Ways Not to Ruin Your Financial Life

Investing is critical to building wealth, but it's not the only thing that matters. Yet it can be quite powerful, and indeed a rough calculation called the "rule of 72" can make it seem pretty easy to become wealthy. Using that rule and assuming a 7% rate of return, your investment would double every 10 years. If you started investing at age 25, you could see at least four of those doubling periods during your working years.

But you can't bank on 7% returns annually. Yes, the stock market has trended upward since its inception, but not straight up. Your personal financial growth may not trend smoothly either. You may suffer losses in certain years, and you may face life events that interrupt the doubling periods, like losing your job and your ability to save or getting into unhealthy financial habits.

Although you can't prepare for everything that could go awry, there are some mistakes you can work hard to prevent. For the ones that no advice can help you avoid, at least you can be aware of the financial risk. Here are ways to avoid financial ruin:

1. Just say no

Don't drink to excess, don't gamble to excess, don't do drugs and don't cheat. The bottom line is that simply avoiding potentially costly problems and behaviors makes it easier to stay on the right path for your finances.

2. Invest like you earn

You didn't get to your current income level by pure chance or luck. It probably took a lot of time, discipline and hard work to get to where you are in your career. The same is true of investing. It's a long-term, disciplined process that shouldn't depend on factors outside your control, like a certain stock outperforming. So if a particular investment opportunity crosses your path that promises the moon and seems way out of the norm, it's likely not an investment worth making. Save gambling for the casino, not your future financial security.

3. Don't get divorced

It's not as if you should stay married for financial reasons, but there's no question that divorce can derail your financial life. For example, say you divorce at age 40 and need to divide your assets in half. At that point, you have just two doubling periods before age 60. You'll be 50 by the time you break even, given that hypothetical 7% annual return, which you may or may not receive.

4. Don't sell the gas station

If you have a primary source of income, don't sell it before having a concept of what you'll do next. I've seen more than one person make millions in their business, cash out, spend it all and then find themselves trying to build anew from square one. There's no fuel left in the tank. It's hard to start from scratch in midlife or later, especially if you face other setbacks along the way. If you have a reliable source of income, maintain that "gas station." You'll have the security of knowing you have a backup source of fuel.

5. Mind your spending habits

Spending out of boredom or stress isn't unusual. And on a case-by-case basis, it's not a colossal mistake. Just $20 here or $40 there when you see a sale going on is not a big deal. But if you let excess spending become a habit, it becomes a major threat to your financial life because you're living right at the limit of your income — or perhaps past it, if you get into credit card debt. Before you swipe your card or click "Add to cart," ask yourself, "Do I really want this or am I just bored?"

6. Don't make negative financial habits

There's nothing wrong with enjoying a celebratory five-star meal with a fine French wine. But regularly enjoying that same bottle of wine with the mac and cheese you gobble down with the kids after soccer practice can become a problem. Sometimes the line between "I deserve it" and "I want it" becomes blurred. It's subjective for every person. But there's a line when big splurges become habitual. Keep certain luxury items a rarity so they remain special to you and don't become a recurring line item on your budget. And if there's something you want as an "excess item," make sure to keep it within a prudent level of expenses.

7. Don't take on long-term financial commitments based on a short-term windfall

It's good to be optimistic about the future when you get a big bonus or a larger than normal business distribution. But likewise, you have to understand what's sustainable — earn first, buy later. If you work in a field where your income varies from year to year, don't take on a third car payment or buy a vacation home solely based on your success in one year. Think about your net worth relative to what you earn, and how long you've been earning at that level. A healthier than normal single year can't pay for an obligation that's five to 30 years in duration.

8. Don't worry about image have common sense instead.

No one cares about how big your house is or what car you drive and if they do you don't want to be around those kinds of people. Don't follow the neighbors be practical, save and invest. If you're married with kid's, you need two cars. Don't buy one luxury car the family has to share just for image when you could have bought two its impractical. Think!

9. Have Health and Life Insurance

Make sure you have health insurance that covers your health issues as you age. Medical bills will deplete your savings when you least expect it. Also have some form of term life insurance that is economical to maintain. In your absence your spouse will need the liquidity a life insurance policy provides to maintain a household and pay for your final expenses.