



ADVISER FUND UPDATE

Market Summary and Commentary for Individual Investors from Adviser Investments



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How to Teach Sound Saving, Spending and Investing Habits

If your child or grandchild has recently graduated from college or high school and left the family home for a full-time job and a steady paycheck, congratulations! You can take some credit for (and pride in) your child's early success.

But if you want the young adults in your life to follow that initial step of finding a job by moving toward complete, ongoing financial independence, you can guide them with a number of crucial lessons as soon as paychecks start hitting their bank accounts. Helping loved ones get an early start on prudent money management is a gift that can last a lifetime and it is something that is rarely covered in high school or college curricula.

Here are several suggestions you may wish to share with your children or grandchildren to set them on the journey to a sound financial future.

Starting a Dialogue

Remember when you were single and just trying to make ends meet? Chances are nobody told you about the importance of managing your money. But what if someone had? Here is your chance to have a conversation with your child or grandchild about basic principles and practices to help make saving and investing become second nature. The sooner they start learning these lessons, the better their financial position will be years from now.

Young adults may be resistant to unsolicited advice, so some general, non-intrusive questions might open the lines of communication. Consider asking:

- Does your new job offer a 401(k) plan?
- Do you plan to buy a car or home in the near future?
- What's your approach to managing credit card debt?

Hopefully, this can lead into a discussion of how their spending and saving habits could affect their long-term financial security.

Where Does the Money Go?

To help your beneficiaries get a handle on their financial reality, suggest that they track their expenses for a couple of months to determine exactly where their money goes (there are a number of free smartphone apps and websites that can help streamline this

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process). This includes obvious things like rent and utilities, as well as cash expenditures on food, coffee, entertainment and other everyday purchases. Tracking daily, weekly and monthly spending can be a real eye-opener for young people making their own money for the first time.

Once attentive to where their income is being spent, they can examine ways to cut back and free up cash to build an emergency fund. By having several months' wages safely stashed away, your newly hatched young adult won't need to call you for help the first time a hefty car repair bill or career hiccup comes along.

Using Plastic with Discretion

While credit cards offer a convenient way to make purchases, credit and responsibility go hand-in-hand. In June 2014, the average American household held more than \$15,000 in credit card debt and is paying it back at interest rates in the mid to high teens, according to Federal Reserve data. Encourage your child to avoid the minimum-payment trap by showing him or her how to read a credit card statement, pointing out the now-mandatory disclosure of how long it will take and how much it will cost in interest to pay just the minimum balance each month to clear the debt—this should hopefully be motivation to pay off as much of the balance as can be afforded each month to avoid excessive interest costs. Obviously late fees from missed payments and the impact on one's credit score are also worthy of discussion. After all, managing debt is a better option than having debt manage you.

Keeping Up with Student Loans

Aside from monthly rent and potential car payments, student loans may be among your child's largest expenses. There are no real shortcuts when it comes to paying off college-loan debt, other than potentially consolidating several loans into one to obtain a lower interest rate. In some cases, it may make more sense to first pay off college loans with high interest rates rather than saving money in a low-interest-rate vehicle, such as a money market fund (emergency funds excepted).

The Value of a Solid Credit Score

Responsible spending offers long-term benefits by allowing those just starting out to build a solid credit history. Young adults should understand how their credit score is affected by several factors, including the number of accounts they maintain, late payments, outstanding debt and any collection actions brought against them. Down the road, a good credit score can help secure favorable interest rates for car loans or a mortgage.

Under federal law, everyone has the right to receive a free copy of their credit report once a year from the three nationwide credit reporting companies—Equifax, Experian and TransUnion. These reports are available at www.annualcreditreport.com. You may also want to mention that employers frequently examine applicants' credit histories as part of their background checks.

Getting a Jumpstart on Saving for Retirement

For someone in his or her early 20s, retirement may seem like a remote concept. But you know better. Most young people do not

have a lot of extra cash to invest, but they do have a great equalizer—time. Even a delay of only a few years can make a big difference in your retirement total when it comes time to cash in.

Consider this: A 20-year-old who sets aside \$1,000 a year in an IRA and stops investing at age 30 (a total contribution of \$10,000) would accumulate \$157,838 by age 65, assuming a 7% return compounded annually. In comparison, a 30-year-old who invests \$1,000 a year for 35 years (a total contribution of \$35,000) would accumulate \$148,913 by age 65 at the same rate of return.

If your child's new employer offers a 401(k) plan, encourage him or her to enroll as soon as allowed. And if the company offers matching funds, suggest they contribute enough to at least earn the company match. That's like getting free money or an immediate raise. Because retirement plan contributions are automatically transferred from their paycheck, they probably won't even miss those dollars. It's akin to paying yourself first. If their employer does not offer a workplace retirement savings plan, then they should consider allocating a portion of their earnings to an IRA. For more information on how getting an early start can pay off, read our *Adviser Fund Update* on the subject, [The Roth IRA Path to Millions](#).

Simplifying Investing with Mutual Funds and ETFs

Most young people will have enough on their plates without having to oversee a portfolio of individual securities. We believe that most investors, young or old, can build a portfolio out of low-cost mutual funds and ETFs as a sensible way to invest for the future. With just a handful of investments, you can gain access to top institutional managers, diversification and liquidity in a portfolio tailored to your goals and risk tolerance.

Setting the Tone

The sooner your child or grandchild begins the long trek toward financial independence, the better—for you and for them. You can play a role in this process by promoting the value of early budgeting and investing. And if you don't feel you have the knowledge necessary to get your loved ones on track, we encourage you to put them in touch with a trusted financial planner who can help them (and maybe even you) establish a plan for a fiscally sound future.

About Adviser Investments

Adviser Investments and its subsidiaries operate as an independent, professional money management firm with particular expertise in Fidelity and Vanguard mutual funds. With 2,500 clients and more than \$3.0 billion under management, Adviser Investments is one of the nation's largest mutual fund research and money management firms. Our investment professionals focus on helping individual investors, trusts, foundations and institutions meet their investment goals. Our minimum account size is \$350,000. Adviser Investments was recently named to *Barron's* list of the top 100 independent financial advisers nationwide and its list of the top advisory firms in Massachusetts. We are also recognized on the *Financial Times* 300 Top Registered Investment Advisers list.

For more information, please visit www.adviserinvestments.com or call 800-492-6868.

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