# 10 Common Financial Mistakes Made by People in Their Twenties

1. Living in Debt
2. Avoiding Credit Cards
3. Spending Frivolously on Little Things
4. Failing to Save for a Rainy Day
5. Failing to Purchase Insurance
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Entering adulthood and finally claiming some independence is an exciting feeling. Unfortunately, you will quickly realize that being responsible for yourself isn't all fun and games. If you are like most young people, you may never have been taught how to handle your own money when you were a kid, which can make you feel lost when trying to figure out your finances for the first time. Here is a look at ten common financial mistakes made by people in their twenties. Learn to avoid these pitfalls, and you will create a solid foundation that lasts throughout your life.

***Disclaimer:*** *This guide provides general information about personal finances. It is not intended to represent financial or investment advice. Please consult with your financial advisor and/or tax advisor with specific questions concerning your particular circumstances.*

**1. Living in Debt**

Many young adults jump at the chance to open their first credit card. After all, the concept of buying what you want now and worrying about footing the bill later is very appealing when your income isn't all that you wish it would be. What you have to realize, though, is that eventually your debt will catch up to you. It's amazing how quickly credit card bills add up--especially when you consider the astronomical interest fees that you have to pay. As a general rule, it's best to avoid letting yourself get into debt at all when you're young. Try to only spend as much as you are taking in and be cautious about making big purchases. You may not be able to live very lavishly now, but you will be in much better financial shape down the road.

**2. Avoiding Credit Cards**

Just because it's not a good idea to accrue credit card debt doesn't mean that you should avoid credit cards entirely. In fact, your twenties are a great time to start building your credit. Many young adults go to apply for a mortgage or even a car loan and get rejected because they have no credit history. Luckily, you don't have to go into debt to start buffering your credit score. Simply apply for a credit card as soon as you are able and then pay off the balance in full at the end of each billing period. You won't be charged any interest fees, but you will start to establish yourself as being a responsible borrower.

**3. Spending Frivolously on Little Things**

The part of your brain responsible for putting things in perspective doesn't actually finish developing until your mid-twenties, so it's understandable why young adults tend to have trouble seeing the big picture. While you may feel like you are being responsible with your money by avoiding major purchases, it's often the little things that add up much more quickly. That five-dollar coffee drink you get every day will end up costing you almost $2000 over the course of a year, and the same principle holds true for meals at restaurants, drinks at bars, and shopping sprees. Cutting back on the little things can actually save you big money, so it's important to try to consider the bigger picture.

**4. Failing to Save for a Rainy Day**

Sometimes life isn't going to go the way you expect, and you need to be financially prepared. Many young people spend all their money without saving any for a rainy day, which could leave you in serious debt if your car suddenly breaks down or you lose your job. No matter how well things are going, unexpected emergencies can happen, so a "rainy day" fund is an important tool in establishing and maintaining financial security. A good rule of thumb is to have at least six months of living expenses saved.

**5. Failing to Purchase Insurance**

Rather than assuming that you are invincible simply because you are young, you need to prepare yourself for the bumps in the road that you might face. Being prepared also often means shelling out money for products like health insurance, car insurance, and renter's insurance, which you may not want to pay for right now, but which can save you from financial ruin if something does go wrong.

**6. Failing to Budget**

Too many young adults live paycheck to paycheck because they have no grasp on how much money they can afford to spend every month. You need to look at your income and your expenses side by side so that you can figure out how to live within your means. Just because you set a budget for yourself doesn't meant that you won't be able to have fun and do exciting things, but it will help you know your limits and figure out how to space out your spending over time so that you don't end up in debt.

**7. Putting Off Retirement Savings**

As you work your first jobs, retirement seems like a very distant prospect, so it's easy to put off starting to save. Unfortunately, as time marches on, it becomes more and more difficult to establish a nest egg big enough to finance your golden years if you didn't start saving when you were young. Most employers offer some sort of 401(k) plan into which you have the opportunity to invest. You can also put money into a savings account, mutual fund, IRA, or cash-value life insurance policy. No matter how you choose to save, the simple act of planning ahead is what's most important.

**8. Failing to "Pay Yourself First"**

A common concept used by financial planners is to "pay yourself first." With each paycheck, you should have a specified amount of money automatically routed into savings. The idea is to pay yourself first before you begin paying your regular monthly living expenses and making other purchases. This simple system helps to put off the temptation to spend your paycheck before you contributed to your savings. These regular contributions to savings are a great way to build a nest egg.

**9. Trying to Get Rich Quick**

If it sounds too good to be true, it probably is, so don't try and get rich overnight with high risk investments. Although high risk investments could possibly bring big returns, they can also bring big losses. A smarter investment strategy is to minimize your risk by focusing on long-term investing and to mix a variety of investments within a portfolio. As with all investment strategies, it is a good idea to always seek the help of a professional.

**10. Failing to Seek Professional Help**

Many individuals have the ability to manage their own finances successfully, but many others do not have the time, education, or confidence to do this. Recognizing that you need the help of a professional can be the first step towards success. When dealing with financial matters such as financial goals, retirement planning, investing, and budgeting, find a good financial planner to help you. When dealing with your taxes, seek the help of an accountant. When dealing with insurance matters such as health insurance, renters insurance, car insurance, and life insurance, find an insurance professional to help you. Always check out the qualifications and credentials of any financial professional that you use.

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