A Millennial's Guide to Money

1. Create a budget

A budget helps to keep track of where your money is going. If your goal is to create wealth, it's important that you keep a record of your spending. If you don't know where your money is going, it's unlikely that it's going where you want it to.

Keeping a budget doesn't mean that you can't spend money—but it should be within your limits when you do. To get started, download an app like Mint or make a spreadsheet on Excel to track your spending and income in one place. This way, you'll be able to see where your money is going clearly. When you hit your weekly and monthly goals, remember to reward yourself as an incentive.

2. Make paying your debt a priority

If you have debt, paying it off should be a top priority. Do whatever is necessary to make your payments on time and pay them off as quickly as possible. In order to do so, you may have to work two jobs, budget more than usual, or move in with family, but it's worth it in the long run.

Debt can quickly get out of control if you don't stay on top of it. The interest that you pay in the long run can easily equal or exceed the principal amount of the item as interest compounds. Think of interest payments as money that could be going into the bank or toward a vacation.

Start by prioritizing the debts that have the highest interest rates and pay them first, as these are the ones that will cost you the most if you don't pay them off as quickly as possible. Consider looking into refinancing your debt at a lower rate, too.

3. Leave room for an emergency fund

When you're creating your budget, set money aside for an emergency fund. You never want to have to borrow money and increase your debt because your car died unexpectedly or your fridge stopped working.

A good rule of thumb is saving up six months' worth of wages so that if you lose your job, you still have plenty of time to recover and find a new one. If it's not within your budget to have six months' worth of savings right now, try putting aside just one or two thousand dollars for an emergency fund.

Make sure your emergency fund is readily accessible by keeping the money in a highly liquid vehicle, such as a savings account or money market account. A savings account helps protect your money from market swings and allows you to easily withdraw funds at any time, while a money market deposit account pays higher interest rates but allows you to write checks as well. However, most money market accounts require a minimum deposit to open the account.

4. Begin saving now

Saving isn't just about retirement. It's about creating a plan to help finance your dreams—big ones like retiring on a yacht in Greece, but also shorter-term goals like buying your first car.

Research shows that Americans today are living longer, healthier lives. In fact, since 1965, the average American's life expectancy has increased by almost 10 years. That's good news—but the problem is that instead of saving more money to prepare for longer life expectancy, personal savings rates in the U.S. have dropped from 12% during the 1970s to 5% in 2015. If people keep retiring at age 65, savings have to last longer than 30 years.

Additionally, your money can benefit significantly from compound interest over time if you start saving now. Compounding is the process of earning interest on your interest. For example, when you first open a savings account, your initial deposit grows by the percentage you earn in interest annually. The next year, however, you'll earn interest on the original amount you deposited on top of the interest you earned last year. It may not seem like much in the beginning, but you'd be surprised how it adds up over time.

Continued on back.

5. Invest now

Investing is letting the money you've earned work for you, and now is a great time in your life to start doing it. Think of it this way: interest compensates for the value of time, so the younger you are when you start investing, the more benefit you'll gain from interest. Consider checking out low-cost investing options like Vanguard, or cost-effective investing apps such as Robinhood or Acorns.

6. Watch your credit score

Managing your credit is important as your credit score can help you achieve major milestones—like buying your first home or attending grad school. Every time you pay your credit card balance or repay a loan, the transaction is reported to one of the credit bureaus and counts toward your total credit score.

A good credit score helps position you as a trustworthy, responsible customer, while a low credit score can have significant implications on your ability to access money. Generally speaking, a poor credit score ranges from 300 to the low 500s; a fair score is considered to be in the mid-500s to mid-600s; a good score is in the high 600s to low 700s; and a stellar score falls in the mid-700s to 850.

Your credit score can affect your application for an apartment rental, a graduate school loan, or a home mortgage. A prospective employer can also check your credit report to make sure you're responsible with your finances. In addition, it can affect the interest rates and terms you get on loans and credit cards. If you have a low credit score, it can lead to higher interest rates and down payments as you'll be considered a "high-risk" borrower.

To check your credit score, first see if your credit card company offers your score. Many companies now provide their customers with their credit scores, free of charge, on their statements. If you don't see it on your monthly bill, then check out sites like Credit Karma or freecreditreport.com.

7. Think over a big purchase

Before making a big purchase, take at least one night to sleep on it. Giving yourself a night to think it over allows you to separate your emotions from the decision and prevents you from making a choice you'll ultimately regret.

Salespeople know this fact, too. When you walk into a car dealership or tour a house, your saleswoman is aware that if she doesn't sell the car or house to you that same day, her chances of selling to you at all decrease drastically. She'll do whatever she can to get your pen on the dotted line before you leave.

If you still feel the same way about the house or car when you wake up the next morning, go buy it with the confidence that you're far more likely to make a decision that's better in the long run. Being impulsive may feel alright in the moment, but it's a poor way to handle your finances and a bad habit to develop.

8. Give to a cause you believe in

Money doesn't buy happiness, but studies suggest that giving might. In fact, according to a study done by Harvard Business School Professor Michael Norton, the act of giving or spending money for the benefit of others is more likely to boost your happiness more than when you spend for the benefit of yourself.

One of the greatest traits of the millennial generation is that they are not dependent on large institutions to drive positive social change, nor do they have to wait until they're gray-haired and wealthy to start giving back. As a matter of fact, in 2014, 87% of 18- to 34-year-olds gave a financial gift to a nonprofit organization. There are countless opportunities to use your resources—money, time, networks, expertise, and even social influence—to affect social change. The key is identifying the opportunities that are most aligned with your personal goals.

Remember—while creating wealth is certainly a good aspiration, there's nothing as valuable as sparing some of what we have to help those less fortunate.

The Etergino Group
RBC Wealth Management
5425 Wisconsin Avenue, Suite 301 | Chevy Chase, MD 20815
Phone: (301) 907-2772 | Fax: (301) 907-2701

The Etergino Group
Connecting Wealth with Purpose

RBC Wealth Management

18-WG-781 (12/18)