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This Holiday
Start a Conversation with your Grown Children About Investing

Taken from Hartford Funds information

The Covid has kept us apart physically and this holiday season is no exception. Many, however, have found this to be an opportune time to have important conversations with their loved ones. If you have been putting off talking to your 20+ year old son/daughter who hasn't started investing yet, this might be a great time.

The key to a productive conversation is starting effectively. Rather than blurting out, "You need to start investing for your financial future," a more encouraging approach can pique their interest.

- ***"Do you know you have a HUGE advantage over me when it comes to investing?"***

Starting a conversation with this question inspires curiosity. Your son/daughter will likely wonder how this is possible since they assume you're more experienced and have more money to invest. But young people actually do have an advantage; it's called TIME, the secret weapon of investing.

Beginning to invest at an early age, even with just small amounts, employs the extraordinary workings of *compound interest* over time. Look at the hypothetical scenario to the right.

Here we see a 25-year-old and a 50-year-old each making a one-time investment of $1,000 that earns a 10% average annual return and keeps it invested until age 65. Since 1926, the average annual return of the S&P 500 Index was 10.2%. For the last 40 years (1980–2019) it was 11.2%.[1]

Over the course of 40 years, the 25-year-old would end up with $53,700. The 50-year-old, with only 15 years in the market, would have $4,454.[2]

The difference is clear: Investing early and allowing compound interest to grow can pay off big!

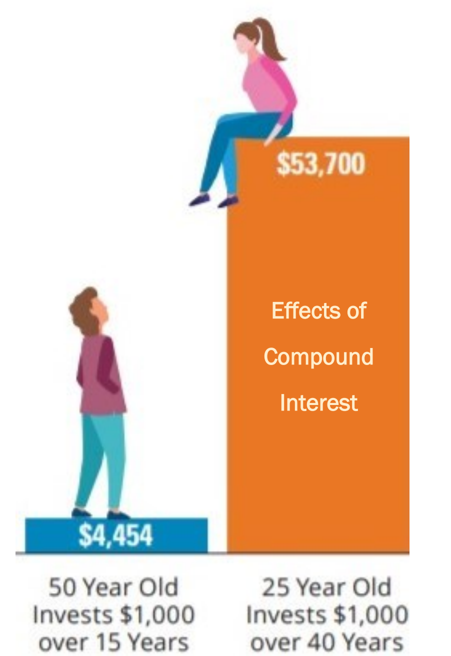
- ***"Do you think you could ever be a millionaire?"***

This question garners intrigue as well as some doubt. When it comes to finances, many 20+ year olds are focused on the short-term, e.g. paying student loans, affording rent, and enjoying living on their own. Becoming a millionaire probably seems far from a realistic goal — especially when they might be just trying to stay afloat financially. In reality, investing early and consistently can make becoming a millionaire probable. Use this scenario to explain why it might be more attainable than they think *(see graph on back)*.

Imagine that a 25-year old begins investing $160 each month and earns a 10% return annually in a tax-deferred account, until he or she turns 65. This investor could end up with $1,011,853.[2] Furthermore, emphasize that investing $160 each month would become more manageable as he or she progresses through their career, and as their salary increases, that amount would likely

Time: The Secret Weapon Of Investing

What a one-time investment of $1,000 can look like over time



grow, which could increase their overall return.

Becoming A Millionaire May Be More Doable Than You Think

You could also point out that if their company offers a 401(k) match, it may take even less out of their own pocket to reach $1 million. For example, imagine that same 25-year-old invests just 3% of their salary in their company-sponsored retirement plan, which ends up being just $80 a month. If the account grows at 10% average annual return, by age 65, they'd reach $1 million.[3]

Your son/daughter may get excited about what's possible as a result of investing consistently over time. For many, just seeing what's attainable is the motivation they need to start working toward their goal. Hopefully, this will help them see that each year they're *not* investing is a missed opportunity for financial growth.

Some statements to avoid:

- ***"Investing is the most important financial goal you should have right now."***

This may sound reasonable to you, but for your adult child, investing for a distant, unknowable future may not seem feasible. Why?

Many people entering the job force today have far more loan debt than previous generations (300% greater than Gen X[4]), and earn about 20% less than their parents did when they started working.[5] Financial burdens — student debt, life expenses, etc. — may seem like a much bigger priority than investing in any retirement plan.

Therefore, this direct approach without any mention of how little money is actually needed to start investing may cause him/her to see you as insensitive and not understanding of his/her financial strains.

- ***"You need to stop spending so much and start saving more."***

While in theory this may be true, no one likes being told what to do. There's even a scientific term for it: *psychological reactance*, the brain's response to a threat to freedom. For instance, anti-smoking ads actually cause some people want to smoke more.[6]

Source: Investor.org Compound Interest Calculator. The chart above is for illustrative purposes only. Assumes a hypothetical 10% return average annual return on investment compounded monthly; it does not take into account taxes, transaction costs, or market declines. The illustration does not represent any particular investment, nor does it account for inflation.

Disapproval of your child's spending habits can be perceived as disapproval of their lifestyle and values. Young professional are generally more willing to spend money on exciting travel, experiences, and convenience,[7] thereby focusing on enjoying their well-earned money now as opposed to later.

By saying this, your son or daughter may see you as out of touch with their reality. Instead of leading to a conversation about investing, this may inevitably lead to an argument.

Objections:

- ***"I don't have enough money to invest."***

This is a common misperception for young people. In fact, 45% of Millennials who don't invest say this is the reason.[7]

A simple "you're not alone in thinking that" can go a long way in showing empathy. From there, you can suggest that your child may have more to invest than they think. Offer to help with a monthly budget and figure out how investing even small amounts can add up.

Share this $50/mo scenario:

A person invests $50 per month, earning 10% average annual return.	
After 1 year	$628
After 3 years	$2,089
After 5 years	$3,872
After 10 years	$10,242

(Perhaps buying a few less cappuccinos each month could find this extra money to invest.)

"I'm afraid to lose money in the stock market."

This is a legitimate fear; many witnessed or were impacted by the 2008 financial crisis and, more recently, saw the market drop 34% in March 2020.[8] Start by acknowledging that yes, in the short term, the stock market can be volatile, sometimes extremely so. However, historically, the risk of losing money in equities has decreased over time.

To Summarize

First, consider a positive and intriguing approach to initiate the topic. Explain that investing involves risk, including the possible loss of principal. Second, avoid insensitive comments that might provoke unintended consequences. Third, know how to acknowledge and respond to common objections that many young adults have on the topic of investing.

Your Approach Is Key

We all want our children to have a secure financial future. You probably remember what it was like to be navigating the world at their age: trying to establish greater independence yet feeling hindered financially. Think how much you would have appreciated this knowledge when you were their age. So, be prudent in your discussion and enjoy sharing this wisdom. If we can help the conversation in any way, please call or email us; we have many other resources available.

Sources:

[1] Morningstar and Hartford Funds, 1/20.
[2] Investor.org Compound Interest Calculator. Assumes a 10% average annual return on investment compounded monthly.
[3] Hartford Funds, 8/20
[4] Millennials are $1 Trillion in Debt—More Than Any Other Generation in History, Business Insider, 3/11/19
[5] College Graduates are Working Harder but Earning Less, Rewire, 3/3/17
[6] Why We Hate People Telling Us What to Do, Psychology Today, 6/6/19
[7] A Look at How Millennials Spend Their Money, U.S. News, 7/14/20
[8] S&P 500 Sets First Record Since February, Erasing Its Coronavirus Plunge, The Wall Street Journal, 8/18/20
S&P 500 Index is a market capitalization-weighted price index composed of 500 widely held common stocks.