

Millennial Money

We all need money. Whether it's taking a vacation to the Bahamas, paying for a wedding expense, or even just stopping to fill up the car, money is how we get there. At its most basic definition money represents time spent. Without an investment of any time or effort, it can be hard for someone to acquire wealth. As Generation X and Y, we have had the least amount of time in the workforce compared to the generations that came before us. Despite this fact, I believe that we have the greatest opportunity to build wealth that has ever been available. I believe that if our generation can learn financial discipline and use the tools that are available to us, we could build a booming economy and a bright financial future. To do so, we must first understand where we currently stand.

“As Millennials' financial position has deteriorated, so has their confidence in their mental capacity to manage it.”

cost of money grows and money is worth more today than it is in the future.³ For example, let's say my old car breaks down and I desperately need a new one. I end up taking out a loan to buy a new car for \$200 a month. By owning and paying this \$200 a month to the bank or credit union, my opportunity cost could be the interest that I would receive by investing my money in a CD or a high-yield savings account. My opportunity cost could also be much more than a few percent if I decided to start a successful business and invested that \$200 a month into that instead. In short, by owing money to others and paying down loans we miss out on the benefits that our money could have supplied, had we used it today somewhere else. Understanding the TVM is key to understanding how to build and sustain wealth.

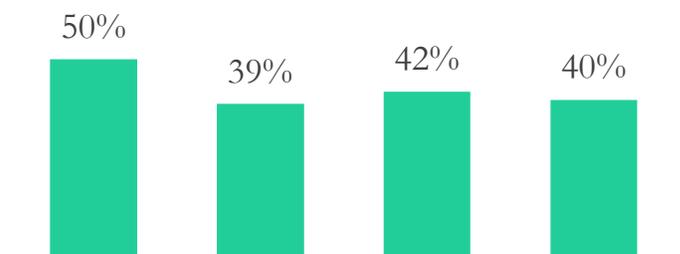
The Current Situation

Before we understand our financial potential, we first need to understand what the current issues are in millennial finances today. Generally, we as a generation have shown compulsive spending behavior. In fact, a study done by the United Nations tells us “Over half of consumer spending in the USA is attributed to one group of young consumers collectively known as ‘The Millennials’ or ‘Gen Y.’”¹ The study even concludes by saying,²

We have entered into a headspace of buy now and make the required minimum payment later. This thinking can be harmful for a number of reasons but one of the most detrimental is due to the concept of the time value of money (TVM). The TVM is a fancy way of saying that over time the opportunity

The next issue I want to address is no matter how much money our generation is making we are spending far too much and saving far too little. In fact, seen in Figure 1, according to a survey of 2,700 people over 32% of

Percentage of people living paycheck to paycheck (by yearly income)



Data based on a survey fielded by Salary Finance of over 2,700 U.S. adults working at companies with over 500 employees.

Figure 1

Americans are running out of money before their next paycheck.⁴

Even more worrisome is that these statistics seem to be true regardless of how much income someone is bringing in. Figure 1 shows that whether you are making \$50,000 a year or \$200,000+ you could still find yourself out of money before your next paycheck. This is primarily due to lifestyle inflation.

Lifestyle inflation means that as people make more money, they tend to spend more money. This could be on things that improve the quality of life but often times the extra income is spent on luxury items that may not have a lasting effect on overall happiness. All this included, we are still fighting an uphill battle. According to the Bureau of Labor Statistics, the basic costs of living have increased by 2.3% and education expenses have risen 2.1%.⁵ These numbers tell us that now more than ever we need to be learning how to handle our money and make it work for us rather than working uphill for it.

Tools of Success

With all the doom and gloom in the numbers and the downward trajectory of the finances of millennials everywhere, it is important to remember that financial peace has a direct correlation with the time and effort we put into improving our situation. Just like our TVM example earlier, the effort that we put in today is worth far more than the effort that we give in the future to improve our finances. This is evident in Table 1, which shows how money saved adds up quickly. However, the data is reliant that your money works for you in the

stock market or some other capacity to make at least a 7.0% return.

The first step to improving finances is to tracking finances.

This has become exponentially more convenient and accessible in the recent decade. Apps like Mint by Intuit (and a number of others) will track your finances for you by connecting to your card. This makes tracking finances, checking your credit score, anticipating upcoming bills, and knowing your net worth all accessible with just the click of a button and it is with you wherever you go.

Another world-changing tool that is available to pilot as the millennial generation is the internet. More than any of us realize, if you have the drive to make money it is possible to do so on the internet of today. From drop shipping to selling courses to making YouTube videos, a large number of Gen X and Y are making either all or part of their income on the internet. A person can connect with millions around the world in a matter of



seconds by using various websites and shop outlets. These opportunities are in reach and with a bit of research and an assessment of

your talents and interests, I guarantee that you too can make money by using the internet.

The last tool that I will cover is the availability of the stock market today. Through apps such as Robinhood and Webull, anyone can set up an account and begin investing in the stock market. This is an attractive option because

The effect of saving a higher percentage of income over 10 Years

Income	Save 15%	Save 25%	Save 35%
50k	\$108,178.00	\$180,296.67	\$252,415.34
80k	\$173,084.81	\$288,474.68	\$403,864.55
120k	\$259,627.21	\$432,712.02	\$605,796.83

Table 1

the stock market can make you money while you sleep. In fact, if you invest only \$200 a month for 40 years at a 10% interest rate (there are stocks that have continually shown a 10% return for the last 70 years) you could have over a million dollars. If you were willing to invest more and take a higher risk you can also receive more as well. All the information and the ability to invest are at our fingertips and you can make your money work for you the way millions of people have already.

It's Up to You

In a recent boom, a number of millennials have moved to change the direction that they are heading.

The old philosophy of working hard for 40 years and then retiring has begun to fade away.

A new generation has decided to take on a new vision. That vision is F.I.R.E. (Financial

Independence, Retire Early).

According to Kiplinger

publication "FIRE followers track their money, invest in low-cost funds, avoid high-interest debt and focus their spending on what's important to them, rather than buying things because they can afford them." Living



this way has given the younger generations the incentive to delay gratification and prepare for life finances in a different way.

When it comes down to the wire, it is up to you. You are in control of what you buy and don't buy, what you save and don't save, what you invest and what you don't invest. You may talk to various financial professionals; your banker, your tax accountant, your friend in the finance program, but at the end of it all, it is your money and you choose how to use it. You are the one with the money on the line to lose or to grow. The tools are available to you and the knowledge is valuable beyond the

time you would spend to learn. Go and make a difference for our generation. One or two of us may not make the biggest difference in the overall direction that our peers are heading but with this knowledge, we can prepare ourselves and hopefully have the means to help others do the same. When you arrive at the ripe age of 65 you will not

have to worry about having to work another day because you sacrificed a little today to receive huge dividends in the years to come. That is what financial peace is all about.

NOTES

1. Bamforth, Jill and Gus Geursen. *Categorising the Money Management Behaviour of Young Consumers*. Vol. 18 2017. doi:10.1108/YC-01-2017-00658. <http://search.ebscohost.com/login.aspx?direct=true&db=buh&AN=125017808&site=bsi-live>.
2. Bamforth, Jill and Gus Geursen. *Categorising the Money Management Behaviour of Young Consumers*. Vol. 18 2017. doi:10.1108/YC-01-2017-00658. <http://search.ebscohost.com/login.aspx?direct=true&db=buh&AN=125017808&site=bsi-live>.
3. Chen, James. "Time Value of Money (TVM) Definition." Investopedia. Investopedia, January 29, 2020. <https://www.investopedia.com/terms/t/timevalueofmoney.asp>.
4. Leonhardt, Megan. "Nearly 1 in 3 American Workers Run out of Money before Payday-Even Those Earning over \$100,000." CNBC. CNBC, February 12, 2020. <https://www.cnbc.com/2020/02/11/32-percent-of-workers-run-out-of-cash-before-payday.html>.
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6. Ambrose, Eileen. "The Benefits of being FIRE-Ish." *Kiplinger's Personal Finance* 73, no. 11 (2019): 58. <http://search.ebscohost.com/login.aspx?direct=true&db=buh&AN=138825895&site=bsi-live>.