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The Twentysomething's Guide to Financial Well-being (While Not Missing Out on the Fun Part!)

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Introduction:

A person's twenties are years of growth and change, marking the transition from adolescence to official adulthood. Let's face it: on top of these life-defining new experiences, you now must face your new financial autonomy. You need to pay rent and other expenses—but you also need to start saving for a retirement that will not start for another 40 years. This may seem daunting. However, we are here to provide you with a guide on how to achieve financial security and build your wealth while still in your twenties—and have fun at the same time!

According to the 2022 U.S. Population Clock's data table sectioned by age and sex created by the U.S. Census Bureau, people in their twenties account for 14.34% of the population.[1] Dr. Meg Jay, in her TED Talk "Why 30 Is Not the New 20," describes your twenties as the "defining decade of adulthood,"[2] since many of life's important moments take place in those years. We've listed what we consider some of Jay's most important points in Exhibit 1.

Next time someone says your twenties are all about fun, share these facts:

- Eighty percent of life's most defining moments take place by age thirty-five.
- Two-thirds of lifetime wage growth happens in the first ten years of a career.
- More than half of us are married, dating, or living with our future partner by age thirty.
- Personality changes more during our twenties than at any time before or after.
- The brain caps off its last growth spurt in the twenties.

Source: Meg Jay, *The Defining Decade: Why Your Twenties Matter--And How to Make the Most of Them Now*, Grand Central Publishing, 2013.

Creating a solid foundation now, while you're still in your twenties, will positively impact the rest of your professional life and will start you on the road to a life of financial well-being, without missing out on the fun part.

Our approach breaks down the task into four buckets—**make, spend, save,** and **invest**—arranged chronologically. In each bucket, we provide simple actionable items that will set you up for success. By achieving financial security in your twenties, you will derive the benefits now and in the near and distant future. Following our steps should result in the "absence of economic anxiety"[3] and allow you to prosper from a young age and subsequently for a long time. While the twenties demographic is young, its stature and spending power will increase over time. By 2030, it is predicted that Gen Z will make up 30% of the labor force,[4] illustrating the gaining influence these generations will have.

Sapere Aude Consortium, Inc. was formed to serve first generation college students interested in financial services. Our goal is to provide a forum for students to research and learn about critical issues impacting wealth and investment management. The authors listed above were asked to express their own ideas in this Opinion Snapshot, whether or not the founders, board members, mentors or other industry professionals agreed with their opinions or proposals. This Opinion Snapshot is offered in that spirit – to hear the views of some of the next generation of professionals to enter wealth and investment management. Neither Sapere Aude Consortium, its board member, mentors, nor any of the authors received any financial support from any firm or person with any interest, financial or otherwise, in this article. Neither Sapere Aude Consortium nor the authors are currently affiliated with any organization mentioned in this paper.

It is also important to acknowledge the role investment and wealth managers play in young people's financial lives. Currently, high minimums for investment accounts discourage money managers from taking on twentysomethings as clients. We believe this is a flawed approach, since millennials and Gen Z **represent future clients, business owners, and world leaders**. It is in the best interest of investment and wealth managers to encourage and foster the growth of wealth for the future leaders of society.

This paper provides an overview of the most important steps to take to grow your wealth in your twenties. We believe that by following these steps, you will be on the road to achieving personal and financial well-being throughout your life and, importantly, have the wherewithal to enjoy it! The summary below provides a basic outline for the rest of this Opinion Snapshot, in which you will learn ways to make money and how to spend it wisely (the first two buckets), while simultaneously automating your savings and investments (the third and fourth buckets) so they can make money in the background while you're living life!

> **"Following our steps should result in the 'absence of economic anxiety' and allow you to prosper from a young age and subsequently for a long time."**

TIME is your most valuable asset in your 20s—small, consistent actions, both good and bad, COMPOUND.

LEARN HOW TO:

MAKE MONEY
- Learn How to Define Financial Security in Your Own Terms.
- Write about Your Future Self in 5 Years. Life Planning before Financial Planning.
- Follow Your Talent, Not Your Passion.

SPEND MONEY
- Identify What Purchases Are Needs and What Purchases Are Wants. Who Wants Your Money?
- Track Your Spendings on a Piece of Paper, an Excel Sheet or a Mobile App.
- Learn the Ins and Outs of Your Credit Score as It Impacts Many Areas of Your Life.

AUTOMATE:

SAVINGS
- You Can Have Everything in Moderation. Automate Your Savings.
- Set Short-Term and Long-Term Savings Goals and Adjust the Risk Exposure Accordingly.
- Establish an Emergency 'What If...?' Fund to Provide a Safety Net.

INVESTMENTS
- The Best Time to Invest was Yesterday. Time is on Your Side. Start Investing Early.
- Roth IRA is the Most Tax-Efficient Investment in Your Twenties, Providing Substantial Returns Over Time.
- Do Not Interrupt Your Investments Unnecessarily. Compounding Must be Left Alone to Provide the Most Benefits for You.

First Things First: Understand the Value of Time and Compounding

> And you are young and life is long, and there is time to kill today,
> And then one day you find ten years have got behind you.
> No one told you when to run, you missed the starting gun.
> And you run and you run to catch up with the sun . . .
>
> —*"Time," Pink Floyd (1973)*

Ben, who just graduated from college, is scared to think about his future self—especially when it comes to financial security. He can barely pay his bills now, and going back to his childhood bedroom is not appealing. It is understandable that he wants to eat out with friends every Friday, because our brains are hardwired to favor short-term desires. Psychologist Hal Hershfield's research shows that our brains perceive our future selves as separate people—with less urgent needs and wants than our present selves.[5] As a result, even if you know that delaying a task now will cause trouble later, your brain thinks it is someone else's problem altogether.

Understanding that time is the most valuable asset you have in your twenties is foundational: be a diligent investor, and do not waste your time. As the rock sages Pink Floyd might have asked, How fast should you run to catch up with the sun? The answer is: you should walk. The actor Andre De Shields, in his acceptance speech for his 2019 Tony Award for acting, said that *slowly* is the fastest way to get somewhere you want to be.[6] This is especially true

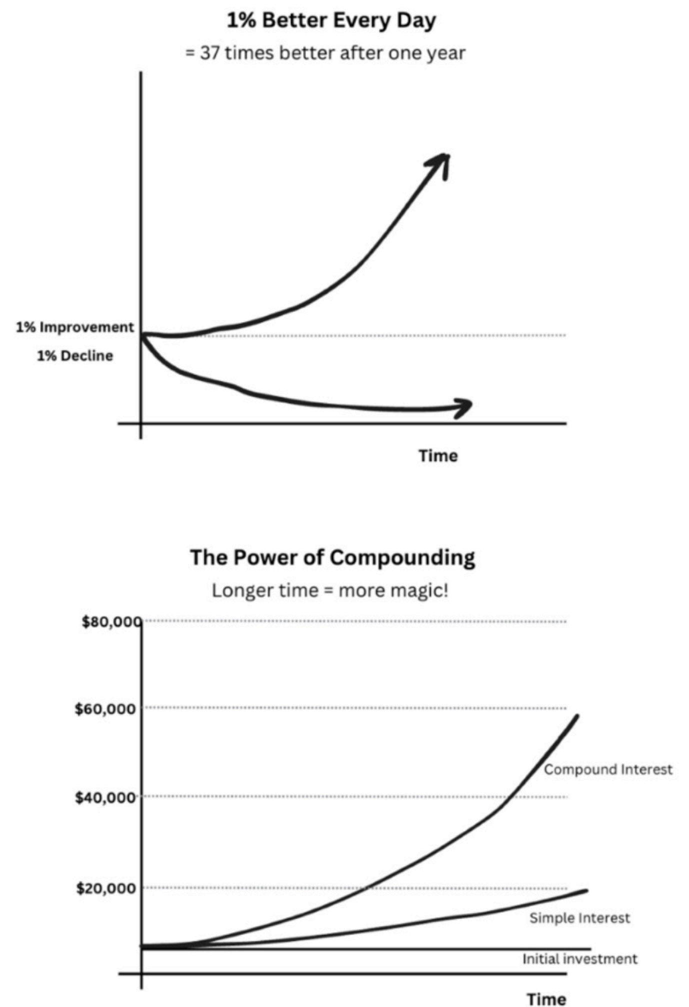
when it comes to compounding, or using time to work in your favor. Every small financial step you take can compound for or against you. Taking extra responsibility seems insignificant, but it counts for a lot over an entire career. Contributing $10 a week to an account with an average annual return on investment of around 7% will be worth $7,350 in ten years. Negative compounding is just as powerful. Little stresses compound into serious health issues, financially speaking. A $1,000 debt on a credit card with a 20% interest rate, compounded monthly, could balloon by over 50% to $1,560 in five years if you pay only the monthly minimum amount.

You might wonder, how can your money make money on its own? That is the magic of compound interest, the process that occurs when the interest you earn on your savings or investments starts earning interest itself. So, not only do you earn interest on your initial investment (that is, your principal), but you also earn interest on the interest that keeps piling up over time. Pretty cool, right? Unlike simple interest, in which only your original principal earns interest, compound interest lets your earnings snowball. Let's break it down with an example. Say you invest $6,000. If it earns a 7% return, then:

After year 1, with either simple interest or compound interest, you would have identical balances: a $420 increase for a total of $6,420.
After 10 years, with compound interest your $6,000 would grow to about $11,800, whereas with simple interest, it would reach only around $10,200.
Fast-forward 30 years, and compound interest could leave you with around $45,700 from that initial $6,000, compared to just $18,600 with simple interest—a difference of nearly $30,000!

Exhibit 2 provides a visual illustration of the magic of compounding.

Exhibit 2. Napkin Finance



Sources: James Clear, *Atomic Habits: An Easy & Proven Way to Build Good Habits & Break Bad Ones* (2018), pp. 16-17. Fidelity. "What Is Compound Interest?" *Fidelity Investments*, n.d., www.fidelity.com/learning-center/trading-investing/compound-interest.

Atomic Habits, a concept developed by James Clear,[7] are **"the compound interest of self-improvement."**[8] The same way that money multiplies through compound interest, the effects of your habits multiply as you repeat them. Clear breaks down Atomic Habits into four-step processes: cue, craving, response, and reward. The key is to make cues obvious, cravings attractive, responses easy, and rewards satisfying. Don't worry—we have done the hard work for you! The Do's at the end of each section provide actionable, easy steps that may seem minor now, but will prove invaluable over time as they help you develop good habits that contribute to long-term success.

Now that you understand compounding, let's return to the four buckets we mentioned earlier: **make, spend, save,** and **invest**. By taking advantage of compounding, you can make all four buckets work their hardest for you.

MAKE: Learn How to Make Money

Learning how to make money early in your career is the most fundamental skill, because securing a stable income sets the foundation for financial independence and long-term success. According to the Bureau of Labor Statistics, individuals who gain full-time employment within two years of graduating college are more likely to experience steady income growth compared to their peers who delay entering the workforce.[9] Additionally, two-thirds of lifetime wage growth happens in the first ten years of a career.[10] Early employment helps build valuable skills, professional networks, and work experience, which fosters compounding through your extra years' investment in learning and professional growth.

The first question to ask is, why should you build financial security? If you have a clear reason, the "how" becomes much easier to tackle. Defining financial security is a crucial step—if you could have anything you wanted within the realm of possibility in five years, what would it be? To gain clarity on how money can serve your life goals, consider this insightful exercise suggested by psychologist and media commentator Jordan B. Peterson. This exercise, which involves writing for 15 minutes without concern for readiness or perfectionism, has been associated with a significant reduction in college dropout rates, reportedly by as much as 25%.[11] Imagine who that future you might be in five years, if you treated yourself like someone you were responsible for helping.[12] Financial security will look different for each person, as it is deeply tied to individual aspirations and lifestyles. For Ivy, for example, financial security means having the ability and freedom to leave her roommate and move to a new apartment.

After you have let your brain wander and dream up the possibilities for your future career and life goals, it is time to determine the required annual income to sustain your preferred lifestyle. According to Business Wire, "83% of people who set financial goals feel better about their finances after just one year."[13] That is a huge win! Consider the most common areas on Ivy's personal "napkin finance sheet" (Exhibit 3) and add or subject any areas specific to you. For instance, Ivy loves matcha lattes, so she has decided to set aside a small amount for her "coffee addiction fund" as a small incentive to find larger areas in which to save so she can finally leave her roommate behind.

Why plan? Research published in PLOS One shows that *a lack of financial planning predicts increased mortality risk*. In the United States, recent estimates of the gap in life expectancy between the richest and the poorest populations are as large as 20 years.[14] According to the study's authors, "Mechanisms to explain this relationship have included the psychological consequences of greater economic inequality, or the capacity to spend on healthcare. However, one mechanism which has received little empirical attention is an individual's future orientation, specifically how far into the future an individual considers the trade-offs of their consumption and savings behavior today." In short, knowing your sacrifices now will pay off later.

Exhibit 3. The Napkin Finance Sheet

Napkin Finance: How much income does Ivy need to leave her roommate?

- Housing in NYC: $37.800
- Food and Groceries: $7.800
- Transportation: $2.124
- Healthcare: $4.400
- Savings and Investments: $8.400
- Debt Repayment: $6.000
- Lifestyle and Entertainment: $3.800
- Personal Care and Grooming: $1.800
- Giving: $1.200
- Insurance: $780
- Family: $0
- Coffee Addiction Fund: $600
- Total Estimated Net Annual Income Required: $74.704/year

The Boring Stuff: *I would rather cry in a Lamborghini* or, the Benefits of a Steady Income Source

In the best-case scenario, as Exhibit 3 shows, Ivy's net annual income required to sustain her lifestyle

is $74,704, a significant target. However, this figure does not account for taxes or inflation, which increase the cost of goods and services over time. To achieve her target after federal, state, and city taxes in New York City, Ivy would need to earn approximately $109,000 per year, according to Smart Asset's tax calculator. The key question remains, How will she achieve this goal?

Irrespective of whether you choose to pursue a four-year degree, there are paths to achieving your five-year financial goal. If you are a college student, know that your investment is not wasted. According to a 2022 report by the U.S. Bureau of Labor Statistics, the unemployment rate significantly drops among people with a college education. Workers with the highest level of education made over 25% more than those who did not finish high school,[15] and earnings improved with every level of education completed. However, your field of study matters. Art history, fine arts, aerospace engineering, history, and English language are ranked among the majors with the highest unemployment rates.[16]

Begin by recognizing your inherent skills and proficiencies. You are naturally inclined toward certain activities, and identifying these talents is essential. Scott Galloway, a professor of marketing at New York University's Stern School of Business and a serial entrepreneur, offers advice regarding your career choice: "Whoever tells you to follow your passion is already rich and made their billions in iron or smelting."[17] In his book, *The Algebra of Wealth*, he lays out a formula for career success: follow your talent, not your passion.[18] Find something you are good at with a 90%+ employment rate, and invest the 10,000 hours needed to master the relevant skills to be in the top 10%.[19] Talent plus focus leads to mastery, which then cultivates passion.

Talent + Focus → Mastery → Passion

If you are a college student, maximize your experience. How many times have you visited your college's career center? Many students overlook this valuable resource. Be strategic about your career planning: attend information sessions, forums, and events. Learn how to write an effective résumé and cover letter. Schedule meetings with your career advisor (when else will you have access to a personal one?). Actively utilize the career center to apply for internships and on-campus positions. Internships provide an ideal setting to apply what you have learned, allowing you to fail fast and learn quickly. Test your limits, discover what you don't like, and prioritize learning over immediate success. Additionally, balancing 10 hours of paid work per week with your academics, and earning $150–$200 per week, can significantly contribute to your savings and investments! For example, see the "Invest" section to learn about Roth IRAs.

If you are creative, think of your passion as a way of living rather than just a profession. Your passion might lose its charm if it is forced into a schedule you cannot control. Especially in your twenties, it can be incredibly challenging to monetize art, music, creative writing, and similar fields, where having a second job becomes an economic necessity.[20] As Galloway points out, while Jay Z followed his passion and became a billionaire, assume you are not Jay-Z. Did you know that the CEO of Goldman Sachs, David Solomon, has an unusual hobby? When he is not negotiating deals, he is a DJ.[21] Consider your creative talents as a lifelong pursuit rather than a career path. Balancing a steady job with your passions can provide both financial stability and personal fulfillment.

Apprenticeships

If college is not your chosen path or you have decided after college that you prefer a vocation that deals with tangible skills and materials, consider enrolling in a trade school or trying apprenticeships. Also known as vocational schools or technical colleges, these institutions teach hands-on skills for specific careers. According to Forbes, the increased demand for tradespeople translates into bigger job opportunities and several key benefits[22]:

- **Self-reliance:** 50% of skilled tradespeople are their own bosses.
- **Decreased debt**: tradespeople enter the workforce with over $26,000 less debt.
- **Higher earning potential:** plumbers, electricians, and general contractors earn on average 22%,

29%, and 53% more than other U.S. workers across sectors.
Job security: AI will not fix a toilet.
Benefits: if you join a union, you can access excellent health and retirement benefits.

DO	DON'T
✓ FOLLOW YOUR TALENT AND WORK TO BE IN THE TOP 10%	✗ FOLLOW YOUR PASSION WITHOUT A PLAN, UNLESS YOU ARE JAY Z.
✓ LIFE PLANNING BEFORE FINANCIAL PLANNING	✗ OVERLOOK TRADE SCHOOLS OR APPRENTICESHIPS

Your Atomic Habits guide to Financial Security

SPEND: Learn How to Spend Money

What does a twenty-something do when they get their paycheck? Chances are, they spend it—on necessities like rent, food, utilities, and transportation; semi-necessities like their Netflix subscription; and luxuries, such as a new outfit, going out, or vacations. Gen Z adults often cut back on basics that don't matter much to them, while splurging on what they value most, like luxuries. For instance, 21-year-old Gloria John from San Antonio, Texas, says she would gladly spend to see pop singer Lana Del Rey live but would stop purchasing certain makeup items if their prices rise just slightly.[23] But what happens when an unexpected expense arises? Imagine needing to visit an urgent care center and paying a $200 deductible or having to switch apartments because of a bad roommate (hey, Ivy!) and potentially needing to cover an additional month's rent – possibly even double rent until the lease ends. This highlights the importance of learning how to spend money. A Harris Poll found that 75% of Gen Z individuals who spent freely in 2023 focused on luxury fashion items, high-quality goods, or luxury beauty and skincare products.[24] These spending habits are hard to break, and mastering how to manage money is a skill that requires conscious effort and time. It might seem obvious that everyone knows how to spend money, but many do not. You don't need to suffer by cutting out everything you value, but to reduce stress and financial strain in your twenties, it is important to learn how to spend your money wisely right now.[25]

You Cannot Manage What You Cannot Measure

Managing spending as your income grows is crucial. A sudden increase in your bank balance tests impulse control, tempting you to splurge and be generous.[26] While it is important to live and experience life through spending, smart money allocation ensures that you can enjoy your current lifestyle while also securing long-term financial stability. Imagine you were in Ivy's shoes when she was back in college, she earned $500 ($450 after taxes) from her first month working at an on-campus job. After dealing with recent life challenges, some of her friends encouraged her to treat herself. She remembered the beautiful dress she had been eyeing for a while—after all, she's only human and deserved a treat. So, she bought the dress for $150. Now, she is down to $300.Was it necessary? Probably not. But it did bring her a moment of satisfaction. We've all had our Ivy moments. (And let's be honest, she probably wore that dress once).

Now, let's turn the spotlight on you. Think about your most recent purchase. Would you consider it a need or a want? A necessity or a luxury? According to *Forbes*, "Gen Z is known for needing instant gratification and won't forgo eating out, avocado toast, traveling, and buying the latest gadgets, which can lead to overspending on things they don't need and accumulating debt."[27] A major cause of their overspending is the fear of missing out and the desire to keep up with their social circle's lifestyle.[28] Reflect on this: Have you ever spotted a car and thought, "That is my dream car"? Perhaps you've been tempted to subscribe to Peacock just to watch the latest season of *Love Is Blind* or *NFL Network* because everyone else is talking about the game that was not available locally the next day at work. These are scenarios of spending temptations that you may have fallen prey to. We are all spenders, and spenders have the desire for pleasure or reward that often outweighs worrying about spending too much. But the key to not overspending lies in knowing that your wants are not necessarily the same as your needs.

How to Identify Wants vs. Needs

The key to identifying your wants and needs is understanding the price and value of your purchases.[29] While living in New York and exploring the city, Ivy bought a $700 camera. But here's the catch: she is a content creator and freelances outside of her post-college marketing job. This purchase is not a luxury; it is an investment with the potential for long-term gains. She can use the camera to showcase products, share behind-the-scenes videos, and maintain a consistent visual style across all marketing channels. Plus, photography is one of her favorite hobbies, so she also gets personal enjoyment out of it. Now, if Ivy spent $700 on a handbag, she might impress a few friends and strangers, but given her limited budget, it would not be reasonable. The camera is a tool that benefits both her career and personal life, making it an investment with long-term value. The handbag, on the other hand, would be a splurge.

Another effective way to evaluate whether a purchase is a want, or a need is the "cost per use/wear" method. To calculate cost per use, divide the cost of an item by the number of times you expect to use it.[30] Ivy wore her $150 dress once, making the cost per wear $150. If Ivy were to wear the dress 10 times, the cost per wear would be $15. This method helps you understand the long-term value of your purchases and make more informed decisions. While predicting the future and how often you will use something is difficult, having a decision-making process helps you to monitor your spending decisions for both your current and future selves.[31]

Tracking Your Spending

Managing your finances is a lot like staying fit—it needs regular attention. Yes, there is a catch to this. According to Scott Galloway, checking your spending once a month is like going to the gym once a month. You are not really managing anything.[32] Just as starting a fitness routine can be tough, getting your finances in shape has its challenges too. Starting with easier exercises boosts your fitness, just like making small changes in spending habits boosts your financial health.[33] For example, swapping daily coffee runs for home-brewed coffee or free coffee at the office could save you lots of money. Spending $12 a day at Starbucks adds up to $3,000 a year if you're in the office five days a week. Occasionally using coffee runs for networking or building relationships may offer greater longer-term value than making daily trips.

In your twenties, tracking your spending matters more than tracking your savings. Let us repeat that —in your twenties, tracking your spending matters more than tracking your savings. Tracking spending might feel like a chore, but it keeps you accountable. After all, you cannot manage what you cannot measure, so start by tracking your spending to understand what you actually spend on versus what you think you spend or had planned to spend on.[34] People often underestimate future spending by up to $100 weekly.[35] For instance, Ben thought he spent $75 with his credit card each weekend hanging out with friends, but by tracking his spending, he saw that he actually spent $150, including more drinks, appetizers, and splitting Ubers. Ben's spending an extra $75 every weekend, over a month, resulted in $300 more in expenses than expected. Over a year, this adds up to $3,900 in additional spending. To make it worse, by putting that expense on his credit card, and paying the minimum, Ben's credit card interest rate of 22%, compounded monthly, would cause this overspending to potentially accumulate an additional $915.22 in interest—crazy!

Tools like Rocket Money, Simplifi, and YNAB make it easier for you to track your spending. Use them or practice your Excel skills and make your own spending tracker. Start by tracking daily for a month. Small steps now lead to big financial gains later. Kristin Wong, in her article "What I Learned From Tracking My Spending for a Month," explains her journey. She underestimated the amount of money she spent for the month by $636—enough to cover weeks of groceries or part of a month's rent.[36] According to Wong, "the simple chore of writing down every purchase physically, with pen and paper, forced me to think before buying." The habit of writing down every purchase you make curbs the "it's just $3" mentality. Wong found these costs add up fast.[37] So, start small, track your spending, and watch your finances grow. Start by tracking your spending for a month. Remember, small steps at the beginning are key steps for financial fitness.

Spending Smart: Master Your Credit Score

What is your credit score, and why is it Important? Your credit will remain a crucial part of your spending and financial life for some time, and it is essential to build good credit early. Yes, that means now. A poor credit score can make major financial purchases unavailable or more costly, whereas a good credit score can give you a significant advantage in lending decisions—whether that's for a better credit card (the one with all the points!), a car loan (although we don't like those so much), or a home mortgage. Or, even if you want to borrow money to start up that business.[38] Your credit score reflects your personal credit risk, which is the likelihood you will pay your bills on time. It is represented by a single number on a scale from 300 to 850—the higher the better. But it's more than just a number; it is a key that unlocks opportunities for loans, mortgages, and favorable interest rates for you. Exhibit 4 shows what each score represents to lenders.

Exhibit 4. What Your Credit Score Means

- A score of <580 is considered poor and it is below the average score of U.S. consumers. It demonstrates to lenders that you are a risky borrower.
- A score of 580 – 669 is considered fair and it is an average score of U.S. consumers. It demonstrates to lenders that they could approve loans with this score.
- A score of 670 – 739 is considered good and it is slightly above the average of U.S. consumers and lenders consider this a good score.
- A score of 740 – 799 is considered very good and it is as above the average of U.S. consumers. It demonstrates to lenders that you are very dependable borrower.
- A score of 800+ is considered exceptional and it is above the average score of U.S. consumers. It demonstrates to lenders that you are an exceptional borrower.

Source: Yanely Espinal, *Mind Your Money: Insightful Stories and Strategies to Help You Reach Your #MoneyGoals* (Lion Crest Publishing, 2023), 90.

Credit agencies like Experian, Equifax, and TransUnion are key players in your financial life—they calculate your credit score. Each gathers information from your creditors—like banks, credit card companies, your landlord, and utility companies—about your payment and borrowing history, and they create your credit report.[39] Think of your credit report as your financial transcript and your credit score as your financial GPA. You can request your free annual credit report through AnnualCreditReport.com.[40] Checking your credit report annually is crucial. It helps you spot errors that could hurt your score and ensures your accounts are reported accurately. Plus, it prepares you for major purchases, like a car or a home, by showing you what lenders see.[41] You also have the option to freeze your credit score with all three agencies to help safeguard against fraud.

5 steps to boost your credit score and behaviors that decrease it: Your credit score, influenced by factors like your payment history and how much of your available credit you use, affects your financial health. Let's explore the Big 5 factors that shape your credit score and their percentage contributions to your overall score:

Pay Your Bills on Time (35%). This is the BIG one. Missing a due date can significantly lower your score and keep red flags on your report for up to seven years.[42] Consistently paying on time helps you avoid late fees and keeps your credit healthy, which can result in lower interest rates on loans and credit cards.[43]

Don't Max Out Your Card (30%). "Credit utilization" measures your credit card balance relative to your credit limit. Being maxed out leaves you vulnerable in emergencies.[44] Aim for a utilization rate below 30%. Lower utilization could make you eligible for higher credit limits and more favorable loan terms.[45]

The Longer You Have Good Credit, the Better (15%). "Age of credit" reflects how long you've had access to credit. Lenders value an average of seven to nine years or more of credit history. Starting young is crucial—it boosts your chances of securing future needs like apartments, cars, and premium credit cards.[46]

Maintain a Balanced Number of Credit Cards (10%). Trying to open multiple credit lines at once can lead to missed payments and affect your score negatively. Each denied application hurts your score, so be mindful.[47]

Diversify Your Credit Mix (10%). "Credit mix" reflects the types of credit you manage. Having a variety of accounts—like student loans, auto loans, and a mortgage—as you move through different stages of your life is beneficial. This mix shows lenders that you can handle various types of credit responsibly.[48]

The Math of Credit Card Debt: 27% Credit Card Interest Is a Crusher

Credit cards: very handy, but also very expensive.

According to the Federal Reserve, "the average interest rate for cards was 27.62% as of July 2024," which is outrageous, given than the average high-yield savings account pays 5%.[49] That is why a critical part of spending is understanding how credit card interest works (and avoiding it), so pay attention. [50]

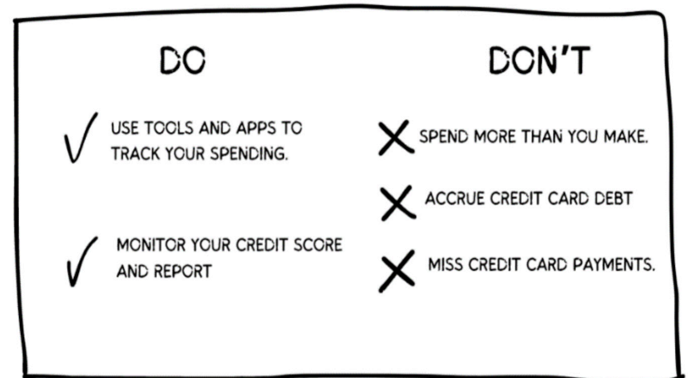
When do credit card issuers charge interest, and how is it calculated? Annual percentage rate (APR) reflects the yearly cost of using your card, including interest and fees. For instance, with a 20% APR and a $1,000 balance, you'd pay around $200 in interest per year. Note: a good credit score can score you a card with a lower APR. Credit cards also have different APRs for various transactions, such as purchases, balance transfers, and cash advances, with higher penalty APRs if you miss a payment. You might have a grace period, where if you pay off your balance within a certain time frame (often 21 days from the end of your billing cycle to pay off your balance in full without incurring interest), you avoid extra charges. Interest usually adds up *daily*, so the longer you carry a balance, the more it costs. Finally, credit card rates are variable and can change with the Prime Rate (which is a benchmark the federal government sets and which banks and other lenders follow), so your APR might fluctuate based on economic conditions.[51]

Yahoo Finance offers advice on managing debt to reduce or eliminate interest charges. It's simple: Pay the full balance on your credit card statement, because paying only the minimum keeps you in debt longer and costs much more. If you can't pay the full statement balance, then aim to pay more than the minimum if possible; even a small amount over the minimum can make a big difference. For example, if you have $1,000 on a card at 27% interest with a $30 minimum payment, paying only the minimum would take you over six years to pay off and would cost $1,869—meaning that you would pay over $860 in interest charges. However, by paying just $20 more each month, you would shorten the payoff time to just over three years and save over $500 in interest, as Exhibit 5 illustrates.

	Minimum Payment	Minimum payment + $20
Starting Balance	$1,000	$1,000
APR	27%	27%
Monthly Payment Amount	$30	$50
Total Interest	$869	$343
Total Paid	$1,869	$1,343
Savings	---	$526

Source: Kat Trenita, "How Does Credit Card Interest Work?" Yahoo Finance (January 30, 2024).

And don't hesitate to ask your credit card company for a lower rate. Making timely payments might convince your issuer to reduce your rate. Understanding credit interest can save you a lot in the long run.[52]



Your Atomic Habits guide to Financial Security

SAVE: Automate Your Savings

It is (not) (all) about sacrifice: Saving in your twenties is not just about sacrifice—it's about setting yourself up for long-term wealth and being prepared for unexpected events. A recent study concluded that nearly 4 in 10 Americans cannot cover even a $400 expense in the case of an emergency.[53]

Consistent saving does not mean giving up fun activities; it means enjoying those rewards with a peace of mind knowing that you have a cushion. While you might think saving is only about preparing for specific expenses or goals, it is also about building a financial cushion for unexpected events and ensuring long-term stability. Unlike in the "Make" and "Spend" sections, where you need to learn to actively manage your finances, here we advocate that you learn to automate your savings—and then forget about it. Automating your savings ensures consistency, reduces the temptation to spend, and helps build wealth effortlessly. According to a 2019 study by the National Bureau of Economic Research, automated savings programs can increase the

savings rate by up to 6%.[54] This approach not only provides peace of mind but also allows you to focus on other aspects of your life, knowing your financial future is secure.

> **"It is easy to put off saving when retirement feels so distant but starting early gives you a unique advantage."**

As we said up front, time is a powerful ally for us in our twenties. While retirement might seem far away, harnessing the power of compounding now can make a massive difference later. It is easy to put off saving when retirement feels so distant, but starting early gives you a unique advantage. Saving provides security for emergencies like unexpected medical bills, reduces stress, and ensures long-term stability. Furthermore, saving provides us with instant gratification as it registers in the back of our minds that we are doing something positive for our future selves. You may wonder, how much should I save? It depends on your personal goals, financial situation, and how much you are willing to sacrifice. A rule of thumb is to save at least 20% of your income following the 50-30-20 budgeting rule, shown below.Setting Financial Goals: Remember we talked about the importance of setting financial goals in the "Make" section? When it comes to savings, it is essential to set short-term, medium-term, and long-term goals and use financial vehicles to automate your savings. Automation creates a reliable system for reducing stress, avoiding temptation, and improving discipline. Exhibit 6 is a handy chart for automating your savings to cover short-, medium-, and long-term goals, the basics of which we explain in this section.

Exhibit 6. Automating Your Savings by Goal

AUTOMATE YOUR SAVINGS

Short-Term Goals (0-3 years)
Action: Open a separate savings account.
Automate: Set up automatic transfers from checking to savings.

Medium-Term Goals (3-10 years)
Debt Repayment:
Action: Schedule payments above the minimum.
Automate: Set up automatic payments.

Major Life Events:
Action: Open a dedicated savings account.
Automate: Schedule regular transfers.

Long-Term Goals (10+ years)
Retirement (401(k) & IRA):
Action: Enroll in 401(k) and open IRA.
Automate: Set up payroll deductions for 401(k) and automatic transfers to IRA.

Short-Term Goals

Achievable roughly from now to three years from now, short-term goals keep you motivated by allowing you to make quick progress. Here's a fun example: Ivy, an avid Swiftie, wants to attend Taylor Swift's concert on her birthday weekend. However, a single ticket costs $500. Although Ivy works a full-time job, this expense would account for a large chunk of her monthly income, so the solution would be to start saving early in small amounts. Some short-term goals to save for: emergencies; vacations and experiences; a car; business clothes; a new computer or phone.

Your "What If?" Fund: By far the most important short-term goal is to fund your emergency savings account—or your "What If" fund? A fully funded emergency savings account comes with noncash dividends, helping to ensure that you are prepared financially for the unexpected turns your life may take.

Take Ben, for example. In his new consulting position, he works close to 80 hours a week and has some very demanding managers who would be quick to save their own reputations at the cost of an employee like Ben. Because he has a fully funded emergency savings account, he can take the time to go on a job search without worrying how he will pay for rent or his meals. The retirement expert Anne Lester states that "your emergency fund should be easily accessible; it should not be easily spendable."[55] To begin with, financial experts like Dave Ramsey suggest starting out with a $1,000 fund,[56] as it can cover most small-scale emergencies. After achieving this, however, you can work your way up to saving two to three months' worth of expenses. Having this level of confidence to fall back on allows you to have a sense of security when you hit uncertain times. Exhibit 7 shows you how to create your own emergency savings.

For short-term savings goals, one of the most effective ways to automate your savings is to set up automatic transfers from your checking account to your designated savings account.[57] To do this, most banks provide options through online banking or mobile banking apps. First, log into your online banking account and navigate to the section for transfers or automatic transfers. Then, select your checking account as the source and your savings

Exhibit 7. Setting Up Your Emergency Savings Account

Napkin Finance: Your step-by-step guide to ESAs

1. Set an Objective: Decide how much you need to spare. Initially, aim to save $1,000. Gradually after this, aim for 2 to 3 months' worth of living costs. In any case, this may change based on your individual circumstance and comfort level.
2. Calculate Your Costs (See Section Two: Learn How to Spend): Track your monthly costs to figure out how much is needed to cover fundamental necessities like rent/mortgage, utilities, food, insurance, and any other expenses.
3. Start Saving Routinely: Designate a portion of your income specifically for your emergency support. Treat it like a month-to-month charge or cost that you simply must pay.
4. Select the Correct Account: Open a separate account for your emergency savings fund. It should be easy to access, but not too accessible to the point that you just plunge into it for non-emergencies.
5. Automate Your Savings: Set up programmed automatic transfers from your checking account to your emergency fund account each time you get paid. This way you are guaranteed this money in your emergency fund without having to stress at the last minute.
6. Adapt: Frequently check your finances and goals and alter them according to changes in your life. Life circumstances can alter, so be adaptable.
7. Use Only for Real Emergencies: Save your emergency fund for genuine emergencies like restorative costs, car repairs, or work-related issues. Refrain from spending it on non-essential goods.

account as the destination. Determine the amount you want to transfer and the frequency (e.g., weekly, biweekly, monthly), and set the start date, ideally aligning it with your payday to ensure funds are available. Finally, review all the details and confirm the setup, noting that some banks may send a confirmation email or notification.

Mid-Term Goals

Spanning about three to ten years in the future, mid-term goals include objectives such as paying off student loans, a wedding, and the down payment for a house. These goals involve moderate risk, and you can automate your savings using apps like Qapital, Chime, or Digit, which monitor your spending habits and automatically transfer small amounts of money to your savings account based on rules you set. Starting small and gradually increasing your savings each month as you receive bonuses or income increases can be effective. You can even set up automatic increases in your savings contributions semi-annually or annually.

Long-Term Goals

Long-term goals are goals that take decades—in reality, what we're talking about is retirement. We know it seems like a long, long way away when you're 23, but ask someone who is 65 and they'll tell you the time goes pretty fast. You would be doing yourself no favors if you pushed off preparing for long-term goals until you're out of your twenties, as you would lose your biggest advantages: time and compounding.

To achieve a critical long-term goal like retirement, it is crucial to have a proper plan of action. The best methods to save for retirement include opening a 401(k) account through your employer, a Roth IRA, or a traditional IRA in your brokerage account. You can set up automatic contributions to *all of these retirement and investment accounts* to ensure consistent saving. See the section on Dollar Cost Averaging below.

Depending on the terms of your employer's 401(k) plan, your contributions may be matched by your employer in various ways. Typically, employers match a percentage (usually 50%) of employee contributions up to a specific portion of your total salary. For example, an employer might match 50% of your contributions up to 6% of your salary. So, if you contribute 6%, your employer would "match" by contributing 3%, for a total of 9%. Occasionally, employers may elect to match contributions up to a certain dollar amount, regardless of your salary, although this is unusual. This "match" is usually called "free money," although there is no free lunch. You have to show up and work. It is of utmost importance to have enough automatically contributed to your 401(k) plan to max out your employer's match, as this can substantially boost your retirement funds.[58]

It is essential to understand 401(k) plan automatic enrollment if you want to guarantee your long-term financial stability. When a company offers automatic enrollment, it means that workers may enroll in the 401(k) plan without having to worry about anything on their own. In most cases, preselected default contribution rates and investment options aid employees' retirement savings efforts. Automating your contributions to your individual retirement accounts (IRAs), which are not the same as your employer's 401(k) and which you need to set up yourself, can similarly help you streamline your savings process. You can make regular contributions to your IRA without having to remember each month by implementing automatic transfers from your checking or savings account.[59] A "set it and forget it" approach to retirement savings makes it easier to build a substantial nest egg.

DO	DON'T
✓ CREATE AN EMERGENCY SAVINGS ACCOUNT	✗ WAIT TO START SAVING
✓ SET SHORT, MEDIUM AND LONG-TERM SAVINGS GOALS	✗ UNDERESTIMATE AUTOMATED SAVINGS
✓ MAX OUT YOUR EMPLOYER'S MATCH	

Your Atomic Habits guide to Financial Security

INVEST: Automate Your Investments

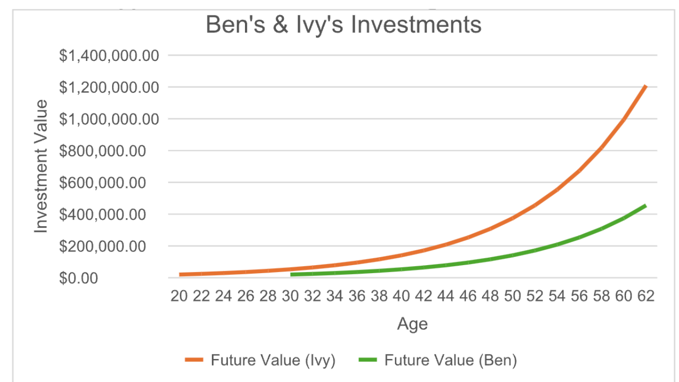
The Lazy Way to Get Rich

Investing is the key to building long-term wealth at any age. However, if you are lucky enough to be in your twenties, you have the most powerful wealth building tool on your side: time. Time gives the young investor the opportunity to take advantage of compound returns. But before any wealth building can begin, our hard-earned dollars must be invested. Every year earlier you begin to invest is another year on the tail end of an investment where compounding can occur. Gaining as many of these high compounding "tail" years is essential to building wealth. Take Warren Buffett, currently aged 94, for example; "$81.5 billion of Warren Buffett's $84.5-billion net worth came after his 65th birthday."[60] As with savings, the most effective strategy to stay on track in your twenties with your investments is automation. As we will explore in the following subsections, automation offers a low-cost, low-maintenance, and low-stress path to building wealth.

The Magic of Compounding Returns

We know you probably have had enough, but bear with us. One last time: What is compounding? The basic concept of compounding involves earning returns through both the growth of an original asset and the reinvested returns of that asset. For example, if you have $10,000 in a high-yield savings account that pays you 5% interest, your annual return will be $500. If you reinvest that $500 in the same account, you still earn 5%, but now it's 5% of $10,500. This results in earnings of $525 for the second year. Like magic, this simple concept grows wealth exponentially. We can see this principle in practice with long-term investing through Ben and Ivy. Ben chose to push off investing in his retirement until later in life, at age 32. Ivy, on the other hand, chose to open a retirement account at age 22 and invest her money in low-cost index funds. Both Ben and Ivy aim to retire at 65, giving Ben an investment horizon of 33 years and Ivy a horizon of 43 years. Compounding grows exponentially over time, giving Ivy the advantage in this investment scenario. At their respective ages, 32 and 22, both invested $20,000 into an S&P 500 tracking index fund and reinvested any dividends. They earned a return of 10.26%, which is the average annual return of the S&P 500 index since 1957.[61] As we can see in Exhibit 8, Ben will retire with just over half a million dollars, whereas Ivy will retire with $1.3 million! This is the power of compounding returns.

Exhibit 8. What Happens When You Start Investing 10 Years Earlier



Source: *Compound Interest Calculator, Compound Interest Calculator | Investor.*Gov, www.investor.gov/financial-tools-calculators/calculators/compound-interest-calculator. Accessed 18 July 2024.

A Quick Tip: The Rule of 72

When thinking about how much money you would like to have for any long-term savings objective, usually retirement, you can use the Rule of 72 to help you determine how long it will take you to reach your goal. The Rule of 72 is a common way to calculate how long it will take for an investment to double. For example, if an investment has an annual return of 8%, take 72 and divide it by 8. This would equal 9, meaning that it would take nine years for an investment to double at an 8% rate of return. If you want to retire with $1,000,000 and you start with $25,000 in a retirement account growing at 8%, it will take you about 50 years to reach your goal without adding another dollar! However, you could achieve your goal much quicker with continued contributions. For example, if you made a monthly contribution of $300 on top of the initial $25,000 it would only take 36 years to reach $1,000,000. Furthermore, if you kept this pattern for the full 50 years you could have $3,238,113 saved for retirement! That's the power of automated investing and compound returns!

The Government's Gift to Young Investors: The Roth IRA

OK great, you understand the benefits of investing early, but how do you do it? With a Roth IRA. "IRA" stands for individual retirement account. Both the traditional IRA and the Roth IRA are investment accounts in which any contributions you make will grow tax free and can be withdrawn without penalty when you hit age 59 and a half. These accounts currently have a contribution limit of $7,000 a year for those who make less than $153,000 annually (filing taxes as a single person). These rules make IRAs the perfect tools to build wealth for those in their twenties! The primary difference between these two accounts is when you pay the taxes on them. In a traditional IRA, your contributions to the IRA are deducted from your current year's tax bill, making them "pretax dollars." This system has the benefit of lowering taxes when you are contributing (usually in your working years), but you must pay taxes on all that money when you withdraw it. In a Roth IRA, named after its creator, Senator William V. Roth, your contributions are "post-tax" dollars, which means that you pay the taxes up front, before you even deposit them. But when you withdraw the money from your Roth IRA, that money doesn't get added to your adjusted gross income, which is what you get taxed on come April 15. This means that with a Roth IRA, you don't get taxed when you withdraw the money during retirement. The benefit for young investors in a Roth IRA is the tax-free withdrawals. For most of us, our tax bracket in our twenties is much lower than it will be when we are in our sixties, if all goes well. The Roth IRA offers you the opportunity to take advantage of the difference in tax brackets, because if you withdraw money when you are in a higher tax bracket than the one you were in when you originally made the contributions, you can save tens of thousands in capital gains taxes.

Another great feature of the Roth IRA is its capacity to function as a backup emergency fund. While any gains you've made in this type of account are subject to penalty and taxes if you withdraw the money before age 59 and a half, the actual contributions you have made can be withdrawn penalty- and tax-free.[62] For example, Ivy put $5,000 into her Roth IRA this year, and it grew to $6,000 in year. Although she is not 59 and a half years old, she can withdraw the original $5,000 with no penalties, fees, or taxes. Her withdrawal will interrupt compounding and will stunt the growth of her retirement fund, but Ivy can use this money in an emergency and not worry about locking up her money for too long when she makes contributions to her retirement account.

If you are a college student, you may wonder what impact this type of account could have on your Free Application for Federal Student Aid (FAFSA). The FAFSA requires students to report any income or assets they hold so that it can be considered when schools calculate federal aid awards. The good news is that "retirement accounts are not considered assets on the FAFSA."[63] This means you are not required to report the balance of your Roth IRA. The only situation in which it would affect your federal aid is if you took a withdrawal; that amount would then be reported as income. While the Roth IRA was designed for retirement and long-term holding, it is a truly powerful tool. It can harness the magic of compounding, function as an emergency savings account, and not adversely impact your eligibility for financial aid—all at the same time. It is a rare gift the government gives young investors, so make the most of it!

Specifically, What Should I Invest In?

You may be thinking, Great, I know why and where to invest, but what do I invest in? This question has many answers that depend on your investment

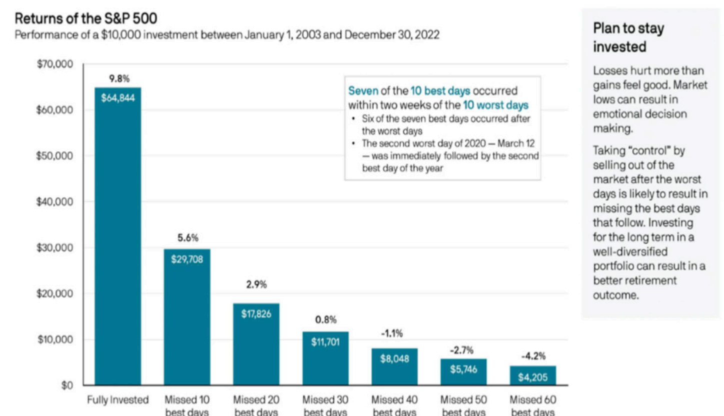
horizon, or when you plan to sell the asset and spend the invested money. Think back to the financial goals we spoke about in the “Save” section. Whether it is a short-, medium-, or long-term financial goal, there is a great way to automate investing for it. The two most important factors to consider when investing your hard-earned savings are: when will you need the money, and what are the risks attached to making a specific investment?

Short-term goals (immediately through three to five years), like the fun goal of affording Taylor Swift tickets or the most important short-term goal of all—having a fully funded emergency savings account, should be funded with investments that provide a steady return with little risk of losing your principal—the money you contributed before interest. A high-yield savings account, insured by the Federal Deposit Insurance Corporation (FDIC), is perfect for this purpose. Provided you stay below a balance of $250,000—a pretty big number of us twentysomethings—there are many options for opening an FDIC-insured high-yield savings account. For example, SOFI offers an account yielding 4.6% (as of July 28, 2024), while American Express offers a high-yield savings account that pays 4.25%, both with the option to automatically reinvest interest payments.[64] Both are great options compared to the national average savings account interest rate of 0.45%.[65] Remember, friends don’t let friends invest their short-term savings in their checking account.

Medium-term goals (three to ten years), such as saving for education or a house down payment, allow for greater flexibility in investment choices. If you can wait closer to the longer end of this timeframe, you can afford to take on more risk for the chance of higher returns. However, it’s important to remain cautious, since the time available is still relatively limited. A classic option for such goals is the 60/40 balanced portfolio, which involves investing 60% of your money in stocks and 40% in bonds. This “neutral” portfolio strategy aims to capitalize on the growth potential of equities (stocks) while mitigating risk with a substantial allocation to the safer asset class of bonds. There are both active and passive balanced funds available, and it’s crucial to be mindful of the associated fees when making your choice.

Last, in your twenties, long-term investments (thirty or forty years) are designed for building a retirement fund. Here, target date funds and low-cost equity exchange-traded funds (ETFs) offer diverse and affordable investments that are easy to automate. Target date funds, as we will see Ivy use later, are investment vehicles that automatically rebalance an investment as its maturity date approaches. Early in the life of a target date fund, the fund manager takes more risk in the investment choices and your portfolio experiences higher volatility with the possibility of better returns, but later as the investment horizon (the maturity date) approaches the fund automatically adjusts to low-volatility, low-risk investments. The best part is that this is all done automatically! Vanguard has many target date retirement funds that change asset allocation as you grow closer to retirement. The company offers a fund for each five-year period from 2020 to 2070.[66] When it comes to retirement savings, index funds and ETFs can also be very effective because of their lower fees and high return potential. For these reasons many of our examples use the S&P 500 Index, or an index fund that tracks it, as the investment vehicle.

Turn on Do Not Disturb: “The first rule of compounding: Never interrupt it unnecessarily.”[67] This quote from Charlie Munger, former vice chairman of Berkshire Hathaway, describes one of the most important wealth-building rules. Compounding can be an immensely powerful force, but its effects are easily destroyed by a few short-term decisions. This is best illustrated in Exhibit 9, which shows what happens when you miss the best 20 days of the market during a given period. The image depicts a $10,000 investment in the S&P 500 Index over a 20-year period and the various rates of return if compounding is interrupted.



Source: Chart of the Day: Missing Best 20 Days, *Crews Bank & Trust,* July 18, 2024, www.crews.bank/blog/charts/missing-best-20-days. calculators/calculators/compound-interest-calculator. Accessed 18 July 2024.

As described in the image, staying fully invested during the highs and lows of the market results in the highest annual return of 9.8% compounded over 20 years. With an initial investment of $10,000 this results in a return of $64,844 when fully invested, compared to losing almost $6,000 by trading and missing the 60 best days of the market. The more compounding gets interrupted, the more of the best days the investor misses—with dramatic effects on their overall returns. Missing just 60 of the best market days throughout the 20-year period brings the returns down by 14% compared to staying invested! Furthermore, it details that "Seven of the 10 best days occurred within two weeks of the 10 worst days." Selling your assets and taking that cash out of your account during a market dip has a high chance of altering your returns significantly because of how close the good and bad market days are in time. This is why staying fully invested is such an important step to building wealth.

> **"Keeping a consistent investing pattern, no matter how large or small, is a great way to create wealth."**

A Quick Tip – Dollar Cost Averaging (a.k.a. "Don't Try to Time the Market"): Keeping a consistent investing pattern, no matter how large or small, is a great way to create wealth. Dollar cost averaging, or DCA for short, is a highly successful method of ensuring consistency in investing and removes the incentive for you to attempt to time the market. But first, what is market timing? Market timing is a strategy where an investor waits to buy at the bottom of a market selloff, with the goal of generating greater-than-average returns. When executed perfectly this strategy can be effective, but it is almost impossible to do so. A study conducted by Charles Schwab found that "The cost of waiting for the perfect moment to invest typically exceeds the benefit of even perfect timing. And because timing the market perfectly is nearly impossible, the best strategy for most of us is not to try to market-time at all."[68] This is where dollar cost averaging is most effective. It involves a consistent pattern of investing by defining a specific amount and frequency at which to invest—and not varying from it.

For example, Ben has $10,000 saved up that he wants to invest. Rather than purchasing $10,000 worth of stocks all at once, he plans to buy $1,000 worth of his preferred security on the 15th of each month, for ten months. By doing this Ben avoids trying to time the market and, in most cases, ends up with a lower average cost per share than if he were to buy the lump sum all at once. This strategy can also be applied indefinitely. Ivy, for example, employs the DCA strategy in her employee-sponsored 401(k) account. Much like the Roth IRA, a 401(k) is a retirement account where investments grow tax-free and can be withdrawn when you are age 59 and a half. The main differences are that it has a higher contribution limit ($23,000 in 2024), and, as mentioned earlier, employers often match a certain percentage of contributions. Within her 401(k) account, Ivy takes 10% of every single paycheck and, regardless of market conditions, invests it into a target date fund within her 401(k). In doing this she does not have to worry about market timing or adjusting her contributions because technology has allowed her to automate the process. She can instead focus on building her career and learning how to save and spend.

DO	DON'T
✓ AUTOMATE YOUR INVESTMENTS	✗ WAIT TO START INVESTING
✓ TAKE ADVANTAGE OF COMPOUNDING RETURNS	✗ GET INTIMIDATED BY VOLATILITY IN THE MARKETS (THAT'S WHY WE USE DCA)
✓ OPEN A ROTH IRA TO STAY TAX EFFICIENT IN YOUR RETIREMENT SAVINGS	

Your Atomic Habits guide to Financial Security

The Big Picture: How Your Twenties Shape Your Future Financial Security

Imagine this: you have just turned 30. You are sitting in your favorite coffee shop, sipping on that oat milk latte you love, having just maxed out your Roth IRA contributions for the year. Life feels pretty good. Why? Because you made some smart financial decisions in your twenties, and now you are reaping the rewards. No credit card debt is hanging over your head. Instead, you have an investment portfolio that you've spent minimal time managing. By learning how to make money and

to spend it wisely, automating your savings, and investing consistently, you've set yourself up for a future where financial stress is a thing of the past. You didn't miss out on any fun along the way—there were plenty of hangouts with friends, vacations, and wise spending on things and experiences that mattered to you. But because you automated your savings and investments, you never had to worry about whether you were on track.

Your twenties are all about finding that balance. By making small, consistent changes today that compound, you can build a financial foundation that gives you the freedom to live your best life tomorrow. So, start now. Learn to make and spend smartly. Automate your savings and investments. Your 30-year-old self will thank you.

Your twenties are all about finding that balance. By making small, consistent changes today that compound, you can build a financial foundation that gives you the freedom to live your best life tomorrow. So, start now. Learn to make and spend smartly. Automate your savings and investments. Your 30-year-old self will thank you.

A Special Note to Investment and Wealth Managers

Dear Investment and Wealth Managers,

Do you remember what it was like when you were starting out?

Today's youth must navigate a particularly challenging economic landscape. According to the Washington Post, the United States spends less on youth per capita than almost any other developed nation.[69] Cutting federal welfare programs for some of the poorest children starkly contrasts with the country's reputation as the land of opportunity. The U.S. is the 10th happiest country in the world for people over 60, yet ranks only 62nd for those under 30.[70] Climate change, social and political unrest, and economic policies that often favor older generations pose significant threats to today's youth. Consider this. In 1993, 60% of 30- to 34-year-olds had at least one child. Today, that number has plummeted to 27%.[71] In conjunction with changing social norms, economic constraints are preventing young people from meeting, marrying, and starting families, leading to potential long-term consequences on labor power, taxation, Social Security, and the federal budget. As professionals who understand the importance of investment and wealth management, you know the value of long-term planning and strategic foresight. The youth of today are the investors, entrepreneurs, and leaders of tomorrow. If we do not address these issues now, what will be the value of a future where your children cannot thrive and sustain the foundations built by you?

Demographically, Gen Y and Gen Z (collectively Gen YZ) represent 42% of the U.S. population.[72]

401 Financial: The Next Generation of Financial Planning

Mission Statement:
- Ensure access to financial planning for everyone, regardless of color, denomination, or zip code.
- Provide financial planning for all with core beliefs in inclusion, accessibility, transparency, personalization, diversity, and equity over equality.
- Strive to build not just a firm, but a community.

How to Reach Underserved Communities:
- Flexible Payment Options: hourly fee, subscription, one-time payment for a plan, free services for those who cannot pay or lose their job

Community Engagement:
- Use an app for clients to connect through various channels (personal finance, health, fun).
- Maintain an online presence to meet clients where they are.

Social Media and Branding
- Avoid jargon and maintain a warm, welcoming brand image.
- Active presence on Instagram, Facebook, and growing traction on YouTube.
- Focus on demystifying investing and maintaining a relaxed, approachable atmosphere.

Financial Education and Literacy:
- Explain the reasoning behind financial recommendations.
- Use humility and highlight other knowledgeable individuals and resources.
- Encourage clients to ask questions and feel comfortable seeking explanations.

Cultural Competence
- Recognize that culture encompasses age, gender, socioeconomic status, and more.
- Have a diverse team with different backgrounds and experiences.
- Address specific community needs, such as health planning for Black communities.
- Focus on inclusive hiring practices and understanding the diverse cultural landscape.

Gen Z is the most racially and ethnically diverse generation. Not only are we the most diverse in terms of ethnicity and race but also in perspectives and values. We prioritize equity, care deeply about the planet (as we will be the ones to inherit it), and focus on making a positive impact and fostering emotional intelligence. Young investors can be attractive and profitable clients, especially over time, as they are set to inherit trillions of dollars in the coming years. A Cerulli report highlights that over $80 trillion (roughly three times U.S. GDP) in wealth is expected to be transferred within families over the next two decades.[73] Additionally, the return on investment is substantial for members of Gen Z who are developing financial habits early in their careers. A Fidelity analysis shows that an

individual's savings rate and service level are the two biggest factors in determining the long-term profitability of a client. For Gen Z, the median age of starting retirement savings is 19, compared to millennials at 25 and Gen X at 30.[74] We have gathered a few recommendations that make business sense in the long run and will help you to engage with the younger generation.

Law of the Universe—Give Before You Receive: Create an ideal profile of your young clients, considering factors such as savings habits, future earnings potential, and demand for service. Then, offer free, educational content on financial literacy to nurture your younger clients. Similarly, engage with the adult and teenage children of your current clients. Introductions to the next generation can help you retain assets as wealth is transferred. But remember, many underprivileged young adults need access to these resources. Make them accessible and think about social equity. Partner with organizations like Kindros, which focuses on increasing financial well-being and knowledge to make a difference.

Provide Holistic Financial Planning: Two-thirds of Gen YZ clients with an advisor want services beyond financial advice and investment management, prioritizing financial planning, peace of mind, and life goals.[75] The Certified Financial Planner Board recently added "the psychology of finance" to its curriculum.[76] Take a people-first approach, offering flexible solutions. Start with social media—post content that reaches prospective clients. According to Fidelity, almost 7 in 10 Gen YZ investors without an advisor today would choose one who offers customized marketing communications based on personal needs and objectives.[77] Use storytelling and our generation's language to provide value beyond investment management. In our paper, we emphasized life planning before financial planning.

Diversity in Talents, Perspectives, and Socioeconomic Backgrounds: To reflect the clients you serve, ask if you truly have a diverse corporate culture. 83% of 18- to 34-year-olds say it is important that companies they buy from align with their values, versus 60% of those 55 and older.[78] Diversity in all perspectives—nationalities, races, ethnicities, income levels, and experiences—is crucial. Broaden the range of candidates you interview, instead of focusing just on Ivy League graduates, or offer training programs. Work with organizations like Sapere Aude Consortium to place young talent from diverse backgrounds, such as first-generation students and children of public servants, fostering a mutually beneficial relationship.

Tyrone Ross, the CEO of 401 Financial, is dedicated to leveraging technology and social impact to democratize access to financial services and create opportunities for underserved communities. He asserts that the wealth management industry is currently ill-equipped to meet the needs of younger generations but resistant to change. Ross emphasizes the importance of proximity and understanding the experiences of those in need. "I cannot truly understand the pain of people unless I see and interact with them directly," he told us when we interviewed him. "The problem is that those in high positions often remain detached from these realities. The people who need our advice the most are often the ones we are furthest from." With the oldest members of Gen Z now in their mid-twenties, Ross stresses the growing urgency for change: "We view the world through lenses that the current industry is not prepared for. We meet the needs of a diverse, well-informed, and collaborative generation. The industry is accustomed to the status quo and will need to adapt by engaging more closely with these emerging perspectives."

With our generation's unique worldview and needs, we seek comprehensive life advice beyond mere financial guidance. The question is, can we count on you?

Cheers, Gen YZ

Authors' Note

Our paper is intended for young adults in their twenties, with the central message that this stage of life is the perfect time to learn how to make and spend money wisely while automating savings and investments. Our hopes are that this opinion snapshot provides easy-to-follow steps serving as the ultimate guide to building inancial security. Our special note to investment and wealth managers is an invite to extend a guiding hand to the younger generation as they navigate today's socioeconomic landscape.

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