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summaries

SIGMA INVESTMENT COUNSELORS

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INVESTING IN YOUR CHILD'S FUTURE

The following is written by Brendan Buback and Brandon Klump, Sigma's summer interns. We have collaborated to share some valuable insights we've gained through our studies and internship experiences. We hope our counsel will be especially beneficial to those who have young adults at home.

Leading By Example

Parents play a crucial role in shaping their children's lives, and especially their level of financial literacy by leading by example. My parents taught me to save my birthday money at a young age, and now that I am older, they stress putting some of my paycheck into investments for my future. When parents model responsible financial behavior like making a budget, saving, and making informed spending decisions, they provide a framework for their children to follow. This process helps reinforce good principles of financial management and responsibility from an early age. According to a recent survey by CNN, 71% of Americans identify money as a significant cause of stress in their lives, and 76% of households live paycheck-to-paycheck, it is very important for parents to educate their kids on dealing with finances and one of the most effective ways is leading by example.

Understanding The Market

Parents being able to teach their children about the market and how it works in the long-term and short-term is important. The S&P 500 has returned 10.26% annually from March 4, 1957 to Dec. 31, 2023. However, this time period includes a lot of market downturns. The 2008 financial crisis, COVID-19, and the rise of interest rates in 2022 all had temporary market pull backs in the S&P 500 of more than 20%. Keeping money in the stock market during these times is difficult when one's investment value going down, but Morgan Housel has a good saying about looking at these times as fees, rather than fines, for future returns. Housel uses this quote to try and shift investors mindset on down markets so it feels less as a punishment, and more as a small cost for future returns.

The important lesson of teaching children about the power of compound interest is also an important lesson young investors can learn, as time is the most powerful attribute to compounding. One excellent example of this is Warren Buffet. Warren Buffet is worth nearly $100 billion, but 99% of his wealth came after his 60th birthday. This is due to compound interest that he has had accumulating since he was a little boy. Compound interest benefits investors in the short-term as well, but the long-term benefits produce the best results. In fact, $350 invested every month for 40 years assuming an 8% return results in over $1 million. Compound interest is hard to see in the short-term, but powerful in the long-term.

The Importance of Planning

Now that we understand the long-term importance of investing and the right way to do so, we can move on to planning and habit building. This involves addressing the stereotypically described, stressful, and complicated world of finances with a well-structured plan and the development of beneficial habits.

To build good habits that can be carried on by one's children, the first high-level and one of the most important habits is to "pay yourself first," as discussed in the famous book Rich Dad, Poor Dad. This means treating your retirement savings plan like your most important monthly bill, as Nick Murray, a respected advisor and writer in the industry, advocates. Once you build a habit of making contributions, you can then figure out how to live within your means. You'll never miss what you haven't had, but you will regret the stress that comes from not saving, which may arise down the road. We know that over time, markets create wealth. Investing with the right habits results in less stress to the investor's present and future.

You might be thinking, "Paying yourself first and living within your means is great, but there is still a lot of hard work required to get a job and excel at it to get to this point, especially when you are young." This brings me to my next point and continues the theme of leading by example: life is hard, and that fact should not be sheltered from one's children. I'm not suggesting that kids should be outside chopping wood from day one, nor am I saying not to buy new toys. However, from a young age, it is important to teach that with hard work come rewards. As we all know, when you're an adult, life isn't handed to you. By building these financial habits and a hard-working mindset around one's children, you'll see that they are more likely to value things when they understand that achieving their desires takes time and effort. Now, every person will have a different perspective on what they want in life, but it's essential to make it clear that everything has a cost, and with that cost requires time and effort to attain it.

Conclusion

At Sigma, we've seen proof from clients who have performed well long-term, don't overanalyze their results, are optimistic, they don't shy away from investing no matter what the market looks like, and they have a well-structured plan backed by the right habits. All of the topics discussed here can be implemented, if you haven't already, to lead by example for one's kids. Managing money is stressful and discussing it should not be avoided, but rather faced head-on with a plan of action. Having a team of financial professionals helps guide individuals through a plan tailored to them, resulting in less stress and ultimately allowing them to focus on the other joys of life.

To conclude, here is an influential quote that is critical to ingrain in one's mind to find financial and internal success:

"Become OK with a lot of things going wrong. You can be wrong half the time and still make a fortune, because a small minority of things account for the majority of outcomes. No matter what you're doing with your money you should be comfortable with a lot of stuff not working. That's just how the world is. So you should always measure how you've done by looking at your full portfolio, rather than individual investments." - Morgan Housel

Brendan Buback, CMU Senior
Brandon Klump, MSU Senior