12 Money Mistakes Almost Everyone Makes

By KIMBERLY PALMER

Budgeting for the short-term


Research suggests that creating an annual budget instead of a monthly one works best, largely because we feel less confident in our annual estimates, so we tend to add more cushioning for unexpected expenses. In one study, college students underestimated their monthly expenses by 40 percent while overestimating their annual expenses by 3 percent.

This list is based on the new book *Generation Earn: The Young Professional's Guide to Spending, Investing, and Giving Back*, by *U.S. News* senior editor Kimberly Palmer.

Overspending on housing

It's almost impossible to get ahead financially unless you save a significant chunk of your income—ideally, $1 of every $3 you earn. But many people get tripped up by their housing costs. Traditionally, financial advisors have encouraged buyers to spend about one-third of their income on housing. But for many people, especially anyone with student loan debts, child care payments, or other hefty expenses, that's too much money.

Skimping on career investments


Investing in a career coach or development course can help you snag a promotion, get "unstuck" from a career rut, or transition into your dream job. The price of one-on-one coaching typically starts at around $200 an hour, but less formal advice can come from meeting with more experienced colleagues over lunch or coffee.

Falling victim to spending traps


Rewards credit cards sound good in theory, but in reality they encourage you to spend more than you would otherwise. Economists dub this phenomenon "purchase acceleration," because you ramp up your spending when that reward is in sight. Rewards cards also carry a higher interest rate—two percentage points, on average—than non-rewards cards.

Failing to negotiate prices


Even department stores often offer some wiggle room on their posted prices, and big-box stores usually match competitors' prices. This negotiating trend has become so prevalent that the advertising firm Cramer-Krasselt came up with a name for such pushy customers: neo-hagglers. But many consumers fail to realize that prices are flexible and don't bother asking for a better deal.

Earning income from only one source

 The average worker now holds 10 different jobs before age 36. While some of those job changes are voluntary, many also come from layoffs. By earning income from a variety of sources, workers can increase their financial stability. Options for new sources of income include freelance work, a teaching gig at a local community college, or a potentially money-making blog.

Taking on too much, or too little, debt

Not all debt is bad. It can enable you to return to school, buy much-needed professional outfits before receiving your first paycheck, or even cover your rent during a tough month. Being so afraid of debt that you avoid it altogether can force you to miss out on opportunities, while taking on too much can lead to financial ruin.

Trying to beat the market

Timing the market would require a *Back to the Future*-style time machine. That's why investing a little bit at a time, regardless of the market's behavior, is the safest way to go. Retirement accounts such as 401(k)s, which invest money from your paycheck each month, make it easy to invest this way.

Paying too much attention to the Dow

Focusing too much on the ups and downs of the market just causes stress. When the market's plunging, instead focus on your hobbies, family, and getting outside. Avoid cable television news, which often treats every dip in the market like a major crash. If your investments are well-diversified, then you've done all you can.

Counting on Social Security

 Just as today's thirty-somethings start thinking about retirement in 2037, the Social Security trust fund is scheduled to run out. That means, if nothing changes, benefits will shrink to about three-quarters of what they are now, because only money that is being paid into the system will be paid out. That means young professionals need to plan on funding the bulk of their retirement with their own savings.

Overspending on gifts

 Pollster John Zogby has found that the amount of money people say they intend to spend on Christmas gifts has been steadily declining since 2001. Consider joining that movement by making your gifts more meaningful and less expensive. Instead of pricey jewelry and LCD televisions, consider cookbooks and museum dates. You can also consult websites like craftster.org to find unique DIY gift ideas.

Underestimating tax bills

People who earn money beyond their usual paycheck, from freelance work or a side business, are most at risk for owing a lot of money in April, which can also trigger additional fees. Married couples who earn similar, high salaries are also at risk, because of the so-called marriage penalty. Check to see if you've been paying roughly the correct amount of taxes by reviewing your payroll stubs or other documentation