10 FOUNDATIONAL FINANCIAL TIPS JUST FOR YOUNG ADULTS

YOUNG ADULTS HAVE A LOT TO THINK ABOUT, AND MONEY IS RIGHT UP THERE AT THE TOP. AS THEY LEAVE THE NEST, THEY'VE GOT TO LEARN TO MANAGE CREDIT, KEEP A BUDGET, AND SAVE FOR A RAINY DAY. OH, AND GET A JOB THAT PAYS ENOUGH TO LIVE ON!

BUT THERE ARE OTHER THINGS THEY NEED TO LEARN THAT CAN HAVE AN EVEN MORE PROFOUND EFFECT ON THEIR FINANCES. IF YOU'RE IN YOUR TWENTIES (OR YOU KNOW SOMEONE WHO IS), HERE ARE TEN OF THOSE LIFE LESSONS YOU NEED TO TAKE TO HEART EARLY ON THAT CAN AFFECT YOUR FINANCES FOR LIFE.

1. GO TO COLLEGE

When you're young, you might imagine doing something with your life that doesn't require a college degree, such as playing in a band or writing a best selling novel. But give serious thought to enrolling in college anyway. Why? Because according to a study from Georgetown University, on average, college graduates earn **$1 million** more in earnings over their lifetime. Another study by the Pew Research Center found that the median yearly ***income gap*** between high school and college graduates is **around $17,500**.

You may not ever get a job in the field you study. But just having that degree will open doors for you. Unless you are the luckiest and most talented novelist, or you are fortunate enough to land a high paying technician's job, a college degree will be a basic price of entry for most non-blue collar jobs. And even then, many blue collar jobs will be easier to land, and easier to move up in with a degree.

Just don't get in over your head; try to borrow no more than the amount you expect to earn **the 1st year after graduation**. That way you can pay off your loans within 10 years. A huge way to save on costs: Go to a community college first; then transfer to a 4-year university after 2 years.

It's easier to get a degree when you're young, than later when you have a home, family and all the attendant adult responsibilities.

2. FIND YOUR HAPPY PLACE AT WORK

While doing what you love and making a million dollars at it is a nice dream, it's hardly realistic. Instead, figure out what you're good at, what comes most naturally to you. Then find a job that fits you.

It may not be full of purpose. It may not be deeply meaningful. But it may be fun, interesting to you, enjoyable while you're doing it.

If you're someone who loves doing puzzles, maybe helping out as in policing or forensics would be right up your alley. If you love talking to people, maybe being a receptionist or helping out in PR or event planning would satisfy your itch to socialize.

The closer you can match your natural inclinations to your jobs, the happier you'll be in your work, and the more money you'll eventually earn…because you'll make a career of it.

3. BEGIN RETIREMENT PLANNING WITH YOUR 1ST JOB

This tip is so important. If the company you work for offers a retirement plan, sign up right away. If there's no such plan, divert some of your paycheck into a personal retirement plan. Believe it or not, some day you'll be older.

Setting up automatic contributions to a retirement plan at a young age will help you build wealth painlessly, because the earlier you invest, the more your money will compound.

Aim for putting away 10% to 20% of your earnings. Read the short book *The Richest Man in Babylon* to see what a difference this small regular savings makes.

4. PLACE A TIME VALUE ON THINGS YOU BUY

Understand the full cost of an item in terms of the time it takes for you to earn the money to buy it.

For instance, let's say you're considering purchasing a $1,600 computer. You calculate that you your take-home pay of $800 per week means you can buy your computer in just two week's worth of work.

But that's not an accurate estimate of the time value of your money.

You first have to calculate all the other demands on your money, such as rent, car payments, food, and your retirement fund. Add all that up. After paying for everything else, suppose you have only $200 left at the end of the month. That's the money you really have to buy your computer. You'll actually need 8 months to buy your computer.

Understanding how much time you'll really need to pay for something will help you see how expensive it really is and let you decide if it's worth it. You also may value it more and care for it better.

5. USE CREDIT CARDS SPARINGLY

It's easy to spend spontaneously with plastic, but much harder to pay later. Use credit responsibly. Comparison-shop for your card. Remember that you'll be relying on your future earnings to pay for today's credit card purchases. And if you keep a running balance, you'll also be paying interest, sometimes at usurious (extremely high) rates.

If a card costs you 20%, then for every $100 in balance you carry you'll be adding $20 in interest. If you just pay the minimums on your credit cards, the interest charges will come to outpace your original balance.

Don't fall into this trap. Instead, save money to make purchases rather than charging them. But if you do use credit, then find a card that offers airline points or other benefits (like gas or shopping credits)s. These can really add up over time. For instance, if you pay $900 per year in gas, and you have a 3% cash back for gas credit card, you will earn $27 back. As long as you pay your credit card bill monthly, so you're not carrying any interest, then you're ahead. But only use the card for gas if you can pay it off each month.

6. SELECT YOUR PARTNER WISELY

Choose someone you get along with well. Your values match, you do not argue much, and you build each other up. With a good partner, you have support, you feel energized, and more confident. All that pays off when it comes to doing well in your career.

By contrast, a mismatched relationship can cause stress that leads to distraction, anger, and illness.

If you suspect your partner is not ideal for you, then have a candid conversation about your future together. Talk about work and money. Explore your financial goals. Compare your levels of risk tolerance vs. security needs. Does your partner expect you to seek a high-powered desk job after college, while you imagine yourself starting a non-profit company? Those will lead to two different lifestyles. Discuss those kinds of thoughts.

7. BE PREPARED FOR THE UNEXPECTED

Someday you may lose a job through no fault of your own. Prepare today by stashing money into an accessible emergency fund. The rule is generally to have six months of cash reserves on hand. Some experts say that it should be a year's worth of income.

This cash cushion is in addition to retirement savings. Don't rely on retirement savings to save you in a financial crisis. If you do, you'll end up paying huge sums in taxes and early withdrawal penalties. You'll also lose your compounding interest opportunities by having less in savings.

It's better to have money in the bank. And not just for a lost job. For instance, you may have an accident where your car is damaged, even if you're not. You'll have to pay something to either fix or replace the car, even with good insurance.

You can save your emergency fund gradually over the course of a two or three years by automatically diverting a portion of your earnings into a savings account. That can mean you'll have to put a lot of your money aside in those first few years of your job.

It's a matter of priorities. If saving your extra money cushion is important to you, then you'll skip expensive choices, like buying a new computer, and instead put that money into savings. Once the cushion is there, you can reevaluate your spending and consider those costlier purchases.

8. LEARN ABOUT INVESTING

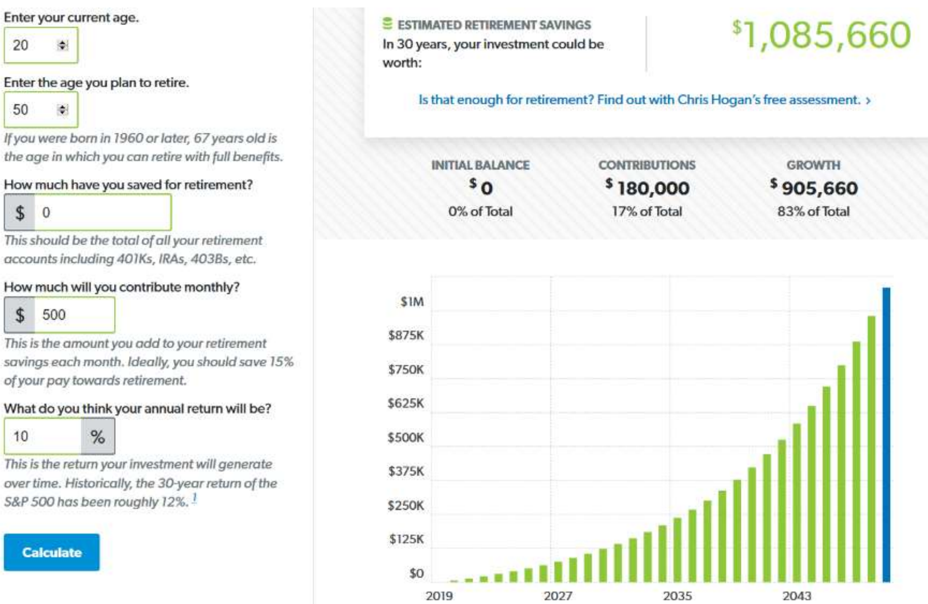
There are a plethora of apps, books, videos, and websites where you can train yourself in investing principles.

In addition to maximizing your investment opportunities at work, you can also consider buying stocks. Apps these days make it simple to pick stocks that interest you and buy a share or two with a spare $50.

You can also purchase real estate or gold, among other kinds of investments.

Start simple, but don't be afraid to do something. The more you invest early on, the more you'll eventually make. The more time you have, the more you'll eventually earn in compounding income. The chart below shows what happens if you save $500/mo for the next 30 years.

While you only save $180,000 in cash out of your pocket, you could have $1,085,660 cash in your pocket in 30 years.



https://www.daveramsey.com/smartvestor/investment-calculator

9. BE GRATEFUL

It's not all about money. If you work at it, you will have abundance — through strong family ties and solid relationships, as well as monetary assets. Take some time out each day to reflect on the good in your life and be grateful for the opportunities you have.

Studies have shown that overtly expressing gratitude has a positive effect on your friendships, your career, your health, and your money.

For instance, according to a study published June 2014 in *Psychological Science*, when people feel grateful, they are more likely to have the patience to save for a higher return on their money. Here's the original research, if you feel inclined to dive deep into the science of gratitude: https://static.squarespace.com/static/52853b8ae4b0a6c35d3f8e9d/t/531f8140e4b03eb27337b156/1394573632883/gratitude-a-tool-for-reducing-economic-impatience.pdf

10. REAL ESTATE IS A FOUNDATION TO WEALTH

In addition to having a good income, savings, and investments, owning a home is one of the most important foundations to wealth we have available to us.

It offers us some unique opportunities.

As a retirement tool, it allows us to eventually pay off our home and live in our retirement years without having the cost of renting or paying a mortgage. If you typically pay $1,200/mo in housing costs, then that's $1,200 less you need in retirement if your home is paid off.

Owning a home also gives you opportunities for earning income. By renting your home if you travel, or when you buy up, you can earn extra income, and have someone else pay off your mortgage for you.

Owning also gives you the opportunity to earn equity. For instance, suppose you own a home for ten years. Between paying your mortgage down and a rise in home values, suppose you now have $60,000 in equity in the home.

What can you do with that equity? Here are three idea:

Buy your next home: You probably won't live in the same house forever. If you move, you can sell your current home and put that money toward the purchase of your next home.

Borrow the equity: You can also get a home equity loan and use the money for just about anything you need, including paying for college. Ideally you would use equity to finance an investment, such as buying a rental property or starting business.

Fund your retirement: You can choose instead to spend your equity in your golden years using a reverse mortgage or using your equity to finance a retirement home. In other words, it's an asset that can pay for your retirement living.

Buying real estate is a purchase, like any other purchase. It must be put into context with your entire life. Does owning a home overextend you so that you can't save, and you become house-poor? Are you financially stable enough to pay for upkeep to your home? Are you financially stable enough to pay your mortgage on time every month?

Like most investments, the younger you start, the better off you are. Since you have to be paying rent somewhere, you might as well be paying a mortgage off for your own real estate. It might even make financial sense to buy a condo near where you'll go to college!

CONTACT ME TO DISCUSS THE PROS AND CONS ABOUT BUYING YOUR FIRST HOME.

FINAL WORD

Navigating the financial responsibilities and opportunities of adulthood can seem daunting. But like most things, take it a bit at a time. Start with your job and savings. Then over time, work on investing. Improve your opportunities through education and building good relationships.