As parents, we want what is best for our kids and want to prepare them to be independent and successful adults. Two of my three children are in college now and, from my experience both as a parent and working at DWM, I have learned there are some gaps in the financial education and understanding of money in our young people, including my kids. Money isn't everything and certainly should be kept in perspective related to other pursuits in life. That would be my first tip for the young adults in my life. However, money is a means to an end and it is important for them to understand their own unique balance sheet and learn strategies to successfully manage all the variables that will affect their financial future.

1. **1. Protect and Grow your Most Valuable Asset – YOU!**

One of the most important things for college-age or young working adults to realize is that by far their most valuable asset is themselves! For a young adult, the ability to generate income for the next 40 or so years is their most phenomenal asset. Understanding the value of this asset can encourage them to look for ways to magnify that potential earning power and minimize the risks to it. Will additional education improve that income potential? It is also smart for young people to realize that the future is uncertain.   We need to teach them to prepare for any risks, like economic downturns, that may reduce asset growth or increase their liabilities. This can help them recognize that using resources to maintain adequate disability or life insurance can be as important as insuring your car or home. Creating good habits in saving, tax-planning and budgeting are important to protect against unanticipated variables.

1. **2. Diversify your Assets**

When evaluating net worth, most people tend to think of some of the obvious current assets that you might include – a house or a car, for example. Looking more deeply, though, will show some differences in those assets. This is another area where younger people may need some education. A car's value, for example, should be considered against the taxes, maintenance, gas and depreciation that essentially makes it worth much less over time. Same with a boat. Real estate is usually considered a good asset to offer diversification, if it is appreciating at or above inflation.   An interesting article from the Wall Street Journal notes that as wealth increases, the percentage of net worth represented by a principal residence declines. Young adults should understand that diversification is an important strategy and having a good mix of assets will make you financially stronger, especially over the long-term.

1. **3. Spend Wisely**

In general, a personal balance sheet should include the value of everything you have and everything you owe, even if some of those are intangible. When you put the potential value of a career's worth of income in real dollars in one column against the future costs of loans or other debts, it makes the impact more visible.   This strategy can help spotlight the real costs for student loans, houses, cars, trips, credit cards or luxury purchases. An Investment News article recently quoted a study that found more than half of college bound students had failed to estimate their student loan costs adequately and regretted the decision to take out those loans, once their repayment programs had begun. Certainly, when evaluating the merits of an educational program or even a business investment, it would be smart to consider potential income benefits against the costs for that investment. Weighing the purchase of a new flat screen TV or expensive pair of shoes against the value of income needed to finance that goal might make anyone think twice!

1. **4. Save and Invest Early**

Finally, it is significant for young people to know that they can really maximize the potential on their balance sheet by saving and investing as early and as fully as possible. Learning the value of compounding in real terms can be a wonderful eye-opener and understanding the effect of inflation on a dollar over time can be equally enlightening. Not all saving is created equal. A penny saved is worth more than a penny earned, when you factor in taxes and compound interest! It is important to maximize retirement investments and practice the "pay yourself first" philosophy of saving and investing to create a good financial plan.

Also, young workers should be encouraged to immediately sign up for employer retirement plans, like 401(k)'s, and to maximize their contributions to take advantage of any match programs offered by their employer. If their job doesn't offer one, opening an IRA or Roth IRA might be a good solution. Starting a Roth at a young age allows the investor to take advantage of making after-tax contributions while in a lower tax bracket and creating an account that can grow and offer tax free funds for use later in life. As an example, a 25 year old who makes the maximum allowable annual contribution of $5,500 annually to an investment vehicle that averages a 5% return could have around $700,000 by the time they are ready to retire.

The biggest lesson that our kids and other young adults should be taught is that the most important key for success in wealth management, as in most things, is **discipline**. We love to educate our clients and their families. Please let us know if we can help teach your kids good financial habits.