YOUR FUTURE CLIENT'S FUTURE

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MILLENNIALS MAY BE IN FOR A RUDE AWAKENING

In sharp contrast to older Millennials, the class of 2017, in many ways, couldn't have graduated and entered the workforce at a better time. The jobless rate is at a 17-year low, with a record six million open jobs. The economy is strong, and while no one has a crystal ball, all signs point to it staying that way for the foreseeable future.

Having watched their older siblings and peers – those who graduated in the midst of the 2007-2009 recession – struggle with unemployment and underemployment, it's no surprise that younger Millennials are more pragmatic about which college majors they pick and are overall savvier about money.

And yet, every generation makes at least one big mistake when it comes to their finances, and Millennials are no exception.

When Millennials think of "investing," they think of Betterment, Wealthfront, Acorns, and the proliferation of other robo-advisors that have flooded the market over the past decade. Like many investors, Millennials who pour their assets into passive index funds may think they're getting the best of both worlds – getting strong returns while paying little to no fees – but they may be in for a rude awakening.

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With passive investing, you're going to get what the market gives you – and right now, returns mirror the all-time-high market accordingly. However, passive investing generally has no plan to protect against losses. Not only would the next market downturn, whenever it happens, disproportionately impact those Millennials who invest exclusively in passive indexes – it could be enough to scare them from investing during the market recovery, when returns can be the most powerful, and during their prime earning years.

What's a recent grad, who thinks "Betterment" is synonymous with "investing," to do?

Don't put your 401(k) on autopilot

Many companies automatically enroll employees in their 401(k) or other retirement plan, setting them up to contribute a small percentage – say, 3% – of every paycheck. That's certainly better than nothing, and it's true that many recent grads aren't able to max out their 401(k)s just yet. But many could be allocating a greater percentage of their paychecks to their retirement or emergency fund savings, especially if they take a close look at their expenses and consider what they do and don't need to spend money on.

Those new to the workforce also may not realize that they don't have to use the standard allocation their 401(k) is set to by default. The only way to avoid making costly financial mistakes is to know what you own – and from the very beginning, recent grads need to understand what they're investing in through their 401(k)s. It's important to learn about mutual funds, stocks, bonds, ETFs and other investment vehicles, and to adjust your 401(k)-allocation based on that knowledge.

Accumulate knowledge from every possible source

Despite what robo-advisors will have you believe, nothing can replace getting personalized financial advice from a real person. However, finding a financial advisor when you're just starting out is easier said than done. Some financial advisors will work with their clients' children, and others specialize in working with young professionals.

There's also no replacement for reading about investing and establishing a baseline of knowledge on your own. And there's never been more financial education resources available online for free – just make sure to consult a variety of sources to ensure you're not unintentionally picking up any biases or misinformation.

Take your time

Truth be told, now probably isn't a good time to start investing in the stock market if you're going by the book. Consider that a core tenet of investing is to buy low and sell high – but with the market currently at record highs, that simply isn't possible. It may seem counterintuitive, but the best time to put your money to work is when the market is down substantially. Contributing to a 401(k), creating an emergency fund that can cover at least six months' living expenses, and grasping the basics of investing will put recent graduates far ahead of the curve. I believe, Once the market is down at least 50%, that would be a better time to start investing.

Most recent graduates will be working for the next four to five decades. They have more time than anyone to prepare for retirement, and although investors can be more aggressive when they're younger, a steady, risk-mitigated strategy beats an aggressive one with no loss mitigation any day of the week.

Just as you can't build a house without a foundation, you also can't buy a house without a foundation. If I had to give the class of 2017 one piece of advice, it would be to begin laying the foundation of a healthy financial future from day one. Although getting married, having kids and owning a home might not be your priorities right now, you need to enact a plan for reaching those milestones – or whatever you want out of life – today, not tomorrow.

IMPORTANT INFORMATION