

Smart Money: What I tell young people about financial success

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Brad Brain: "One of the privileges of my work is the opportunity to share my thoughts on financial matters with high school classes. Young people have something very powerful on their side: time. But it is also a resource that will quickly fade." | Klaus Vedfelt / Getty Images



One of the privileges of my work is the opportunity to share my thoughts on financial matters with high school classes. Young people have something very powerful on their side: time. But it is also a resource that will quickly fade.

I have lost track of how many times people have said to me, "Why didn't anyone tell me this stuff when I was younger?" If we can get valuable information to people while they are still able to benefit from it, then we are empowering them to do magnificent things in

their lifetimes.

But this information is not beneficial exclusively to young people. Here are my keys to financial success.

The number one key for financial success is to live within your means. I have met many people who have very healthy incomes, but they spend it all, and they are unhappy. I have also met people who have modest means, but they live accordingly, and they are totally at peace.

My second key to financial success is to get started early. Einstein said that compound interest is the eighth wonder of the world. Harness it. The quicker you start, the longer you have to accumulate. Once you are getting gains on top of gains on top of gains, you are rocking.

You might be tempted to wait until the perfect time to start preparing for the future. Don't get suckered into that line of thinking. There never is a perfect time.

When you are young you might be thinking that you are just starting out, so you can't do it yet. Then it might be that you have a young family and a mortgage, so you can't do it yet. Then it might be that you have kids in university, so you can't do it yet. If you wait until the perfect time, you could be waiting for something that never occurs. It will probably not be the ideal time, prepare for the future anyway.

My third key to financial success is to seek appropriate returns from your investments. The potential for return on investment and investment risk are always connected.

If you have a short time frame until you need the money, then you will probably want to emphasize safety and predictability. To try and make big returns in the short term will mean volatility, and if things don't work out the way you hope, it can mean that you are putting your principle at risk.

But if you have a longer time frame, now you can entertain the idea of going after better returns on your investment. With a longer timeframe, your investment can hit a rough patch and you can still be okay, assuming you can give your investment time to recover. And even a small difference in rate of return can have a big impact on what your investment will grow to in the long run.

My fourth key is to avoid unnecessary debt. Money should be our servant, not our master. If you carry a balance on your credit cards, then paying that off is probably going to be your very first financial priority. Credit card interest is brutally expensive.

My fifth key to financial success is to pay yourself first. Set up preauthorized debits so that each month you automatically fund your investments and debt reduction strategies. See if you can learn to live off 90% of your income.

Most people will not really notice the difference in lifestyle today if, rather than spending 100% of their income, they live off 90% of their income, with the remaining 10% put towards their important financial goals. But if they spend all their money today, they will definitely notice it in the future when they want to do things later in life and they have not prepared for it.

Five keys to financial success. Simple, proven, effective. Now, go do magnificent things.

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