10 Money Mistakes Millennials Should Avoid

No. 10's a Shocker

Many millennial households are on their way to building substantial wealth. They are saving 20% or more of their paychecks, investing in 401(k) accounts, and keeping their debt levels low. But others, even those with good educations and solid careers, are making financial mistakes. And some are making them over and over, digging a hole from which it may take years to climb out.

Millennials can help themselves over the long term by avoiding several key errors. As a wealth adviser by trade, and more importantly, as someone actually of this generation who has personally gone toe to toe with many of the financial challenges often faced by millennials today, here are the 10 most common millennial money mistakes I've witnessed:

Mistake No. 1:

Failing to Consider the Financial Consequences of Student Loans

Many people want to attend a prestigious university or earn a specific degree, but will this decision enable you to earn enough money to justify the expense? Too many people sign up for mounds of student debt without considering the financial magnitude of their monthly debt payments and the length of those payments versus their expected incomes.

Anyone considering a second degree, a master's degree, or a doctorate should determine before borrowing money if the new degree will generate enough additional earnings to justify the expense.

Mistake No. 2:

Postponing Saving

People with just a little money left over after paying their bills can fall into the trap of saying that they will start to save just as soon as they can. This thinking is dangerous because as we grow older, our lives often become more expensive.

To get ahead financially, you don't need to live within your means; you need to live *beneath* your means. When you get a bonus, a raise or a promotion, take advantage of the additional income and at least partially increase your savings — not just your lifestyle.

Finding a way to save a little each month is really how to get ahead and make financial progress toward your goals.

Mistake No. 3:

Ignoring the Financial Consequences of an Expensive Wedding

Sure, it may very well be one of the most important days of anyone's life, but it's also critical to make sure that you are not saying "I do" to unnecessary financial distress.

Anything with the word "wedding" in front of it is expensive, whether it's cakes, flowers, photographers, coordinators, destinations or venues. Between parents, friends and social media, many millennials feel pressure to deliver on their big day, but there can be a very real and impactful financial trade-off between cake and punch and buffet and open bar. Think beyond Day 1. Days 2 and forward of a marriage are important, too!

Mistake No. 4:

Having an Inadequate or Nonexistent 'Rainy Day Fund'

Returning from the mountains after one of our first vacations as a married couple, my wife and I learned how critical having a "rainy day fund" is firsthand! The rolling foothills proved too much for my beloved Jeep, and had we not set aside some cash in a savings account for emergencies we would have been in a real financial pickle trying to decide between taking on debt to get some new wheels, asking her father and mother for help, or talking to mine.

To make sure you don't have to face choosing between one of those less-than-ideal options, one of the first steps to building a solid financial foundation is to save three to six months' worth of your monthly living expenses in cash in a "rainy day fund," so life's curveballs won't derail your finances. And there will be curveballs!

Mistake No. 5:

Having Too Many Credit Cards

You're at the checkout line and there's allegedly a once-in-a-lifetime opportunity to save $25 or 10% on your initial purchase if you'll just take a few minutes and open a store credit card. Sound familiar? We all face these temptations, and despite the short-term financial benefits or savings by opening a new line of credit, you should almost always just say no!

Buying with credit is a good way to earn points and rewards, and it offers additional fraud/identity theft protection versus using a debit card, but credit cards also require personal restraint and consistently paying off the entire balance month after month to be utilized effectively.

Mistake No. 6:

Buying Too Much Car

Even after careful research and knowing how much you can afford, once you take a test drive it's easy to crave the better model with the premium wheels and entertainment package. But don't; only get the car you need. Additional money spent on a slightly nicer ride could be used to establish a rainy day fund or boost your savings for retirement. Plus, a car is a depreciating asset — the value drops as soon as you leave the dealership.

Mistake No. 7:

Buying Too Much House Too Soon

Buying a home before you can handle the financial responsibilities can quickly strain your finances. The goal for millennials should be to buy a house that meets your needs and helps build equity, not the dream house you want to retire to. For many first-time homeowners, the monthly mortgage payments and costs of maintenance, utilities and real estate taxes can be overwhelming.

As you are furnishing a house it's also important to go at a reasonable pace and decorate at an affordable level. Buying a bunch of furniture or fancy accent items all at once can torpedo your cash or create recurring credit card debt. A new house doesn't have to be a finished product overnight, and your first house doesn't have to be your dream house!

Mistake No. 8:

Not Saving Enough for Retirement

Many millennials realize that the retirement planning game has changed and will likely continue to do so. Pensions are headed the way of the dinosaur. Regardless of your politics, most everyone agrees Social Security benefits may not look like what they do today once it's time for millennials to collect. That means what your retirement looks like may be pretty much up to you!

In order to build up an adequate nest egg capable of sustaining your desired lifestyle in retirement and to fund all those trips on the bucket list and the place on the beach, you need to start saving now. Make certain you are taking full advantage of any matching contributions your employer offers to your retirement plan, but also work toward contributing even more to your 401(k), to your IRA, and to a taxable brokerage account. The longer your invested money has a chance to grow and compound, the larger your nest egg will likely be, and that can mean a nicer (and sooner) retirement.

Mistake No. 9:

Children, But No Wills

Married couples should have a will, and those with children should definitely have one. A will helps make sure that your final wishes will be fulfilled and names the guardian of your children. As a proud father of two young kids, I can attest that even though it is probably the last thing you want to think about between sleepless nights and sippy cups, updating your estate plan needs to be done.

Mistake No. 10:

Putting Your Career First

Many people I know love what they do for a living and they are really good at it. Others are burning their candle at both ends trying to hit that next sales goal or fast track that next promotion. This may surprise you coming from a wealth adviser, but I can attest that money isn't everything.

As the famous saying goes, "Nobody on their deathbed has ever said they wish they had spent more time in the office." It is noble to work hard and have a fulfilling and successful career, but make sure you aren't always putting your job ahead of your life, your health, your family and your friends. If you do, you may end up having a lot of money and being near the top of the org chart, but yet still very poor at the same time.

About the Author

Written by Tom Presley, a Partner and Wealth Adviser at Brightworth who focuses his time on developing and implementing comprehensive financial strategies for high net worth and high income earning individuals. A Certified Public Accountant and a CERTIFIED FINANCIAL PLANNER™ practitioner, Tom is a member of the fee-only National Association of Personal Financial Advisors (NAPFA).

This article was written by and presents the views of our contributing adviser, not the Kiplinger editorial staff. You can check adviser records with the SEC or with FINRA.