

December Newsletter

Personal Finance for Teens

The *Credit For Life Fair* is a nationally-recognized program designed to help high school students develop personal financial management skills that they will use throughout their lives. Duxbury High School's 3rd Annual *Credit for Life Fair* was held on Tuesday, December 12, 2017. Rob gave the keynote address to Duxbury's senior class. His comments, modified for this newsletter, follow.

You're Gonna Need A Bigger Boat

"Soon, you'll all be in the real world! Just wait until you're in the real world!" Anyone who says this to a teenager should be called out. Because most teenagers are in the real world. You make regular decisions about what you do on social media, who you have relationships with, where you're going to live after graduation,



and how you spend your money. Credit for Life is about giving you the tools you need to make sound financial decisions.

You can think of your financial life as a large wave. It's coming at you. The bigger the boat you have, the better off you'll be. So are you going to get rolled by that wave, or are you going to ride it? This is a choice – your choice.

Get Oriented

My first professional life lesson was: Go figure it out. Make your own plan. **Draw Your Map.** Then ask for help in getting to where you want to go. Beginning to Draw Your Map as a young adult is particularly valuable, because you'll

have to ask yourself some hard questions, think about possibilities, connect with other people, get dialogue going, and do some strategic planning for yourself.

A LinkedIn professional said in a recent interview that **people in their 20s will change jobs fifteen times over the course of their careers.** Think about that for a second. Fifteen different jobs! So having a map that you've drawn yourself can be really helpful.

The corollary to Draw Your Map is: Be Persistent. What if you Draw Your Map, figure out what you want to do, network, maybe even have some job interviews, and then – nothing happens? Well, keep at it! Persistence is critical. Rejection and failure are all part of the picture. Ask your teachers, parents, and friends in the workforce about how they failed and how they handled failure. I think you'll hear a lot about the virtue of persistence. **Persistence Pays.**

Two Things

The rest of this presentation is about the following two things:

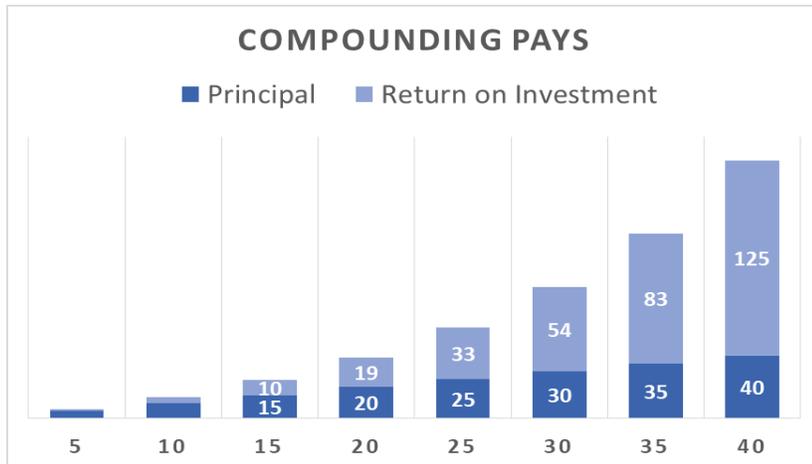
- **Compound Interest:** one of the most important concepts that underpins personal finance, also known as return on return
- **Budgeting:** a practical application that gives you control of your financial life

Power & Pain

Albert Einstein said if you understand compound interest, you can earn it; if you don't, you'll pay it. He also said that compound interest is the eighth Wonder of the World. So, it's very powerful when understand how compound interest works and use it to your advantage. It's very painful if you don't understand compound interest or choose to ignore it. Let's go through an example.

Coffee, Compounded

I am going to using coffee as a way to help you understand this concept of compound interest. Let's say you choose to set aside \$2.75 per day every day of the year, which is about the cost of a medium coffee at Starbucks. That comes out to about \$1,000 each year. You start doing this at age 22. After 40 years, you will have set aside \$40,000. In finance terms, this \$40,000 is your principal.



If you invest your principal and get an average annual return of 6%, and spend those returns each year, at the end of 40 years, you would have spent about \$50,000 (the return on your principal) and at age 62 you would get your original \$40,000 back.

But here's the cool part. The part that Einstein was talking about. Instead of taking your earnings out of your account each year, if you re-invest them, you earn a return on your return.

That return on the return is the concept of compound interest, and it is very powerful. In this example, it equates to about \$75,000. So \$2.75 saved each day for 40 years, invested at 6% average annual return, becomes almost \$165,000. And more than half of the \$125,000 you make comes from compounding. The chart shows what compounding in five-year increments looks like (year 5 to year 40, in thousands of dollars).



Why Budget?

Here's my cost / benefit analysis on budgeting: You have to give up time and you have to apply a bit of effort to do it effectively. Like working out. Or eating healthily. But **the benefits of budgeting - knowledge, control and power – are huge.**

You gain knowledge because you learn how much money you are taking in on a regular basis and you learn where that money is going. Think of a budget as a window into your priorities. It will show you how you are allocating your resources.

You gain control because, with this knowledge, you can then make better decisions about how you are spending your money. Also, there is an element of behavioral psychology that you should be aware of. Writing things down stimulates your brain's reticular activating system, and increases your focus and attention to detail toward what you've written. If you establish a budget as your personal finance reference point, and actually begin to record your income and expenses, you are more likely to stick with it over time, and live within the parameters of your budget.

And power: well, if money is power, and you are able to save some money by having a budget, then you will become more powerful.

You can read the full transcript of Rob's presentation [here](#).

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