ASTORIA
STRATEGIC WEALTH

Top 10 Tips for Grads (And Not Bad for the Rest of Us)!

At Astoria Strategic Wealth, our Principals are 20+ (in some cases 30+) years removed from graduation from college, but as we think about some of the more valuable lessons learned, understanding the time value of money stands out as one of the most useful. We have often said that this concept and other sound financial principles should be required to be taught at the high school level. Unfortunately, in most instances, they are not.

Accordingly, we thought the timing was right to focus the following thought piece on the grads in our communities. For the rest of us, we hope passing on these insights will re-invigorate your financial commitments and bring focus to your long-term goals.

1. **Establish an Emergency Fund**

The fund should be large enough to serve as your "buffer account," enabling you to avoid carrying high cost debt on your credit cards. Use the emergency fund when necessary to pay off a balance beyond your planned, regular cash flow items which will allow you to avoid paying usurious interest rates. Then, focus your saving efforts to replenish your emergency fund ASAP. How large should your emergency fund be? Minimally, it should be adequate to pay off your monthly expenses for the period of time it would take to find a new job – this tends to be the largest, unplanned expense for most. A money market fund with check writing is a great place to store your emergency fund. Some vehicles are paying 1+% and are FDIC insured – we'd be happy to pass the contact information and details of those along. We've also found it helpful to keep this account separate from your other accounts to help you recognize that dipping into it should be a conscious act – not a matter of routine. Note: Regularly tapping your emergency fund is a red flag that your cash flow plan needs adjusting – see #2 below.

2. **Develop a Cash Flow Plan**

Some call this a "budget," but "budget" can have a negative connotation for some. Whichever you prefer, it's vital to develop one and implement a means for monitoring it! A cash flow plan is simply what you bring in less what you save and spend. Be sure to include the "cost" of your long-term goals in the savings section of your budget. You may periodically deviate from it, but there is no need to "toss the baby out with the bathwater" when you stray. Think of it as a map; when you get off your intended route, work to get back on the right path as quickly as you can. Be mindful of impulse purchasing; every time you reach into your pocket or purse, you're making a financial decision; and, if it is an unplanned purchase, you are consequently saying that it is more important than your established goals.

3. **Avoid Consumer Debt - Live Below Your Means**

According to a 2013 study of American families by the Federal Reserve, the percentage of families that carry a credit card balance has dropped from 46% in 2007 to 38% in 2013 - a trend we hope that continues. We advise all new graduates (and, anyone else who cares to listen) to live below their means and avoid carrying a balance on their credit cards. Credit issuers will try to tell you how much you can afford - decide for yourself what you are comfortable with; this approach will likely produce more restful nights and more of your money to put towards your goals.

4. **Pay Yourself First (PYF)**

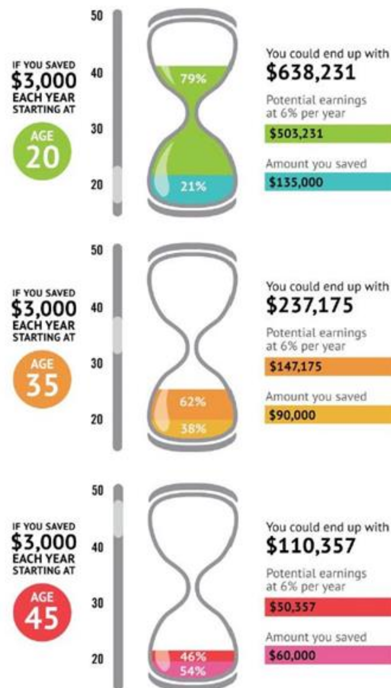
Along the same lines, we recommend setting up automatic deposits out of your paycheck to a Roth or Traditional IRA (which IRA will depend on the size of your paycheck/income and whether you believe taxes are going up or down in the future), a 401(k), and, if your cash flow plan allows, a savings account. This automatic investment method will help you resist the temptation of spending the “easy access” dollars in your checking account. Recurring savings puts time and compounding interest on your side. And, it is the only savings approach we’ve seen that actually works. If you wait to see what’s left over to put into savings, you will likely never achieve higher priority goals beyond the current month’s spending – not a great way to live out your ‘golden’ years!

5. **Don't be Fooled - Looks Can Be Deceiving**

Don’t confuse easy access to credit with real wealth. New cars, big houses, and exotic vacations may just be a sign of high debt. Real wealth is usually a result of responsible spending, responsible saving, and trading glamour for modesty and security. Beware of the shiny objects...they are an insatiable habit. You may consider reading The Millionaire Next Door. It is a thoughtful book which helps you develop habits to creating meaningful wealth.

6. **Save Early...and Often**

Saving aggressively early can mean having to save less later (when you can least afford it). Given that you are likely to work 30+ years and in those years you have to create enough wealth to support you during your last 30+ years, starting early is key to take advantage of the ‘miracle of compounding.’ If you start saving 15% of all income sources when you are 21, you will likely be on the path to creating the requisite retirement portfolio. For each decade you wait, add 10%. So, if you haven’t started saving by the time you are 41, you’d need to save 35% of your income – at a time, when you will have the expense of high school/college kids and all the associated costs of cars/school/extras. We have yet to see anyone be able to save that much at that age.



To take that one step further, a recent article in Business Insider calculated how much you'd have to invest each day in order to become a millionaire. Suppose your investments earn an average 7% yearly return and you want to have $1 million by the age of 65. **At age 20, you'd have to invest just $9 a day to achieve your goal – which really makes you rethink the cost of a cappuccino grande and a bagel at Starbucks every morning which is typically over $10.** If you start at age 25, then $12 a day would do the trick. At age 30, your required daily investment goes up to $18 and it stays manageable even at age 35 at $27 a day.

7. **Honestly Evaluate Needs vs. Wants**

Good advertisers can make you 'NEED' things you never knew you needed before you saw the ad. Whether it's through social media, streaming ads on your search engine, or glossy ads in Conde Nast, the advertising gurus continue to re-invent ways to keep the money flowing, prompting consumers to live in a constant state of discomfort and unrest, slightly dissatisfied with what they have, and unclear about how to discern needs from wants. Before making a purchase, ask yourself – Is this something I need? If not, is it something I want more than I need to save for my planned goals? Be vigilant about this early on; the rewards can be tremendous. Again, there will be times you stray, but get back on course quickly. Set SMART financial goals…

8. **Set SMART Goals: S*pecific*, M*easurable*, A*ttainable*, R*elevant*, T*ime-Bound***

   Most people seem to negotiate life with financial goals that are broad without setting short-term objectives that are more specific and manageable. We realize this bullet point is self-serving as it is one of the primary value-added services of a financial advisor, but setting more detailed goals such as a determining not just that you want to buy a house, but figuring out the size of down payment and manageable mortgage, will translate into clearer goals. Meeting these interim goals in the short to medium-term will help you stay accountable to your long-term intentions.

9. **Beware of Popular Money Management Resources**

   "Good credit, bad credit, no problem!" What's in your wallet?" Looking to pop culture and the latest "guarantee" that seems too good to be true is a risky path. Instead, consider relying on respected media sources to educate yourself such as Kiplinger.com.

10. **Avoid Costly Life Insurance Purchases; Consider Higher Deductibles**

    Sure, your monthly life insurance premiums will be lower when you're younger, but if you don't have an insurance need, then why buy it? There are very few instances where you need anything other than (less costly) term insurance. Beware of those trying to sell you permanent insurance – whole life, universal life, variable life, and variable universal life – without getting objective advice. The first question in purchasing life insurance is, "what is the need?" not "how much can you buy?" On taking a higher deductible: if you have established an emergency fund (see Bullet #1), you can use it to pay the deductible if a loss occurs. Over time, odds will work in your favor and you will save money on premiums.