# A MESSAGE FOR YOUNG ADULTS

Don't Panic! As a young adult, your focus should be setting up your lives to be (mostly) independent from your parents and getting used to what being independent means in every sense, not just financially. It can feel overwhelming to start a career and be inundated with advice and expectations about saving for the future. ("I just started my first job and I'm expected to focus on retirement already?!") As you explore your new independent world and what this means here are a few basic items to consider and pitfalls to avoid:

**Don't leave money on the table.**
A new job comes with a collection of paperwork. Some of this may be regarding matching programs for payroll deduction contributions. Essentially this is free money from your employer if you participate in a payroll deduction savings plan of some type, often in the form of a defined contribution pension or a group RRSP contribution. All too often, new employees forgo this free money either due to procrastination ("I'll get to that confusing paperwork later…") or a misguided idea of maximizing your take home pay at the expense of the extra employer contribution.

A short term selfish decision to take the spendable income now, instead of participating in the savings plan can be costly long term. It is unlikely you will remember to revisit this decision for years, and by the time you do it has cost you thousands of dollars in the form of savings you otherwise would have accumulated. So dig into the paperwork, ask your HR person if matching savings plans are available and don't let them off the hook by not participating..

**Avoid unnecessary monthly payments.**
As you set up your new life you will be tempted with shortcuts to new possessions in the form of a "buy now – pay later" deal. A good rule of thumb is to avoid taking on debt for any depreciating assets. This includes cars, furniture, electronics and vacations. Essentially this only leaves real estate (and possibly investments, but more on this later) as potential debt financed purchases. Those seemingly small monthly obligations add up and can easily become the largest part of your discretionary spending. You might end up with a great living room set and TV, but nothing left to spend on going out with your friends. I hope it's a really nice TV.

**Don't overthink your investment options.**
Perhaps you have a few thousand dollars saved and you start thinking about how you might invest it. Everyone you talk to is telling you how young you are, and therefore how long your time horizon is, and steering you toward aggressive stock market or other risky investments. Probably a mistake this early in your investing career.

I'm not saying don't own a stock, especially if this holds great interest for you and you want to start learning about stock investing. I'm saying your time horizon is likely shorter than you and your advice givers realize, so don't take a great deal of risk in your investments. As a young adult your priorities could change on a dime (new job far away with moving expenses, buy a condo, new relationship and wedding, no job and back to school…). You will not be happy if you choose an aggressive, risky, long term investment option and then decide you need the money for a down payment in a couple of years, right when the investment dropped.

In this phase, your savings will grow and double due to your ongoing contributions more so than the rate of return, so just don't lose it. In my experience an investors' time horizon isn't very long until an unexpected $1000 car repair strikes fear in your heart.

**Have a short term goal.** I
f your only financial goals are long term like retirement, possibly fourty years down the road, it will be hard to keep your eye on the ball or take any time to give it serious thought. Have shorter term goals too, even something as simple as building up a $1000 emergency savings cushion can be rewarding to accomplish and give you the motivation to set

and achieve the next goal. At the very least have one goal you could possibly accomplish in the next twelve months and another achievable in five years or so.

**Increase your lifestyle expense reluctantly.**
The most certain way to ensure you never have any meaningful savings is to increase your lifestyle expense up to or higher than your take home pay. A pattern will be set on constantly fighting credit card debt, always replacing one loan with another, never seeming to have any free cash around. Start as you mean to go by living a little lower than your income allows and only increasing your lifestyle reluctantly. In my experience, holding back your lifestyle expectation is the single greatest contributing factor to:

- Having free cash flow to invest and save for retirement, or pay down debt
- Making sure your retirement savings eventually catch up to your lifestyle spending need so you can retire with no drop in lifestyle expectation.

The most happy retirees I meet, are the ones who can easily cover their spending habit with their retirement income, regardless of whether the spending habit is low or high. Therefore, by my observation, long term happiness and contentment has more to do with living within your means than how “high” you’re living.

**Seek out advice from trusted sources.**
It doesn’t have to be your parents. I’m young enough to remember my reluctance to listen to any advice from my parents. Maybe you have an Aunt or Uncle who seem to be financially astute, maybe you have a boss you trust and seems like a mentoring type. Your parents likely have professionals they deal with who would be happy to talk to you too. Soak up the wisdom you can and take from it what you think is important to you. All of these people (including your parents) have experience and knowledge they are happy to share.