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Navigating Financial Waters:

A Guide to Smart Financial Planning for Young Adults

Whether you are in your teens, twenties, thirties, or beyond, having a financial plan in place can provide clarity, direction, and peace of mind for your financial future. As individuals age, their investment strategies must adapt to shifting priorities and risk tolerance levels. Adjustments are necessary to ensure financial stability, meet retirement goals, and mitigate the impact of market volatility on long-term savings. But when should you start to formalize a "plan" around your finances? A good rule of thumb is to start financial planning as soon as you have income or assets to manage, regardless of your age. The earlier you begin, the more time you have to build wealth, manage debt, and achieve your financial goals.

Early on, your financial planning needs will usually be relatively simple. Over time, however, as both your wealth and life evolve, so too will your needs, priorities, and goals. Career advancement. Marriage. Children. Purchasing a home. These are all life milestones that amplify the complexity of your financial challenges – introducing new considerations such as tax and estate planning and increasing the importance of things like wealth and income protection and retirement planning. To address this growing complexity, you'll want to sit down with your financial advisor and work on building a plan.

Why do I need a financial plan?

A comprehensive financial plan functions as your roadmap to achieving the goals you set out. It's specifically designed to help you:

- Develop better spending, saving, and investing habits
- Quantify and prioritize multiple goals
- Efficiently balance the funding needs of competing goals
- Align specific investments to specific goals based on how far away they are and how much risk will be required
- Become more confident and 'stay the course' in the face of short-term market volatility

Armed with a thoughtful plan, you'll have a clearer vision of what will be required to realize the goals you've set out for yourself and be ready to start investing to achieve them.

Two priorities before you start investing

Before you start, take time to build up and set aside enough cash to cover 6 months of living expenses in the event of an unexpected income disruption or major unplanned expense. Not only will this 'financial safety net' give you confidence that you can weather any short-term difficulties, but it will also help protect you from having to disrupt your plan (and possibly trigger tax consequences) by liquidating longer-term investments.

Also, make a plan to pay down current (and avoid future) 'bad' debt. This is debt that carries a high or variable interest rate (e.g., credit cards) as well as debt you incur to buy things that decrease in value over time. Keep in mind that debt and credit (just like your investments) are financial tools that you want to utilize thoughtfully and deliberately.

6 keys to investment success

1. **Start early**: the sooner you begin, the easier it will be to reach your investment goals thanks to time and the power of compounding. When you invest, you receive a return not only on your original investment but also on all the accumulated interest, dividends, and capital gains. Like a snowball rolling downhill, over time your money has the potential to grow faster and faster (especially in tax-deferred and tax-free retirement accounts).

2. **Understand that some investment risk is necessary**: while it's true that you need to take on some degree of investment risk to achieve higher long-term returns, time is perhaps your greatest ally, especially when combined with thoughtful diversification and a solid asset allocation strategy.

3. **Be consistent**: strive to become a disciplined investor. The more you are committed to making investing a monthly routine, the easier it becomes. By investing a similar amount each month, you will benefit from dollar cost averaging.[1] This is a strategy where your monthly investment buys less when the stock market is high but can buy more when the market loses value. In principle, it's a way to help even out fluctuating investment costs.

4. **Stay focused on the long term**: don't let short-term market fluctuations cause you to change course. Important longer-term goals such as maximizing annual retirement plan contributions should always take priority over shorter-term wants. It's fine to splurge on a purchase from time to time, but don't sacrifice your future security.

5. **Take on more investment risk with longer-term goals**: the farther away your goals, the more time you have to ride out potential market ups and downs (a luxury you don't have with shorter-term goals). When building out your investment portfolio, the time horizon for each goal will help determine how much risk you can comfortably take on.

6. **Open a linked savings or cash management account**: you can set automatic weekly/monthly transfers of a fixed amount or have any excess balances that exceed a predetermined level automatically swept over into your investment account. It's a terrific way to become a more disciplined investor.

Why take on investment risk?

Considering how unpredictable the stock market can be, why not just live for today and enjoy the here and now – rather than saving and investing for an unknown future?

It's certainly true that by not investing you can avoid market risk altogether. But there are other risks such as inflation, interest rate risk, and longevity risk (the potential that you will outlive your assets) which all have the potential to cause you significant financial harm.

Investing is the engine that drives portfolio growth and affords the greatest potential for your accumulated wealth to fund your lifestyle throughout your entire life – both now and far into the future.

You don't need deep financial insights. You don't need to be constantly pouring over financial reports and stock charts. You need to work with your financial advisor to make a plan that aligns with your goals, stick to it, and occasionally adjust as you age and your priorities and risk tolerance change.

How do I find the right investments?

With thousands of different types of investments to choose from, it's easy to become confused. Which types of investments are best for your specific goals and needs? For most investors, the following five investment categories should cover most investment needs:

- **Stocks:** Ownership of shares in a company whose value fluctuates depending on how the company and stock market perform.
- **Bonds:** Debt securities issued by the government, a municipality, or a corporation in which you lend your money for a certain period in exchange for them paying back your principal with interest.
- **Mutual funds:** Investments that pool your money with that of other investors to buy a basket of stocks (or other securities) which provide you with one-stop investment diversification.
- **Exchange traded funds (ETFs):** Typically, these investments are designed to mirror the performance of a particular index, industry, or market sector. They function much like mutual funds, but can be traded like stocks.
- **Alternative investments:** Includes a range of nontraditional private investments such as hedge funds, private equity, and real estate investment trusts which are designed to reduce the volatility of your portfolio and increase your overall investment diversification.

Since different asset classes such as stocks and bonds often move in different directions, diversifying your investments across a range of asset classes and investment types will help reduce your overall portfolio risk.

While your financial needs and goals will evolve, the earlier you start investing, the more options you'll have, and the greater the likelihood of achieving a worry-free future. Not only will investing help your savings to keep pace with inflation, it will allow you to enjoy the power of decades worth of growth and compound interest on however much you can set aside.

Let us show you what's possible, and help you become more confident and in control of your finances and your future.

[1] Dollar cost averaging does not ensure a profit or protect against a loss

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