SEVEN DEADLY FINANCIAL SINS OF THE SELF-EMPLOYED

BY

Formations

FORMATIONSCORP.COM

Introduction

7 Deadly Financial Sins of the Self-Employed

Being self-employed can be liberating, giving you the freedom to pursue your passions, set your own schedule, and be your own boss. But with that freedom comes responsibility, particularly when it comes to managing your finances.

As a self-employed professional, you don't have the luxury of a steady paycheck or employer-sponsored benefits, making it all the more important to stay on top of your financial game. So it’s important to be aware of the sins many self-employed fall victim to.

From overspending to neglecting retirement savings, these seven deadly sins can derail your financial success.

Sin One: Confusing Income with Profit

You did it! You had a stellar year, and your revenue is up 10%, but you also increased your expenses by 15%. Did you really make more money?
Before you celebrate too soon, be sure to look at your financials from the right point of view. It can be tempting to focus on the total revenue generated, and many business owners make the mistake of equating revenue with profit, but this can be a dangerous assumption.

While increasing your top line may seem like a positive indicator of your business's success, it's important to remember that expenses can eat away at your bottom line. In fact, if you're not careful, you could end up decreasing your net profit even as you increase your revenue.

So how can you check your profit? It's essential to track your revenue and expenses separately and calculate your net profit regularly.

To do this, subtract your total expenses from your total revenue. The resulting number is your net profit, which represents the money you have left over after all expenses have been paid. And remember, since you're a self-employed professional, you also need to factor in self-employment tax payments that should ideally be made quarterly.

To take it a step further and honestly evaluate your business's financial health, it's important to pay attention to your net profit margin. This is calculated by dividing your net profit by your total revenue and multiplying by 100 to get a percentage. A higher net profit margin indicates that your business is more efficient at converting revenue into profit.

Remember, it's not just about increasing your top line - it's about improving your bottom line. By keeping a close eye on your revenue, expenses, and profit margins, you can make informed decisions about how to grow your business sustainably and profitably.

Sin Two: Prioritizing Short-Term Gains Over Long-Term Success

It's understandable to be cautious about spending money, but it's important to remember that sustainable and scalable revenue often requires investments in your business. When you're increasing your expenses, it's crucial to have a clear plan in place to ensure that your revenue keeps up. This means establishing benchmarks and budgeting proactively for expenses at the beginning of the year rather than reacting to unforeseen expenses as they arise.

One key concept to keep in mind is profit first. This means prioritizing profit over expenses and paying yourself first before allocating funds to other expenses. By taking this approach, you ensure that your business consistently generates a profit and is not being held back by unnecessary expenses. The equation for profit first is revenue - your salary = expenses. You should always make sure that you get paid for the work you do and that you have the funds to cover the cost of living. The remaining is the budget you have to work with to operate (or invest in) your business.

However, it's also important to be strategic about where you invest your money. For example, you may be tempted to pay a significant amount upfront for a new membership for networking, but it's important to consider the immediate ROI and whether it's worth the investment. It's crucial to strike a balance between investing in growth and ensuring that your expenses are sustainable and aligned with your revenue goals.

Think of it like the "toothpaste theory" - you tend to use more toothpaste when you have a lot and start to work every last drop out of the tube when you're running low. Similarly, if you're a real estate agent, you know that the costs of home ownership extend far beyond just the mortgage, and it's important to be prepared for the unexpected such as repairs and emergencies.

By being proactive about budgeting and prioritizing profit, you can set your business up for sustainable and scalable growth.

Sin Three:
Selling Yourself Short

When it comes to entrepreneurship, there are many paths you can take. Some people work as gig workers or freelancers, taking on short-term projects or jobs as opportunities arise. Others pursue a more long-term career as self-employed individuals, building a business that they hope will sustain them for years to come.

If you fall into the latter category, it's important to approach your business with a long-term perspective. Unlike gig workers and freelancers, who may focus more on short-term gains, you're in it for the long haul. This means that you need to think about your business in terms of sustainability and scalability rather than project to project.

One of the most important things to consider when building a long-term career as a self-employed individual is not selling yourself short. This can manifest in many ways, from undervaluing your skills and expertise to underpricing your products or services.

To avoid this trap, it's crucial to have a clear vision for the future of your business and to approach each decision with that vision in mind. Don't be afraid to take calculated risks and explore new opportunities, even in challenging climates. Look for ways to innovate and differentiate yourself from the competition.

Another key factor in building a sustainable, long-term career as a self-employed individual is to focus on building relationships and delivering value to your customers. When you focus on providing exceptional service, you create a strong reputation and a sustainable business that can withstand changes in the market.

Ultimately, the key is to have confidence in yourself and your abilities. Think long-term, stay focused on your goals, and always be willing to adapt and evolve as your business grows and changes. With dedication, perseverance, and a clear vision, you can continue to grow your business and seek new opportunities with confidence.

Sin Four: Focusing on Metrics that Don't Matter

Focusing on the wrong metrics can be a dangerous trap for solopreneurs. While it's important to keep an eye on revenue and profit, it's equally important to look at relevant data to your business as a whole and not just focus on vanity metrics or data that validates your assumptions.

For example, one common mistake is looking only at your profit without factoring in tax liability. As a self-employed individual, it's essential to consider the complete picture of your income and expenses, including any potential tax obligations. If you don't account for taxes, you may be overestimating your actual profit and underestimating the amount you'll owe to the government, creating a cash flow problem for your business in the future.

Another metric you might consider is social media. Social media is an excellent way for self-employed professionals to market themselves and connect with their audience.

You might have fellow solopreneurs in your community who are crushing it in terms of volume, with thousands of followers. This could possibly discourage you from getting started, but what is the worth of all those followers if they're not engaging or converting? Rather than focus on impressions or reach of your audience with follower count, consider the engagement rate of your audience. If your small but mighty audience is engaging with your content and sparking conversation, that's far more valuable than just boosting your following.

Remember, the metrics you focus on should align with your overall business strategy and goals. By taking the time to think critically about what matters most, you can avoid the trap of chasing after superficial metrics that don't actually move the needle for your business.

Sin Five: Not Letting Your Money Make You Money

Many believe that keeping their money in the bank is the safest and most secure way to grow their wealth. However, this couldn't be further from the truth. Inflation is constantly eroding the value of our money, which means that the longer you keep your cash sitting in a bank account, the less it's worth.

To avoid this, it's critical to make your money work for you. While it's important to have a safety net of three months of expenses in your account, anything extra should be invested in your business, put towards assets that appreciate in value, or invested in the stock market or other financial instruments.

Wondering where you can invest your money? There are numerous options.

STOCK AND MUTUAL FUNDS

Investing in stocks and mutual funds can be an excellent way for self-employed individuals to diversify their portfolios and potentially earn higher returns.

INVEST IN YOUR BUSINESS

You can pour the money back into your business by purchasing equipment, hiring additional staff, or investing in marketing and advertising to increase your revenue.

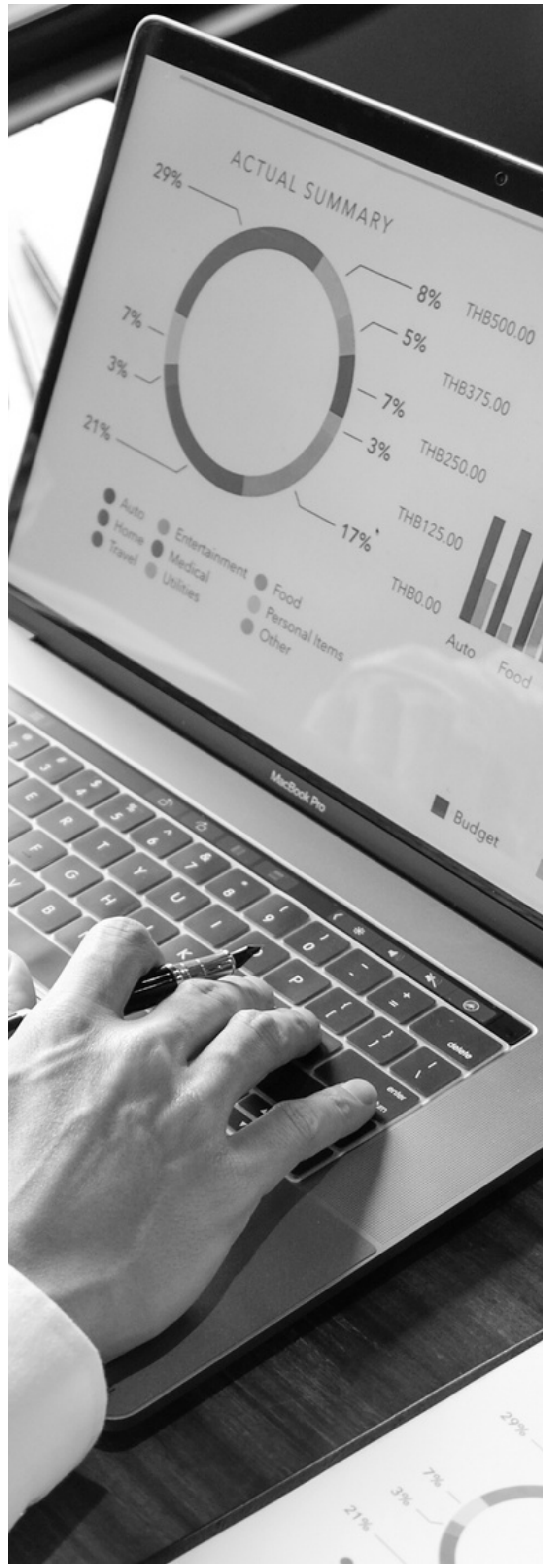
INVEST IN REAL ESTATE

Investing in real estate can provide an opportunity to generate passive income through rental properties or to make a profit through flipping properties. There are also several tax advantages to holding rental properties that will offer additional financial benefits such as depreciation.

RETIREMENT ACCOUNTS

Self-employed individuals can invest in retirement accounts such as a Solo 401(k) or a SEP-IRA, which offer tax benefits and can help them save for retirement.

Continued...



PEER-TO-PEER LENDING

Platforms like LendingClub and Prosper allow individuals to invest in loans and earn interest on their investments.

CRYPTOCURRENCIES

Investing in cryptocurrencies like Bitcoin and Ethereum can be a high-risk, high-reward investment option for self-employed individuals who are comfortable with the market's volatility.

REMEBER

It's important to remember that all investments come with some level of risk, and you should always do your research and consult with a financial advisor before making any investment decisions. But by investing your money wisely, you can benefit from compound interest and earn more money over time.
Don't let your money sit in the bank and do nothing - instead, look for opportunities to grow your wealth and take advantage of the power of compound interest.

Sin Six: Avoiding Smart Debt

While it's true that debt can be harmful if used irresponsibly, it's important to recognize that there are times when it can be used to your advantage. The key is to leverage debt responsibly. This means using debt wisely to help grow your business or capitalize on market opportunities.

One type of debt to consider is short-term debt. This can be useful for covering expenses that come up unexpectedly or for taking advantage of opportunities that require immediate capital. It's important to carefully consider the interest rates and terms of any short-term debt, as high interest rates can quickly become a burden.

Long-term debt, on the other hand, is typically used for larger investments in your business, such as purchasing equipment or expanding your operations. Again, it's important to carefully consider the terms and interest rates of any long-term debt, as this will impact your bottom line over a longer period of time.

It's also worth considering other types of debt, such as lines of credit. These can be especially useful for businesses with fluctuating cash flow, as they allow you to borrow money when you need it and pay it back when your cash flow improves.

Ultimately, the key to leveraging smart debt is to carefully consider your options and choose the right type of debt for your business needs. By doing so, you can take advantage of opportunities and grow your business while still keeping your debt under control.

Sin Seven: Ignoring Your Business's Seasonality

Understanding your business's seasonality is crucial to its success. It can help you predict cash flow, inventory needs, and staffing requirements throughout the year. It's essential to recognize the trends in your business and be prepared for the fluctuations that come with it.

For example, if you're a real estate agent, likely your busiest season may be in the spring and summer months. This means you may need to hire additional support during these months and plan to work more hours to keep up with demand. On the other hand, during the slower winter months, you may need to reduce expenses to maintain profitability but can also plan to rest, recharge, or train during this time.

By understanding your business's seasonality, you can plan and prepare accordingly, avoid unexpected expenses, and make informed decisions that will keep your business running smoothly throughout the year. It's also essential to keep accurate records of your sales and costs, so you can analyze trends and make adjustments as needed.

Ignoring your business's seasonality can result in missed opportunities, financial stress, and, ultimately, a negative impact on your business's bottom line. So, take the time to understand your business's trends and plan accordingly to ensure your business's success.

Conclusion

7 Deadly Financial Sins of the Self-Employed

In the world of self-employment, avoiding the seven deadly financial sins is vital to success. By taking control of your finances and staying disciplined, you can steer clear of these pitfalls and pave the way for a prosperous future.

Remember, you are your own boss, so make sure to make wise financial decisions and avoid committing these sins. Don't let them drag you down – instead, use them as a guide to build a successful and fulfilling career.

Go forth and conquer the world of self-employment with confidence and savvy!

About Formations

Formations is a predictive tax management solution for self-employed business owners with a business growth mindset who need to navigate multiple tools and specialists to manage their business, keep track of their finances, and stay compliant with tax filings.

Formations offers a predictive tax management solution with a proven tax strategy that helps business owners save over $11k in taxes every year.

Unlike other tools, or your personal CPA, who are dysfunctional, don't listen to your goals and cannot optimize your business for tax savings, Formations solution helps customers create a tax-efficient business structure, have full control and visibility of their business financials, and achieve predictable tax savings year-over-year.

Save money, save time, and get peace of mind.

Formations

QUESTIONS?

REACH OUT TO YOUR SUCCESS TEAM