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Millennial Money Mistakes

Tags: investment [1]
rrsp [2]
tfsa [3]

Investors who start saving at a young age automatically have one of the most powerful assets on their side: Time. To get ahead financially, young adults should beware of some of the most common pitfalls discussed below that can all too easily sabotage a financial success strategy.

Not Taking Saving Seriously

At the dawn of the millennium, there has been an alarming trend of "millennials" (people who have reached adulthood after the year 2000), who have not been growing their money through careful and diligent investing. According to an April 2015 article in the Business News Network, only 5% of millennials [1] aged 25-34 are matching the current $5,500 contribution limit to their TFSA (the 2015 Federal budget raised the annual TFSA contribution limit to $10,000).

The aftermath of the 2008 financial crisis took its toll on the millennial generation, with a staggering report that only 61% [2] of millennials invest while the other 39% keep their assets in cash and only 19% prefer equity investments. Saving is difficult because it involves delayed gratification, which calls for discipline and self-control now to reap the benefits later.

One of the easiest ways to save is with automatic RRSP investing. The money is automatically deducted from your paycheck and put in your retirement account, hassle-free. If your employer offers contribution matching, you get an instant 100% return on your investment.

Spending Money on Unimportant Things

Every now and then, there is no harm indulging in amenities such as coffee or muffin. However, purchasing small items excessively can begin to add up down the road, such as the cost of a single muffin every day for a year. A simple $2 muffin can easily become a muffin budget of $500 over a year. Identifying unimportant purchases can go a long way to saving money.

Buying Risky Investments

While many millennials are risk-averse, the ones who are in the equity market are too wild. Instead of taking a long-term approach, they look to getting rich quickly by taking on increasing financial risk. Unfortunately, this does not always work out: one study [3] analyzed a set of portfolios from a sample of millennials and discovered both higher risk and lower returns. In investing, slow and steady wins the race.

Avoiding Insurance

Millennials are in their physical primes and have a mindset of "invincibility", which can lead to a false sense of security and refuse insurance while believing it will "never happen to them". Declining insurance is one of those decisions that can seem like a great money saver at first – until life proves otherwise.

Taking a Casual Approach to Learning about Finance

Instead of seeking professional advice, millennials might just ask their friends about what they are doing. A report [4] by the Investor Education Fund (IEF) discovered that 64% of millennials surveyed said they do not even understand the financial terms used by their investment advisors.

Not being serious about money can be very expensive. If millennials consider the common mistakes made by their generation, they can be one step closer to securing their financial future.

[1] Business News Network, April 2015, [2] The Motley Fool, April 2015, [3] Business Insider, December 2014, [4] Business News Network, November 2014

Do you have questions about your investment planning strategies?

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