HIGHTOWER
Westchester

guidebook

The Young Investor

Entering the world of investing for the first time can be intimidating. There's so much information coming out every minute of every day and it can be overwhelming. But it doesn't have to be. So, let's tune out all the noise and start with the basics.

FIRST, ESTABLISH AN EMERGENCY FUND

Before you start investing, you should have an emergency fund in place. Having a financial cushion will help you navigate the unexpected, like a large medical bill or even losing a job. We recommend accumulating at least three to six months of living expenses in a liquid savings account in case of an emergency. This account should cover the basics like food, utilities, rent, and any debt payments you regularly make.

Now the question is where to keep your emergency fund. Odds are your bank will offer a very modest (or near 0%) interest rate for a savings account so we suggest looking into an online savings account which will generally offer a higher interest rate with a very low, or no, minimum required account balance. Whichever avenue you choose, either brick and mortar bank or an online bank, just make sure that it's backed by the Federal Deposit Insurance Corporation (FDIC). To simplify things, and to ensure you stay on track towards your savings goal, we recommend paying yourself first. How do you do that? By setting up automatic transfers from your checking account to your savings account so you don't even have to think about it.

If you have credit card debt, you should start tackling that next because odds are you're probably paying more in interest (anywhere between 14%-26%) than you would earn from any investments you would make (approximately 6% annual return on average).

BE HONEST WITH YOURSELF

Investing comes with risks and some people are able to brush off a loss and others aren't. When it comes to investing, it's important to know yourself. If losing money makes you nervous and uncomfortable, be honest about that and build an investment portfolio that will be appropriate for your emotional threshold.

There's no reason to set yourself up for constant worry that will have you checking your investment account multiple times a day, so maybe start investing in an index fund until you get more comfortable and can tolerate branching out into different types of investments so you can build a diversified portfolio.

It's also important to have realistic expectations of what to expect from investments. Market fluctuations will always occur, and some years will be fruitful, and some won't, but that's why investing requires a long-term approach.

ESTABLISH A PLAN

In today's fast-paced and technologically advanced world, it is easy to get caught up in the daily movements of the market, both the upside and downside, but you shouldn't. A young investor who is saving for their retirement and longer-term financial goals has a 30+ year time horizon. You should work with an advisor to create a financial plan and focus on long-term investment goals, rather than the short-term market movements.

LET'S TACKLE THE MOST COMMON MISCONCEPTIONS

INVESTING IS FOR THE RICH

Investors just starting out often think they need a lot of money to make investments that will have a meaningful impact on their future, but this could not be further from the truth. Using common investment products, you can create a diversified portfolio with an investment as small as $50.

What is a diversified portfolio? A diversified portfolio helps to manage your risk by either spreading your investments across different asset classes (stocks, bonds, real estate, money markets, etc.) or within an asset class (investing in several different stocks instead of just one), or a combination of the two.

Before you get started, you should have a basic understanding of what investment options are out there and what they are. For a primer on this, read our blog "Investment Options: What are they and how do they differ?"

INVESTING IS COMPLICATED AND RISKY

Investing may seem complicated because of the abundance of investment options available, but the basics are quite simple—especially when you have a trusted guide. To gain an understanding of the basic financial terms and phrases out there, read our blog "Investment Terms: A Guide to Understanding the Terms and Styles of the Investment Landscape."

As for the risky part, investing does involve risks, including the loss of principal, however, not all investments are created equal and neither are their risks. Investments should be aligned with your risk tolerance and time horizon. Young investors, who have a longer time horizon, can take on more risk because you have time on your side, meaning you have more time to make up any potential losses along the way. So, if you make a few mistakes, which you will, it's ok, so long as you learn from those mistakes.

SINCE TIME IS ON MY SIDE, I'LL SAVE LATER IN MY CAREER WHEN I'M GOING TO MAKE A LOT MORE MONEY

When you're young, and not making much money, it's easy to convince yourself that you have plenty of time to save and invest, but what never really factors into that conversation with yourself is that the older you get, the more expenses you tend to have. So even if you're making more money, you're also spending more money.

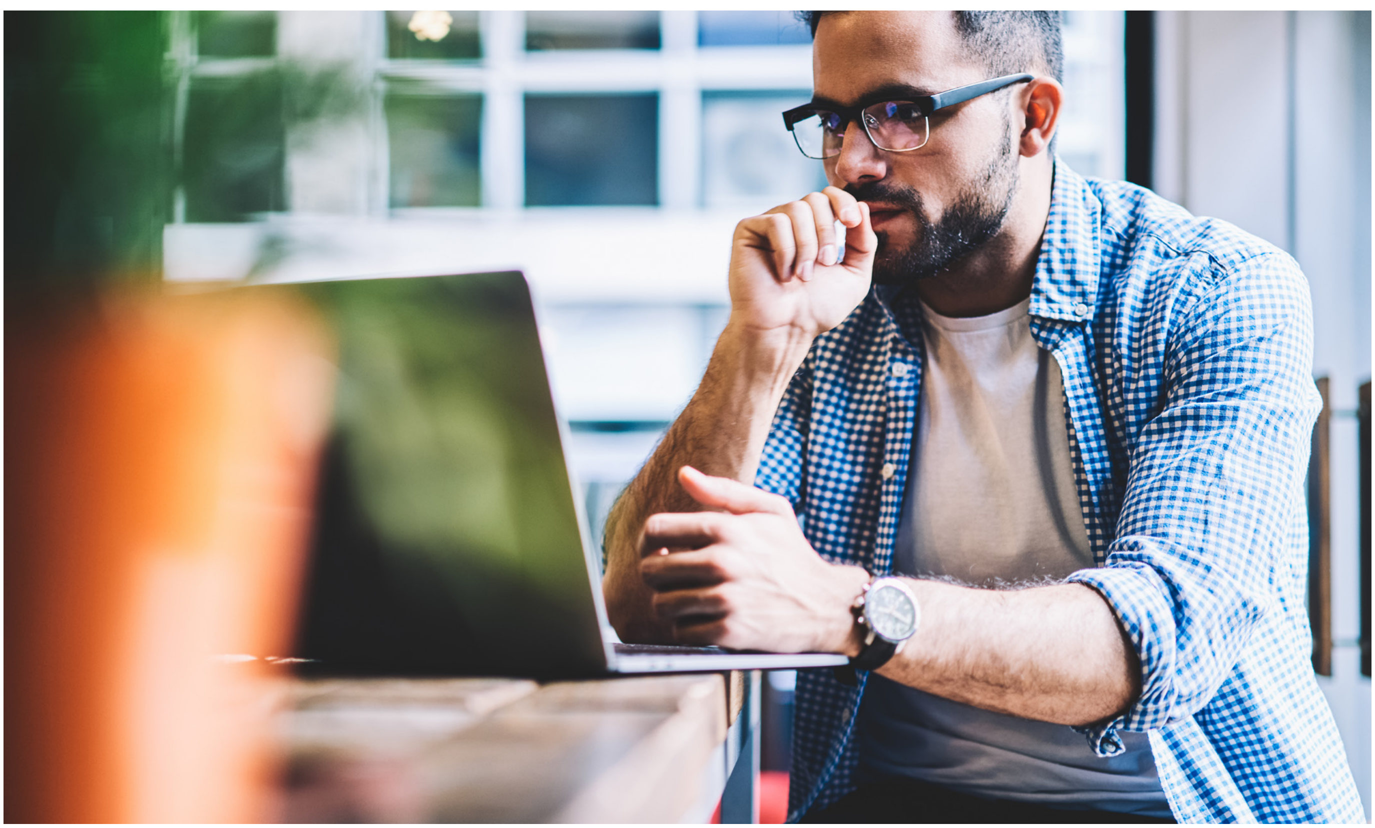
Benjamin Franklin said, "Never leave that till tomorrow which you can do today." As with most things in life, saving and investing are better started sooner rather than later. Let's take the example of a 25-year-old who saves $250 per month. They can amass nearly half of a million dollars (assuming a hypothetical 6% annual rate of return) by age 65. However, if they waited until age 35 to start saving that same $250 per month, they would only amass a quarter of a million dollars by age 65.

MY INVESTMENTS GENERATE INCOME, THAT MEANS I CAN SPEND MORE

Many investments generate income which is often in the form of interest or a dividend. The concept of earning interest on the interest that is generated through an initial investment is called compound interest. While in the short term that dividend payment may seem like a way to fund a purchase, allowing your returns to compound over the long term can have strong effects on the value of your investments. For example, let's assume that you make a $10,000 investment in ABC company stock which pays a 3% annual dividend, and the stock price grows by an average 5% per year over a 10-year period. If you took your 3% annual dividend and did not reinvest the dividend, you could have $16,289 after 10 years. However, if you reinvested that annual dividend, you could potentially have $21,589 after 10 years.

SINCE I AM YOUNG AND CAN TAKE RISKS, I AM GOING TO INVEST IN STARTUPS AND GET RICH

Generally, a young investor with time on their side will be able to take on a higher level of risk and volatility with their investments than an older investor who is closer to retirement. However, this does not mean that the same sound investment principles of diversification and maintaining an appropriate asset allocation don't apply. A young investor will often chase hot stocks, startups, and even fad investments — this is especially relevant today as we see "meme stocks" in the news. We call this speculation, and it is a lot like gambling. We often see investors who lost money in these speculative types of investments develop a distrust for the markets and use it as an excuse to put off their saving and investing journey. Investors should focus on building and maintaining a diversified portfolio invested in a range of asset classes within their risk tolerance for the long term. Remember, your journey to retirement is a marathon, not a sprint.



SAVING FOR RETIREMENT IS IMPORTANT, BUT HOW DOES ONE GET STARTED?

Unlike previous generations, most young people will not have a pension to supplement their retirement income which means saving for retirement is that much more important. Below is an explanation of some of the different types of accounts available to young investors to save for retirement and some tips for getting on their way.

01 | YOUR EMPLOYER-SPONSORED RETIREMENT PLAN

If your employer offers a retirement plan to you, it is a valuable benefit that offers you the ability to save for retirement, and even potentially gives you a tax benefit today for doing so. There are many different types of retirement plans offered by employers such as a 401(k), 457, 403(b), and Simple IRA. Some of the plans have different contribution limits, but all offer you the ability to contribute pre-tax dollars to fund your retirement. This means that your contributions will reduce your taxable income today (a tax benefit), while allowing the funds in the plan to grow tax-deferred until withdrawn in retirement (at which time the withdrawals are taxed as ordinary income). Some plans may offer you the ability to make Roth contributions using after-tax funds. You would not receive a tax benefit today for making Roth contributions, but the funds would grow tax-deferred and be able to potentially be withdrawn tax-free in retirement. For younger investors who are generally in lower tax brackets and have a long time horizon, the Roth is a great long-term option that should be considered.

Many plans offer a matching contribution where the employer will match your contributions up to a certain limit. While you should contribute as much as your cash flow allows to your retirement plan, you should always contribute at least enough to receive your full matching contribution. If you think about it, it's essentially free money that compounds over time and you shouldn't walk away from that.

02 | THE TRADITIONAL AND ROTH IRA

An IRA is a tax-advantaged savings vehicle to help save for retirement. Young savers can contribute the lessor of 100% of earned income or $6,000 per year to a Traditional or Roth IRA. You can contribute to an IRA even if you participate in, and maximized your contributions to, an employer-sponsored plan such as a 401(k).

Funds in an IRA can be invested and grow to help fund your expenses in retirement. A contribution to a Traditional IRA can be tax deductible today (subject to IRS limitations), and all taxes on earnings in the IRA are deferred until withdrawn in retirement. When withdrawals from a Traditional IRA are taken in retirement, the full amount of the withdrawal is taxable as ordinary income. Similar to a contribution to a Roth 401k, a contribution to a Roth IRA is not tax deductible today, but the benefit of not taking that tax deduction today is that all earnings and growth are tax-free when withdrawn in retirement. As with a Roth 401k, we typically recommend the Roth IRA option for young investors who generally are in lower tax brackets today and have longer time horizons to realize the tax benefits of the Roth IRA.

Funds contributed to an IRA or Roth IRA are meant to be long-term savings for retirement. While it's possible to withdraw funds if you need them, all withdrawals prior to age 59 1/2 may be subject to taxation and a 10% IRS penalty.

03 A "NON-RETIREMENT" INVESTMENT ACCOUNT

Tax-advantaged retirement accounts have contribution limits, so diligent savers need another type of account that they can use to save more. An investment account, like a retirement account, offers you a place to save and invest, but there is not a tax preference for using these types of accounts. This means that each year, you will receive a 1099 or other tax reporting document from the custodian, and you will be required to report on your tax return (and pay taxes on) any interest, dividends, and capital gains realized in the account. Other than the payment of capital gains taxes on the sale of a security, there are generally no concerns with withdrawing money from an investment account. Therefore, an investment account can be used to help fund cash flow needs in the event of an emergency, to save and invest for different near-term goals throughout your life, as well as to supplement your long-term retirement savings goals.

04 BALANCE YOUR SHORT- AND LONG-TERM SAVINGS GOALS

While saving for retirement in your workplace plan and IRA are very important, so are your shorter-term savings goals. Perhaps you are saving for your first new car or purchasing your first condo/home – you need to balance your long-term retirement savings needs and short-term goals.

Creating "buckets of money" is a great strategy for balancing your shorter- and longer-term savings goals. For example, let's assume that you want to save $15,000 in your emergency fund (an immediate goal), $15,000 in your new car fund (for some time in the next two years), and $50,000 in your condo down-payment fund (a three to five-year goal). If you open three different accounts or "buckets" for these goals, and we assume that you can save $2,000 per month after your retirement plan contributions are made, perhaps you contribute $1,000 per month to your emergency fund and $500 per month to your other two buckets. When your emergency bucket is filled in about a year and a half, you can then reallocate your savings contributions equally across the other two buckets until your goals are met. You will achieve your car fund goal about eight months later, and you'll achieve your down-payment fund goal about 17 months after that. After you've met all three of your short-term savings goals, you can start allocating more money to your long-term savings goals.

05 "CASH IS KING" JUST NOT FOR THE LONG TERM

Between the Great Recession, the pandemic, and the volatility of the stock market, many young investors believe that cash is their favored long-term investment vehicle. For the long term, this is not a wise investment philosophy. With current interest rates at historically low levels, returns on cash are low. If you are saving for a goal that is two to five years away, there are short-term investments that you may want to consider other than cash, and if you are saving for a goal that is more than five years away you should consider investing those funds. You should consult with a financial advisor to craft a savings and investment plan that caters to both your short- and long-term savings goals.

06 CREATE A BUDGET

Most people don't get excited at the prospect of creating a budget but when setting your savings and investing goals, it is helpful to have a financial plan and a budget to understand how your savings and investing goals impact your current standard of living. You can use our blog "Help! How Do I Create a Budget?" as a resource, and we hope that you find the below Budget Worksheet helpful in analyzing your current living expenses so that you can set attainable savings and investing goals.

BUDGET WORKSHEET

	Monthly	Annual
Daily Living Expenses		
Cell Phone		
Clothing - Client		
Clothing - Co-Client		
Dining Out		
Groceries		
Laundry/Dry Cleaning		
Personal Care		
Public Transportation		
Cleaning		
Household Items		
Other		
Total Daily Living		
Entertainment/Recreation Expenses		
Entertainment (excluding dining out)		
Hobbies		
Movies/Theater		
Vacation/Travel		
Classes/Lessons		
Other		
Total Entertainment/ Recreation		
Child-Related Expenses		
Activities		
Allowance/Expense(s)		
Toys/Games		
Tutor		
Clothing		
Education/Tuition		
Child Care		
Other		
Total Child-Related		
Medical Expenses		
Physicians		
Dental/Orthodontist		
Optometry/Glasses/ Contacts		
Prescriptions/Medication		
Other		
Total Medical		

	Monthly	Annual
Other Payments		
Alimony		
Business Expense(s)		
Care for Parent/Other		
Cash		
Child Support		
Credit Card Payments		
Other		
Total Other Payments		
Miscellaneous Expenses		
Bank Charges		
Books/Newspapers/ Magazines/Apps		
Charitable Donations		
Memberships/Clubs		
Gifts		
Pet Care		
Household Help		
Other		
Total Miscellaneous		
Insurance Expenses		
Disability for Client 1		
Disability for Client 2		
Life for Client 1		
Life for Client 2		
LTC for Client 1		
LTC for Client 2		
Medical for Client 1		
Medical for Client 2		
Umbrella Liability		
Other		
Total Insurance		
Taxes		
FICA for Client 1		
Medicare for Client 1		
FICA for Client 2		
Medicare for Client 2		
Federal Income		
State Income		
Local Income		
Other		
Total Taxes		

BUDGET WORKSHEET

Primary Home Expenses	Monthly	Annual
Description:		
First Mortgage		
Second Mortgage		
Equity Line		
Real Estate Tax		
Rent		
Homeowner's/Renter's Insurance		
Association Fees		
Electricity		
Gas/Oil		
Water/Sewer		
Cable/Satellite TV		
Internet		
Telephone (land line)		
Maintenance - Major		
Maintenance - Regular		
Trash Pickup		
Snow Removal		
Exterminator		
Lawn Care		
Furniture		
Other		
Total Primary Home		

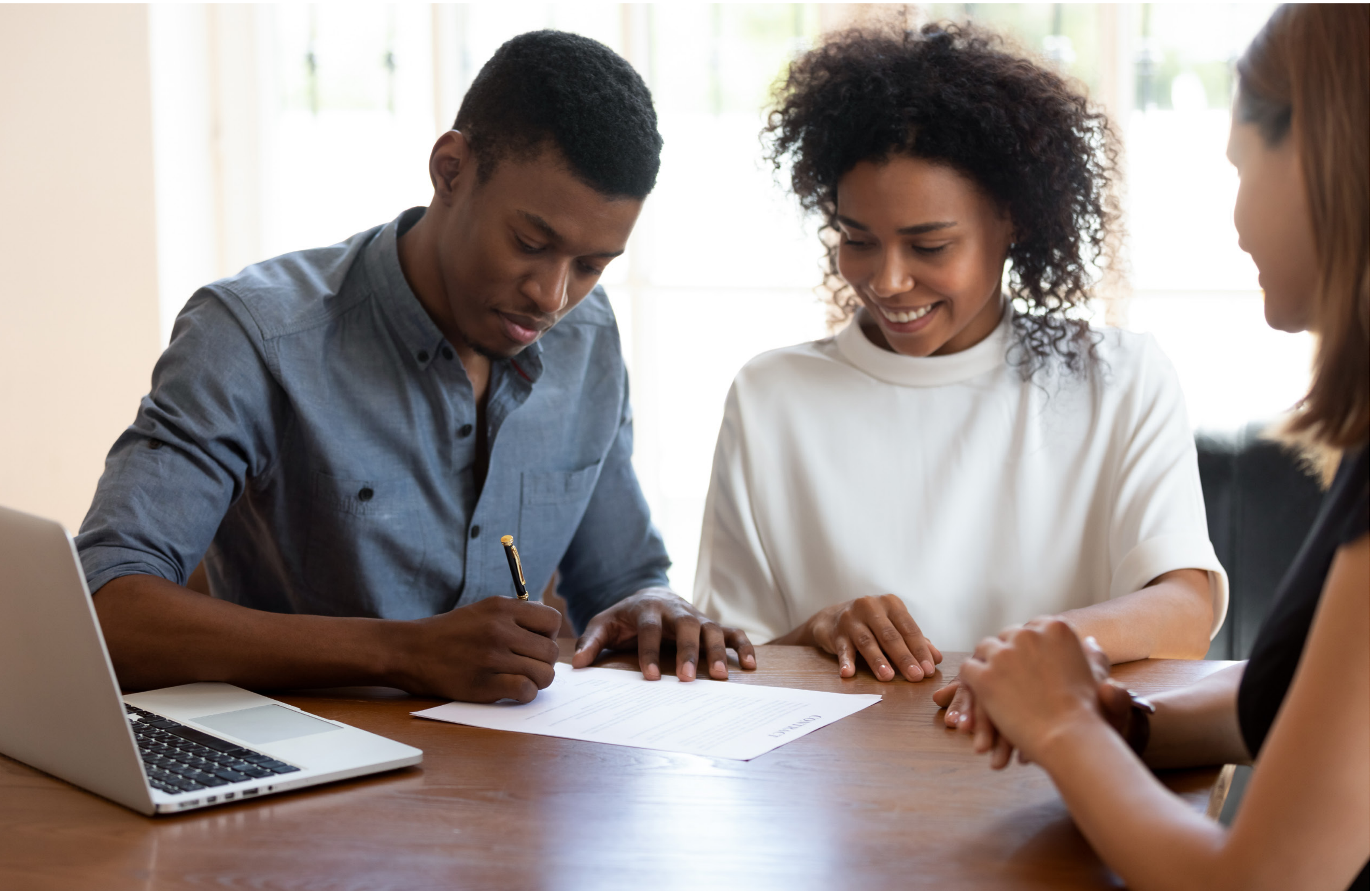
Secondary Home Expenses	Monthly	Annual
Description:		
First Mortgage		
Second Mortgage		
Equity Line		
Real Estate Tax		
Rent		
Homeowner's/Renter's Insurance		
Association Fees		
Electricity		
Gas/Oil		
Water/Sewer		
Cable/Satellite TV		
Internet		
Telephone (land line)		
Maintenance - Major		
Maintenance - Regular		
Trash Pickup		
Snow Removal		
Exterminator		
Lawn Care		
Furniture		
Other		
Total Secondary Home		

Vehicle Expenses 1	Monthly	Annual
Description:		
Loan Payment		
Lease Payment		
Insurance		
Personal Property Tax		
Fuel		
Repairs/Maintenance		
Parking/Tolls		
Docking/Storage		
Emissions/Registration Fees		
Other		
Total Vehicle 1		

Vehicle Expenses 2	Monthly	Annual
Description:		
Loan Payment		
Lease Payment		
Insurance		
Personal Property Tax		
Fuel		
Repairs/Maintenance		
Parking/Tolls		
Docking/Storage		
Emissions/Registration Fees		
Other		
Total Vehicle 2		

Hopefully this guide has provided you with a good foundation for you to get comfortable with investing responsibly. With that said, we are also happy to work with our clients' friends and family to offer advice on how to get started on the right path for your financial future.

Should you have any questions, please do not hesitate to contact our office. If you have a friend, family member, colleague, or client who may benefit from this guide, please do not hesitate to share it with them.



HIGHTOWER
Westchester

440 MAMARONECK AVENUE, SUITE 506
HARRISON, NY 10528

(914) 825-8630

HIGHTOWERWESTCHESTER.COM