desire to "make a difference" as their motive for giving, and only 41.7% said they would "somewhat decrease" giving if the tax deductions disappeared.

6. They keep funds at multiple institutions and fail to properly diversify their holdings.
A fundamental mistake in portfolio management is to open accounts at different financial institutions in the belief this will provide asset diversification. In fact it's the opposite: If you buy, say, mutual funds from three different companies, chances are high that the funds each invest in some of the same asset classes or even specific securities, meaning you are less diversified. Diversification is a vital component of investing, and achieving it and keeping it over time can be challenging.

7. They don't involve family members.
The impulse to handle everything and allow your spouse and children to enjoy the ride may be admirable, but money should be a family affair. When husbands fail to involve their wives in financial decision-making, it can cause a major problem if the husband becomes disabled or dies prematurely. A similar problem exists with second marriages, which require advance financial planning and also bringing the new spouse in on the financial picture. As children grow older they should be educated on how to manage money and know exactly how assets will be transferred between generations.

8. They don't follow a comprehensive financial plan. Each aspect of your financial life affects all the other parts. If you fail to save regularly you may not have enough money to live the lifestyle you desire once you retire. If you don't understand your spending patterns you may run out of money without knowing why. The higher a person's net worth, the more complex their situation becomes, and the more important it is for them to create and follow an overall financial plan. An effective financial plan will include everything from budgeting and spending to retirement planning and tax strategies.

The Professional Solution
To address all of these shortcomings and more, consider hiring a Certified Financial Planner to put together a comprehensive financial plan. A CFP will start by gathering all of your financial data and determining your life goals. After analyzing your current situation, the planner will generate a range of recommendations and discuss them with you. Once you agree on a plan, the planner will implement it, from setting up investment accounts to consulting with other professional such as attorneys and tax accountants. At [ABC], we form a long-term partnership with you, continuing to monitor your progress toward your goals and adjusting the plan as needed in response to changes in financial markets, the economy and your life situation. You don't have to go it alone.