Prudential Investment Managers

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Money mistakes to avoid in your 20s and 30s

Your twenties and thirties are usually characterised by important life-changing events, and if managed correctly, could set you up for big financial growth. It's typically a time when you start building your career, gain valuable experiences, and become financially independent and established. It's also a time when you may be considering making big-ticket purchases, such as buying a car or a house. And, of course, it's also a time when many of us start settling down with a life partner and consider having a family. Each decision you make during this stage of your life will have a significant impact, not only in the here and now, but also in the long term. Making the right decisions from the offset is therefore vital. So to help you out, we've listed five common mistakes to look out for when navigating this crucial but equally exciting time of your life.

1. Delaying saving for your retirement

Many 20-somethings fall into the trap of thinking they'll start saving for retirement later when they're earning more and can more easily afford it. This can be costly in the long term as you miss out on two of the most powerful tools in investing – time and the power of compounding. Simply put, compounding is the process of reinvesting the income earned on an

investment (rather than having it paid out), thereby creating a larger base upon which future returns (i.e. capital growth and income) can accumulate. Time is equally important, as the sooner you start investing, and the longer you remain invested for, the more time you give your money to grow. Our Retirement Calculator is a great way to check if your currently on track to retire comfortably, or how much you'll need to save to ensure that you don't run out of money in your "golden years".

2. Cashing-in your retirement savings when changing jobs

Research shows that the average Millennial will change jobs 12 to 15 times during their lifetime. If you have been contributing to your employer's pension or provident fund, you'll need to decide what to do with your retirement savings when you change jobs. Many people use this as an opportunity to "cash-out" their savings, but the impact of this can be catastrophic in the long run. What should you do instead? Opt for a preservation fund, which is an investment vehicle that allows you to keep your savings intact, and you don't incur any tax on the transfer. Your money will continue to grow tax-free until you retire.

3. Spending more than you earn

If you are spending more than you can afford on a lifestyle that is beyond your means, you'll never be able to achieve financial freedom. How do you know when you're doing that? When you can't afford to fully pay off your monthly credit card bill when it's due. The best tool to help you avoid this mistake is having a monthly budget. This will help you understand exactly where your money goes, and where there may be wiggle room for savings. What should you do with your monthly savings? If you are in your 20s or 30s, you have time on your side, which means that you should be able to take on risk through exposure to equities. At Prudential, our Dividend Maximiser and Equity Funds are great options to consider. Alternately, try our Fund Selector tool to find a fund that is best suited to your investment goals, time horizon and risk profile.

4. Not having an emergency fund

If there's one thing 2020 has taught us, it's that the unexpected can happen to anyone at any time. You'll never fully appreciate the value of having an emergency savings fund until you need it, but don't make the mistake of thinking it's not necessary. Financial advisers typically recommend having enough saved up to cover three to six months' worth of expenses. An emergency fund should be easily accessible and should earn a return that keeps up with inflation (at a minimum). At Prudential, our Income and Money Market Funds are a good option as these generally earn a higher rate of interest than bank savings products and funds can be accessed as and when you need the cash without penalties. At the same time, they are low-risk investments, and interest can be reinvested, which is great if you're looking to compound your returns.

5. Forgetting to set financial goals

People who don't have clear financial goals tend to spend spontaneously and hope for the best. Although it may seem light and "free-spirited" while in the moment, this approach can be enormously stressful and disempowering, because once the money is spent it can't be undone. A better approach would be to clarify exactly what your goals are and then formulate a plan to achieve them. A financial adviser can help you come up with a plan to achieve your goals, and identify those that are not in your financial best interests. Once you have a plan, it is easier to stay disciplined and motivated. Our online goal calculator is also a great tool to help you get started.

For more information, please feel free to contact our Client Services Team on **0860 105 775** or email us at query@prudential.co.za.