4 Money Rules to Break

Some long-standing financial "truisms" are total bunk. Feel free to rebel against these….

BY KATE ROCKWOOD

TIE-DYE IS SO OVER—JUST LIKE SOME INVESTMENT ADVICE.

RULE 1

Credit Cards Are Evil

NOPE. A little plastic can go a long way toward establishing a stellar credit score, something you'll need to buy a car, a house, and even some phone plans. When you skip getting a card, lenders have fewer ways to confirm you'll pay your bills on time. Worried about sinking into debt? Start small. Keep your balance low, or use your card only a few times a year to build up a charge history. Pick a card with no annual fees, and opt for a rewards one (they have higher interest rates and lots of fine print) *only* if you can pay off the balance each month, says Beverly Harzog, author of *The Debt Escape Plan.*

RULE 2

Buying Always Beats Renting

NOT ALWAYS. To buy, you need to have a large chunk of change handy for a down payment, which can be up to 20 percent of a home's cost (e.g., if your future pad is $200,000, you'd need to pony up $40,000 right away). Blowing all your cash up front can spell disaster later on, when, say, you need to replace a suddenly leaky roof. Another issue: Yes, owning a place is about 37 percent cheaper than renting…over time. The dreamy savings or profits don't kick in unless you stay put for around seven years, according to data from Trulia. If you're likely to city-hop for work, it might be smarter to stick to lease life for now.

RULE 3

Your Love of Lattes Is Why You're Broke

KEEP SIPPING, GIRL. Your $4 morning habit *could* add up to almost $1,500 a year…but depriving yourself of small pleasures can make you less likely to stick to bigger savings goals, explains Cathy Derus, CPA, a financial planner and the founder of Brightwater Financial. Pinching every penny may eventually lead to a spending binge. Rather than fixating on each cost you can cut, shift your attention to how you might earn a bit more, whether that means seeking some extra part-time work or investing in a skill-building class now to become a more competitive job candidate later.

RULE 4

Six Months' of Emergency Savings Is a Must

DON'T STRESS! Only 28 percent of Americans achieve that noble but often unrealistic goal (especially when paying down expensive debt is a priority). Instead, start with a smaller nest egg, advises Sophia Bera, CFP, the founder of Gen Y Planning. Put $50 a month or 5 percent of each paycheck, whichever is easier, into an online savings account until you accrue a one-month safety net. (Online banks offer higher interest rates than standard ones; you can earn $2.50 per month on $3,000 versus a measly $0.03.) Sign up for direct deposit, or set up a recurring money transfer so you don't rely on willpower or memory to add to your 911 fund. ■

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