Four things not to do after receiving an inheritance

by Joe Allaria
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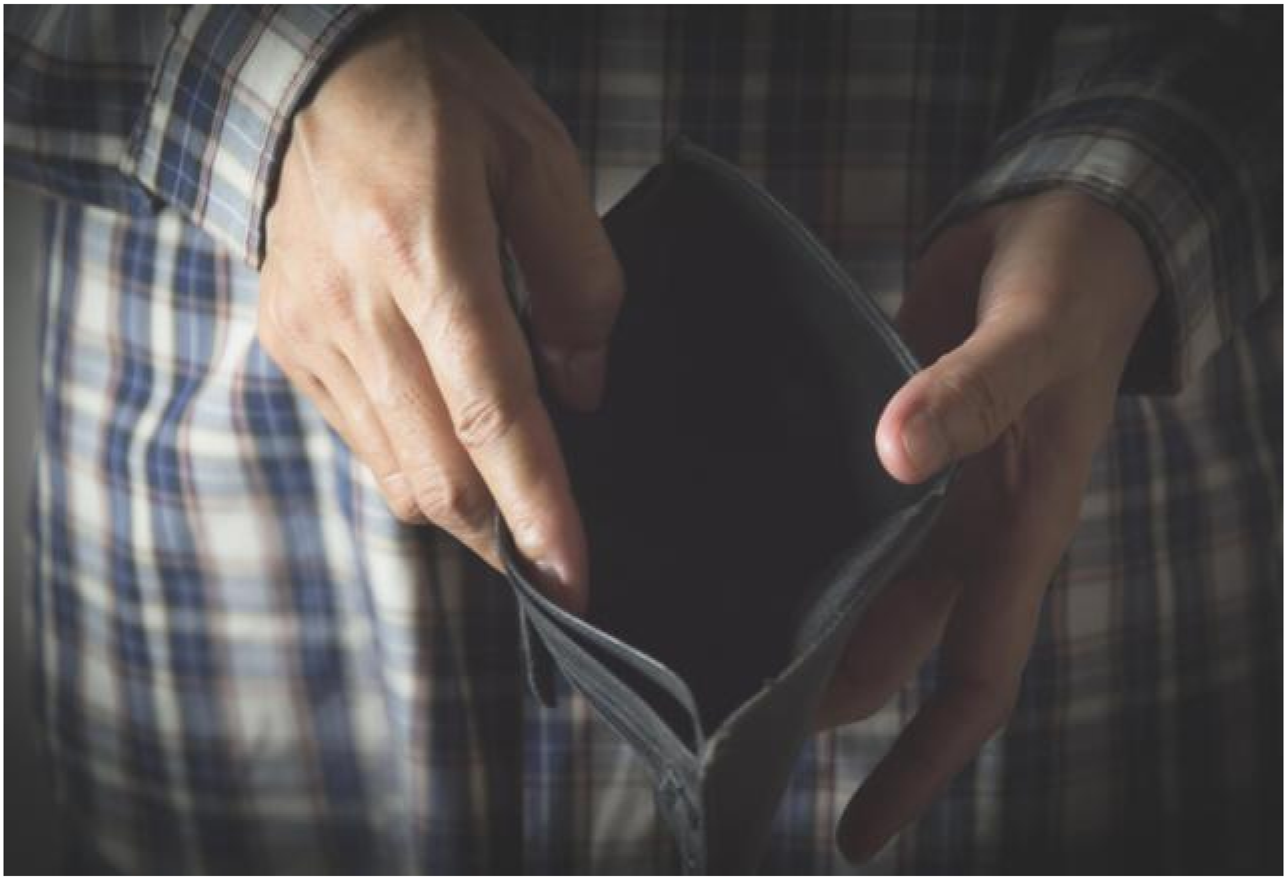

Receiving an inheritance is likely unfamiliar territory for most individuals. In some cases, the amount of your inheritance can even be a big surprise. In any case, if you have recently received an inheritance, it’s probably an emotional time. Dealing with paperwork regarding financial and legal issues might not be a priority, and it is easy to delay in making decisions.

Your inheritance might also be more money than you’ve ever had in your possession. So, without guidance, it may also be easy to make poor decisions. However, while a large lump sum may seem like a lot at the time, it may not go as far as you think. And, if you’re behind on your retirement savings, you cannot afford to make bad decisions with your newly acquired assets.

Here are five examples of poor decisions made by those who’ve received a large inheritance:

Spend it immediately

Of course, this is the obvious one, and it's easy to see why. When your bank balance goes from almost nothing to suddenly having hundreds of thousands of dollars or more in it, it becomes very enticing to start looking at new homes, new cars, and lavish vacations. And hey, who's to judge and say that isn't perfectly okay for you to do?

Well, you're certainly entitled to spend your money in whatever way you choose. However, this article will continue to hit a common theme throughout, and that theme is to first make sure you are on track to reach your basic financial goals before allocating money toward "extras."

Therefore, if you have verified that can sustain a large withdrawal for one of the big expenditures listed above and still be on track to reach your financial goals, I say "go crazy!"

But, It's important to also remember that with more expensive houses, comes higher property taxes. And, with more expensive cars, comes more expensive car insurance, and so on.

So, if you have not evaluated your progress toward your basic financial needs, or if you find you are behind where you should be, it may be prudent to hold off on elevating your lifestyle so quickly.

Invest prematurely in a business

Once you have received your inheritance, you may also find yourself with opportunities to invest in business opportunities. These opportunities may be with a friend or family member's small business, or perhaps with a business of your own that you've considered starting for years.

But, like any investment, it is crucially important that you carefully evaluate the business and do your due diligence before making any decisions. If your friends /acquaintances become aware of your newly acquired wealth, they may try to obtain financing or garner an investment from you at your kitchen table after a 30-minute pen and paper presentation. But, you need to set a standard or a policy for how you'll evaluate those "opportunities."

And, don't forget the age-old investment advice of "Never put all of your eggs in one basket," which is something you should certainly consider when you think about how much, if any, of your inheritance you plan to invest in a start-up or small business opportunity.

As mentioned above, if you do your due diligence, and the business plan looks strong, it could be a fantastic opportunity for you. But, you should be slow in making these decisions.

Loan people money

Unfortunately, when you acquire wealth, you begin to be a target for some of those around you. And, you may even be approached by a friend or extended family member who is in need of financial help. For some, it might be easy to say “no.” For others, you may really want to help.

But, like everything else mentioned previously, you must truly evaluate your own long-term picture first. Individuals are having to carry a heavier load than ever regarding funding their retirement. More and more workers have access only to defined contribution plans, which they have to contribute to on their own, and Social Security continues to have an unknown future.

If you can confidently confirm, even after gifting or loaning money to your friend or family member, that you are still on track toward your financial and retirement goals, then there is no shame in helping someone out.

If you would prefer to not provide financial assistance, it may be beneficial to create a policy for your wealth and respond with your intentions to follow your policy. For example, “I don’t do personal loans.” Or, you could enlist the help of a trusted advisor and explain your intentions to follow the advice given to you by the advisor.

Leave it in the bank

Of all of the examples of things to NOT do with your inheritance, how can leaving it in the bank be a bad thing? Well, depending on the time you’ll need to access the assets from the inheritance, leaving the money in the bank could be a very bad thing.

Investing and wealth management is all about risk vs. reward. When you leave your money in the bank, you generally are taking very little risk, but you are also getting very little reward. If you plan to withdraw the majority of the inheritance in a short-term time period, the bank is a great place for your money. But, hopefully after points 1, 2, and 3, you wouldn’t plan on doing that for any reason.

If you plan on using your inheritance for retirement assistance, and retirement is 10, 20, or even 30 years away, leaving your inheritance in the bank could cost you an enormous amount in “opportunity cost.” In other words, if you invest your inheritance for the long-term, you will give your money a chance to grow and compound over time.

Mathematically, the more time you allow the money to compound at a positive growth rate, the more significant the growth becomes.

For those in your 20s, 30s, 40s, and even 50s, you should evaluate your time horizon and discuss an investment strategy with a licensed advisor.

Bottom Line

Receiving an inheritance might sound like a great thing, and it certainly has its benefits, but it also comes with the responsibility of making decisions. If you're unsure on what direction to go, reach out to a CERTIFIED FINANCIAL PLANNER™ professional for help.

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