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YOUR FUTURE CLIENT'S FUTURE

PART THREE

THE X, Y, AND Z OF YOUR FINANCIAL FUTURE

Earlier this year, I gave the graduating class of 2017 some advice as they navigate the world of finance and investing for the first time. By now, many of those graduates have settled into their first jobs and are getting a handle on new responsibilities like paying rent, bills and (most likely) student debt. They may be encountering expenditures that they weren't anticipating but that come with starting a career and becoming independent. Many are probably wondering whether they'll ever manage to scrape together enough money to start saving and investing.

For recent graduates in this situation, it's important to consider not only your current job but also your potential career path – and make sure you're on one that has longevity and will reward you for hard work. This summer, members of Generation Z – those born in the late-90s and early-00s, right after Millennials – entered the workforce for the first time. While Millennials embarked on their careers looking for passion and a sense of purpose, Gen Z's top motivators are money and security. They watched Millennials struggle through the Great Recession and don't want to make the same mistakes, and they're much more pragmatic about their careers as a result.

The class of 2017 may not be able to invest much (or anything) yet, but they can (and should) invest in themselves. Broadly speaking, Gen Z has a more realistic attitude towards work than Millennials, but that doesn't mean they should come in at 9 AM, punch the clock, and leave at 5 PM on the dot. The early years of your career are critical in gaining knowledge, building your skillset, and adding value to your employer – who will, in turn, add value to your bank account. Doing the bare minimum, and getting a standard 3, 5 or 7% raise as a result, will only help you pay the bills. It won't move the needle enough to start building stability from a financial perspective.

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The one area where recent graduates should begin investing as soon as possible is their 401(k) or other employer-sponsored retirement savings plan. Although more than a third of Millennials do not contribute to a 401(k), a recent Wells Fargo study found that those who do are on track to save more than Gen Xers and baby boomers. Gen Z needs to follow (and improve upon) Millennials' example by opening 401(k) accounts if their employers offer them and contributing right away.

But here's the kicker: many people consider a 401(k) a "set-it-and-forget-it" investment vehicle, but it's not. Many companies automatically enroll their employees into their 401(k) programs, contributing a very small percentage of their income. While that's certainly better than nothing, anyone who can afford to save more should. Soon, members of Gen Z will be receiving their first annual bonuses. As tempting as it may be to spend it all, they should be investing and saving at least half of it.

Gen Z and Millennials also need to understand what they're investing in through their 401(k)s. For younger employees, some company plans are by default overweight in certain segments of the market that are extremely risky. Although borrowing from your 401(k) isn't a decision that should be made lightly, you may find yourself in a situation – such as wanting to buy a home or having a medical emergency – that merits it. If your 401(k) is unnecessarily aggressive, you may find that you've actually lost money and have less to borrow from than you thought.

The only way to understand what you're investing in is to educate yourself. First, find out what exactly your 401(k) is comprised of – what portion is allocated to stocks vs. bonds, domestic vs. international, which sectors, etc. Do your research, but make sure to read several reliable sources and talk to different people. Talk to your parents; if they have a financial advisor, talk to him or her; talk to the advisor in charge of your company's 401(k) program. But remember that there's no one person or source that has all the answers – it's up to you to parse through the information and figure out what's true and what's not.

The biggest thing holding people back from achieving financial independence is a lack of understanding and, as a result, fear. Millennials are unnecessarily risk-averse when it comes to investing. Just one in three invest in stocks, and those that do invest in what they know – namely, tech companies like Apple, Facebook and Tesla. There's nothing wrong with investing in these companies in moderation, but you can't stake your entire financial future on their success. Most of the top tech companies are overly reliant on consumer spending – they sell discretionary goods or ads. As I've written before, Snapchat's parent company, Snap Inc., is especially popular among Millennial investors. But can companies like Snap and Facebook, whose entire business models revolve around advertising, survive the next recession?

So, Gen Z, my advice for you as you transition into adulthood is to invest in yourselves. Invest in your professional development; invest in your understanding of finance; invest in your 401(k). The sooner you start familiarizing yourself with the basic tenets of investing, the sooner you'll be able to start building wealth once you have the extra income to do so. The only way to eliminate fear – about your job and about the future – is to acquire knowledge.