

# Ten Sound Money Management Principles for Students

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# Money Management Principles

- Are timeless and time-tested
- Apply to everyone
- Work well in up & down economies
- Help people grow wealthy over time



# 1. Set Goals

- Goals provide a “why” for saving
- Use goals to develop action plans
- Break goals into benchmarks
- Make your goals SMART
  - Specific
  - Measurable
  - Attainable
  - Realistic
  - Time-Related



## 2. Time Is Your Friend

- Time: a young person's biggest asset
- Compound interest is awesome
- For every decade that savings is delayed, the required investment triples
- **Example:** \$500,000 at 65; 10% yield
  - Age 25: \$ 79 per month
  - Age 35: \$ 219 per month
  - Age 45: \$ 653 per month
  - Age 55: \$ 2,141 per month



# More About Time

- Time diversification reduces investment volatility
- The Rule of 72
  - $72/\text{interest rate} = \text{doubling period}$
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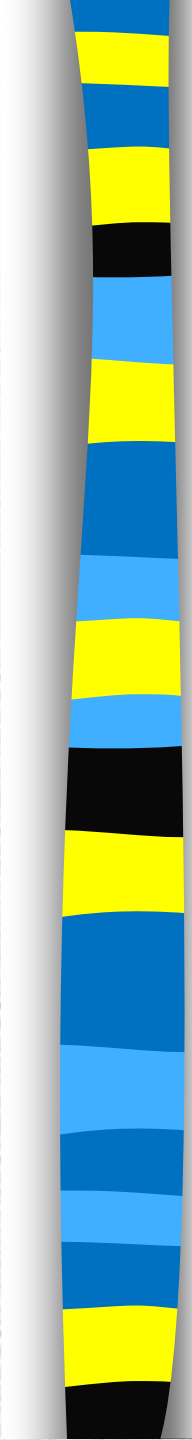
## 3. Live Below Your Means

- Spend less than you earn
- Create a Budget
  - $\text{Income} = \text{Fixed Exp (including savings)} + \text{Flexible Exp} + 1/12 \text{ of Occasional Expense}$
- Distinguish needs from wants
- “Step-down principle”
- Automate savings so money isn’t spent
- [http://www.bettermoneyhabits.com/en/videos/set-budget-stick-to-it.html?cat=saving-budgeting#fbid=vo0Vum\\_5hFg](http://www.bettermoneyhabits.com/en/videos/set-budget-stick-to-it.html?cat=saving-budgeting#fbid=vo0Vum_5hFg)



## 4. Establish Emergency Fund

- Aka contingency fund
  - Online savings accounts
    - No minimum
    - FDIC insured
    - Linked to checking account
  - HSBC
  - ING & many others



## 5. Pay Yourself First: Automate Your Savings

- Tax-deferred employer plans
  - Get full 401(k) match from employer
- Employer credit unions
- Mutual fund Automatic Investment Plan
- Direct stock purchase plans





## 6. Buy Insurance According to “The Large Loss Principle”

- Magnitude- not frequency- of losses
- Increase deductible to save \$
- Spend premium dollars on large potential losses:
  - Liability
  - Disability
  - Destruction of home
  - Large medical expenses
  - Loss of household earner’s income



## 7. Repay Debt Quickly and Borrow For Less

- Consumer debt ratio < 15% of net pay
- Consumer debt + housing < 50% of net
- High debt makes other problems worse
- Negotiate lower interest rates
- Always pay more than the minimum
- Avoid “perma-debt”
- Pay promptly to avoid late fees
- Family Life Center PowerPay analysis



## 8. Buying House/Vehicle

- Don't buy more house than you can afford (Subprime mortgage meltdown)
- Don't buy before you are really ready for the financial commitment
- Buy new cars every 8-10 years or buy "new used"



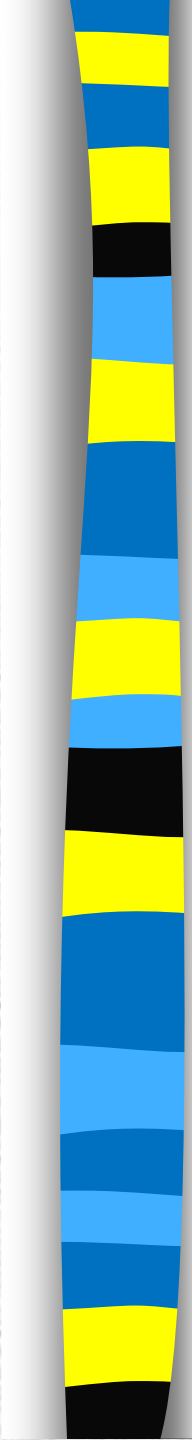
## 9. Be Student Loan Savy

- Know your repayment options
- If possible continue to pay interest on unsubsidized student loans while in deferment
- Research employer benefits and possible education reimbursement programs
- Deduct your student loan interest – based on income qualifications



# 10. Review! Monitor! Review!

- Review your budget and financial goals
  - Budget (monthly)
  - Financial goals (annually)
- Track goal progress (annually)
- Least common practices
  - *Not having a will*
  - *No written financial goals*
  - *No written budget*
  - *No net worth calculation*



# Avoid Common Mistakes of Young Adults

- Buying a house before you are ready
- Buying too much house
- Putting too much \$ into vehicles
- Keeping a balance on your credit cards
- Waiting to invest for retirement until...
- Not considering the cost of kids
- Spending too much on eating out



# Resources

- PowerPay Debt reduction computer analysis <https://powerpay.org/>
- Kiplinger's Personal Finance Magazine
  - Kiplingers.com
- Budgeting Apps
  - Mint
  - Bank
  - Investment Firm
- Money Magazine
  - Money.com



# Closing Thought

*"It's not your salary  
that makes you rich,  
it's your spending  
habits."*

Comments? Questions? Experiences?



**Thank You**



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