ParsecFinancial
WEALTH MANAGEMENT

Eight Saving and Investment Principles for Young Investors

Here are eight fundamentals you need to learn how to save, invest and hopefully help secure independent wealth over the course of your career. If you remember these key principles as you make your financial decisions you will find the process to be much easier and you will help put yourself in the best position to achieve independent wealth for yourself in retirement and for your family for generations to come.

1 Get Focused

Quit procrastinating! Unfortunately, the world of finance and investing isn't easy, so you will need to set aside time for this. By reading this right now, you are well on your way! Find time to read the popular financial press, study your brokerage statements, learn your 401(k) options at work, budget your expenses and understand the terms of your borrowings. Find questions and then reach out to us or another financial professional for answers. Doing this on an ongoing basis will help you find if you're missing opportunities or even losing money and if you need to make changes to your benefit. Though this is in some cases boring work, get excited! If you take all the right steps now and continue good habits throughout a successful career you could be setting yourself up to be a multi-millionaire upon retirement! Though nothing is guaranteed, getting focused and following these principles will only help.

As an example*, an individual who began saving diligently to his or her retirement plan at work at 25 years old will have almost one million dollars more in their retirement account compared to someone who began saving at 30 years old. Time is certainly money!

2 Establish Goals & Dreams

It is critically important to understand what you want to do with your money in the near-term (goals) and what you wish to do with your money over the long-term (dreams). This will determine what you will do with your money right now in order to reach those goals and fulfill your dreams. As an example of how a near-term goal will impact your investment decisions – say if you want to buy a house in a few years then you shouldn't put all of your money into risky investments since you will need cash soon for a down payment. Or if you think kids are in your near future then you need to have extra cash to cover expenses.

Just of equal importance are the things you want to achieve in your life … what you dream about. Honestly, this sounds a bit cheeky, but most people our age don't yet think of the things they wish to do in 30-40 years since there is just too much to focus on now. Having dreams in focus however random they may be will help you as you sacrifice pleasure now (spending) in order to put money into your investments (saving). Sit down with your partner and have an arbitrary conversation about your distant future or just daydream by yourself to think of things that can really motivate you to spend time on your finances and to save money for your investments.

*This example assumes the individual's current income at age 25 is $50,000 with income growing 4% annually; the individual contributes 10% annually and receives a 5% employer match; the individual sees a 10% compounded annual return on a 100% equity-based investment portfolio; the individual retires at 60.

3 Start Saving & Budgeting

It's hard to save if you don't know how much you are spending. To get started, first gather all of your financial statements for your credit/debit cards and checking accounts over the last six months. Take a monthly average of all of these outflows to get a good picture of how much your variable expenses are (ex. eating out, bar tabs and shopping that changes each month). This way you have an objective measure of all the items you have been buying instead of measuring an amount going forward when you know you are keeping tabs.

As you go forward, add this monthly amount to all of your fixed costs: rent, student loan payments, car payments, cable, internet, phone (and all the other little monthly commitments you picked up like Netflix, the gym you use twice a month, etc.). Is there any ongoing savings ability based on this amount compared to your after-tax pay? Successful young investors will be saving close to 15% of their pre-tax income towards retirement if their employment situation allows it. See what fat you can trim from your budget you just made to see where you can save! Also, plan for expenses you know are coming in a few years (home improvements, major vacations, children, etc.) and make adjustments as early as you can so you are able to maintain your savings level.

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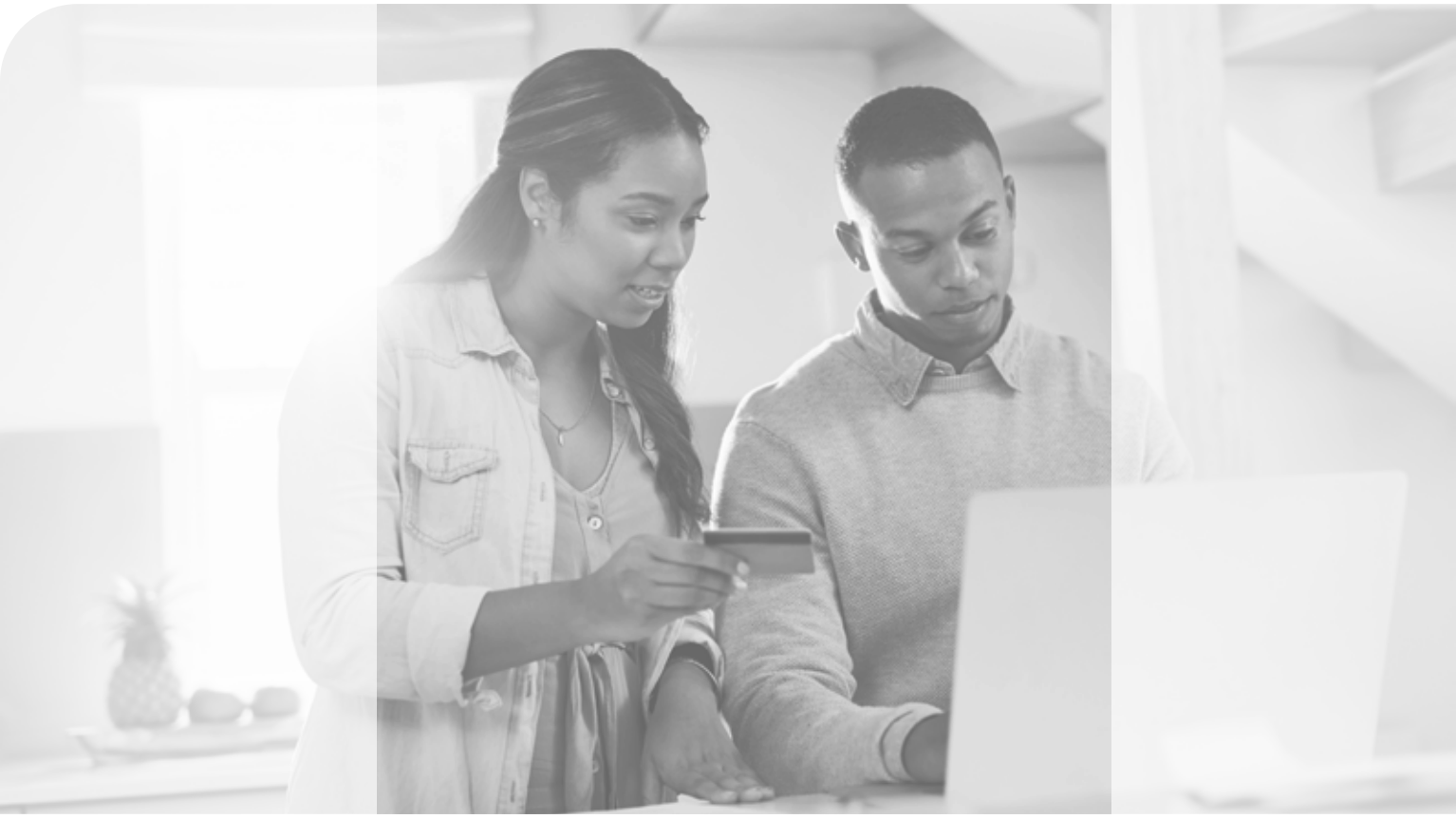
4 Make It Automatic

Since budgeting and expense tracking is difficult, make it so you don't have to think about saving! Set an automatic contribution to your employer's 401(k) retirement plan the first week you start work (get focused). Set an additional automatic monthly draft from your paycheck to your brokerage account. Taking the effort out of saving makes saving a lot easier! You just need to learn to live with what money is left after the automatic savings. Look at your budget and see what cuts you can make.

5 Eliminate Credit Card Debt

But, at the same time, use your credit cards to establish good credit! Ideally, credit cards should just be a source of liquidity for you to make purchases between your paychecks. Successful investors will not continuously maintain a credit card balance. Look at the annual rate you are paying on your balances: 12.9 … 15.9 … 20.9 percent!? You will be hard-pressed to find a better investment opportunity available to you than discontinuing these interest costs by paying off your credit cards. Don't let these balances continue to linger around due to high-interest rates … pay them off ASAP! In some cases, you will need to run a credit card balance for a few months so you can buy a new computer or appliance that you can't pay off in one month, but track it in your budget that you want to pay it off within 3-4 months.

> "Successful investors will not continuously maintain a credit card balance."



6 Live Beneath Your Means

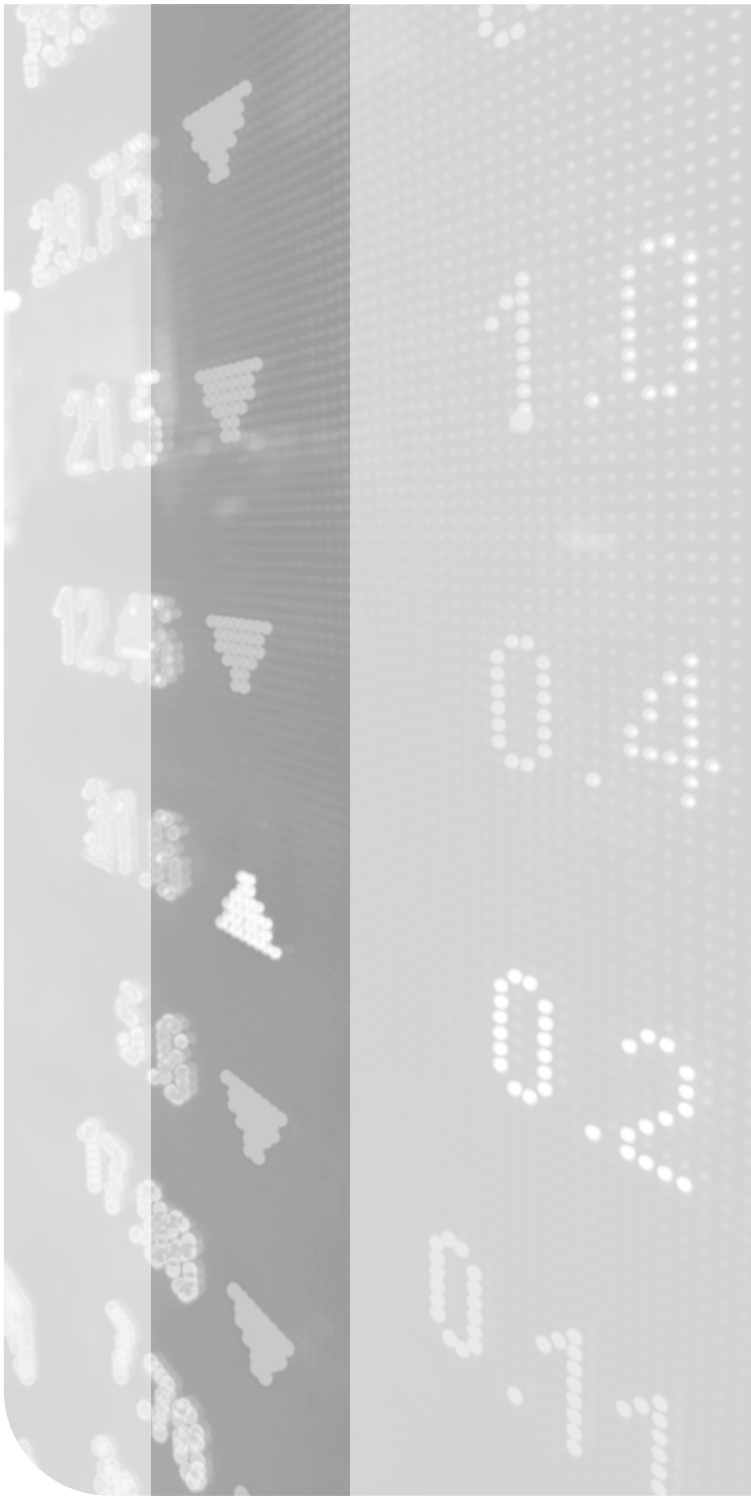
This is just another tip to help you save money. Know what you are able to afford and live with that! Think before making a purchase about whether you are living beneath your means. Is that extra round of drinks at last call really necessary? Can you even tell the difference between the designer purse and the knock-off?

But, the tricky part here is to still enjoy the money you've worked hard to earn. Don't stay in every night of the week since you're dead-set on catching up on your savings. Spend money but make sure you really enjoy what you're buying. If you enjoy overindulging in adult beverages occasionally, or if you do love designer purses, then go for it! Spend money on what makes you happy so you can enjoy the fruits of your labor, and don't spend money on things you really don't want or need.

7 Invest for the Long Term: Low-Cost Equity Investing

Take the long-term view. Easier said than done. Your investments will almost assuredly see volatile swings over the course of your career. The S&P 500 Index saw a decline of almost -57% from its peak in October 2007 to its bottom in March 2009, yet from that bottom, the market has rebounded +371% through the end of November 2019 (excluding dividend income). This type of volatility is gut-wrenching, but remember in your case when saving for retirement you really won't be needing this money for 30-40 years! So, embrace the volatility since in the long-term you will be rewarded by taking risks with stock ownership through higher returns.

Please don't be tricked into "trading" in your accounts. Major media outlets and major brokerage providers suggest that you can buy and sell investments based on their newscasts, commercials, predictions of upcoming information or a random technical chart. And this may sound appealing! You will hear stories of the major Wall Street banks recording streaks of 50+ daily profits within their trading desks before recording a loss. So why can't you? No matter how much work you do or how intelligent you are, you will almost certainly not be able to consistently turn a quick profit in trading your investments. Wall Street banks and hedge funds have armies of economists and analysts on their research teams and the fastest technology in the world to make money on short-term market movements (yet, surprisingly enough they lose money on occasion). You, with your laptop, will not win versus them. Find equity investments that are priced reasonably now with promising long-term growth prospects, diversify and hold your investments through the volatility. Continue to save and add to your portfolio but don't look to get rich quick.



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8 Give Back

Last, but certainly not least, give back. Give something to charitable causes to get in the habit. As your income increases, give more. Tithing says to give 10 percent of your income, but that is very difficult when you are young. Choose various charities that you feel make the world a better place. Bill Gates and Warren Buffet are leading a movement to convince the world's uber-rich to commit at least half of their wealth to charitable causes. Read the insights of some of the world's most successful persons on why giving away almost all of the money they made is far more rewarding than keeping it for themselves: givingpledge.org

Find a charitable cause that is meaningful to you and share your success with others. Be aware of the costs associated with raising the funds and what expenses are tied in with the charity to ensure the majority of your money reaches the philanthropic cause you believe in. And, in case you were wondering, no, the "$20 all-you-can-drink bar night for charity" event doesn't pass this test.

Find your cause, ensure your money reaches your cause, and give as often as you can.

> "Making a difference in people's lives – and seeing it with your own eyes – is perhaps the most satisfying thing you'll ever do. If you want to fully enjoy life – give."
>
> – Former New York City Mayor, Michael Bloomberg

For more information, please visit Parsec's sponsored website "Young and Not Broke" where you can learn about different investment types, equity investing basics and planning ahead: youngandnotbroke.com.

When you're ready to take the next step and hire a professional for your financial planning and investment advice needs, please consider Parsec's Emerging Wealth service: parsecfinancial.com/emerging-wealth

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