Scary stressful made hopefully less scary stressful

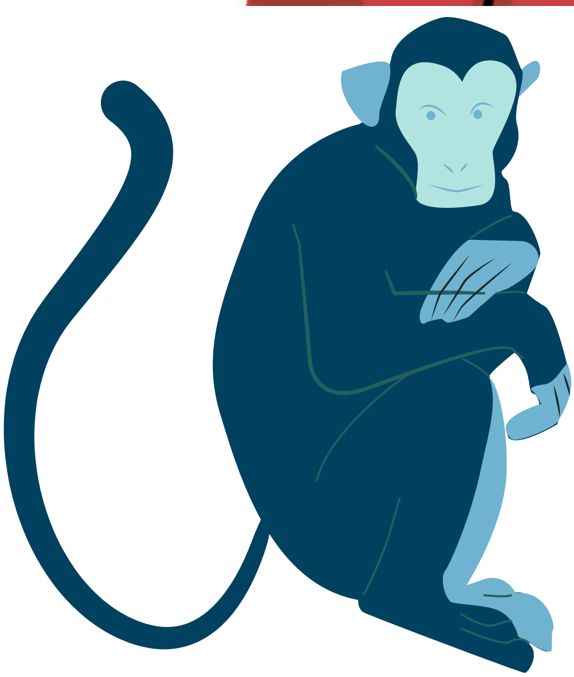
EARLY 20'S FINANCIAL STUFF

INFORMAL ADVICE ON FINANCIAL STUFF IN YOUR EARLY TWENTIES FOR KIRA'S FRIENDS

BY KIRA GABRIEL

THIS IS ME, YOUR MOSTLY DINGUS FRIEND, KIRA GABRIEL

this is a drawing of
me when I was 18,
back when I took
myself Very Seriously
>:(



And while a lot of things I say are nonsense, I do weirdly know a bunch about basic, no-nonsense, personal financial decision making. So this booklet is to (hopefully) help guide you through financial decisions in your early twenties

WARNING:

KIRA IS NOT A FINANCIAL ADVISOR, OBV, SO PLEASE TALK TO YOUR PARENTS/GUARDIANS/FINANCIAL ADVISOR/THE INTERNET BEFORE MAKING ANY BIG MONEY DECISIONS.

•TOO LONG; DON'T WANNA READ•

BLECH TOO MUCH INFO

Just the highlights

- [ ] Read page 8
- [ ] Read page 16
- [ ] Read page 23 (if you have student loans)
- [ ] Read page 31
- [ ] Read page 39
- [ ] Complete page 43

TABLE OF CONTENTS

WTF IS

CREDIT

a bit of finance background

THE BASICS OF CREDIT

"Credit" is a measure of financial trustworthiness

You (ya, you) have a personal **credit score** that is a reflection of your financial trustworthiness

You also have a **credit history** of all your payments, loans, credit cards, etc etc

You prove that you are financially trustworthy by borrowing money and paying it back quickly and reliably

Being financially trustworthy means lenders will charge you less to borrow their money (which is good)

THE NITTY GRITTY OF CREDIT

People loan you money all the time!

like your student loans, or
every credit card purchase

BUT banks don't want to loan you their money for free

especially if they're not sure you can pay it back

So the bank charges you a percentage of whatever money you borrow, called the **interest rate**

% % % % % % %

The percentage they charge you depends on your **credit score**

(next page!)

THE DOWN & DIRTY ON CREDIT SCORES

it's a ~spectrum~

Your “credit score” is a number that points to a spot on that spectrum, indicating how financially trustworthy you are

Uhh this person will probably not pay us back

Oh yea, this person will def pay us back

Lots of things go into your credit score (too many things, honestly), like whether you pay back money loaned to you, how quickly you pay it back, how long you have been borrowing money, how many credit cards you have (more than like 3 is too many), and how much debt you have

QUICK AND EASY MATH

You need to pay back the loan + the interest

Bad Credit	Good Credit
Uh this person will probably not pay us back	*Oh yea, this person will def pay us back*
It *is* risky to loan to this person, so the interest rate is *high*	It is *not* risky to loan to this person, so the interest rate is *low*
Interest Rate: 10% Loan Amount: $1000	Interest Rate: 2% Loan Amount: $1000
= Initial amount + Initial amount x Interest	= Initial amount + Initial amount x Interest
=1,000 + (1,000 x .10) =1,000 + (100) =1,100	=1,000 + (1,000 x .02) =1,000 + (20) =1,020

So you pay $100 or $20 for the same thing

TL;DR: IT'S CHEAPER TO HAVE A GOOD CREDIT SCORE

VERY IMPORTANT YET SEEMINGLY UNRELATED

Your credit score is tracked by your Social Security Number

Which is why it is bad if someone gets your SSN

*aka **identity theft***

They can open bank and credit accounts, quickly fuck up your credit score & put you in debt

And there is literally no good or easy fix

you can't just get a new number!

so don't give your number out to anyone who isn't your employer or doctor!

(it's tied to your insurance too)

IF YOU CARE

Skip this if you're not interested in finance theory

The logic behind personal loans is exactly the same as the logic behind any other investment (like stocks). The riskier the investment, the more incentive the investor needs to put money in it. For example, you'd want a higher return on investment to invest in Tesla than you would for investing in Disney, since Disney is a much safer/less risky company (meaning its future is much more certain than Tesla's). In the same way, you'd want more money back for investing in Kira (a 22 year old who has never paid back a single credit card bill ever and has thousands of dollars in debt) than in Tessa (a 23 year old who has never been late on any loan payment ever).

That's why interest rates are so much higher for people with bad credit; it's not because people think it makes sense that poorer people need to pay back more, it's because investors won't loan money to financially riskier people without higher compensation for taking the risk.

and as usual, being poor is incredibly expensive

IN CONCLUSION

IS THE CREDIT SYSTEM FAIR?

nope

DOES THE SYSTEM NEED TO BE CHANGED?

probably

DOES IT MORE OR LESS WORK?

yep

DO YOU STILL WANT A GOOD CREDIT SCORE?

most definitely-
besides impacting your interest rate, it can affect your housing & employment

SO HOW DO I INCREASE MINE?

by taking loans out and paying them off, like your credit card bills and student loans

SMOOTH TRANSITION TO

CREDIT CARDS

please enjoy responsibly

THE BASICS OF CREDIT CARDS

You **need** to get one

They help you build credit
(so you can buy a home or car or whatever later)

The have **much** stronger protections against fraud and theft than debit cards, cash, or checks

You get points/cash back/rewards
(aka free money)

Do not spend more money than you have
(treat it exactly the same as a debit card)

Pay the bill off entirely at the end of every month
(so you don't get charged interest)

Google "NerdWallet Credit Card Quiz" and pick a dang card already

A VERY IMPORTANT NOTE

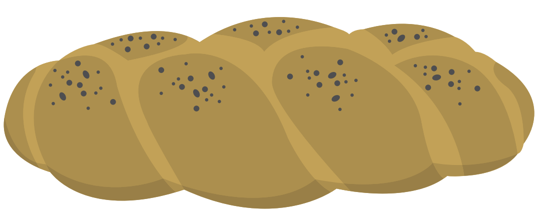
CREDIT CARDS DO NOT CHARGE YOU INTEREST IF YOU PAY THE FULL BILL

BUILDING CREDIT...

Credit cards are **incredible** when used responsibly

Every time you buy a cheeseboard and two mules with Dena and charge them to your credit card, you are basically getting a micro-loan from Chase bank (and by you, I obviously mean me).

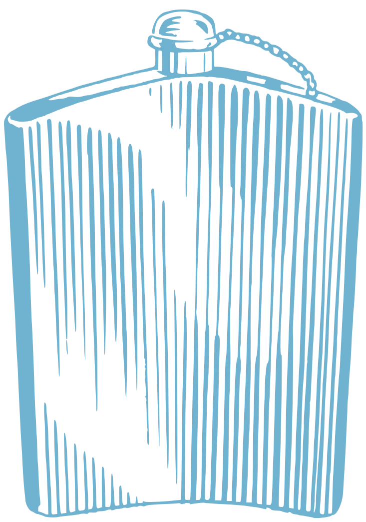
That's why money doesn't leave your bank account until you pay your credit card-- because you've spent Chase's money, not your own money.



So when you pay off your credit card bill, you are paying back lots of micro-loans which is great for building your credit!

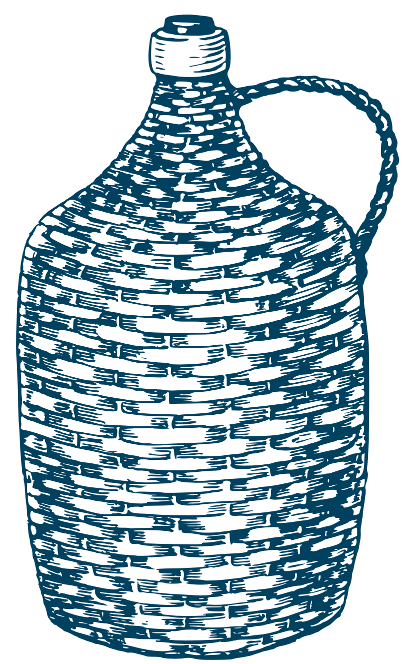
...NOT DEBT

"Everything is good in moderation"



Generally, it is best to treat your credit card like a debit card-- **pay the card off in full** every month to avoid getting charged any interest, don't spend money you don't have, think of it as cash, etc etc.

But if that's impossible, make sure you **pay the minimum payment every month** to avoid dings on your credit history and higher interest rates (the rates are already 18% to 23%!).



banks want you to get trapped in debt and pay interest forever-- don't let The Man win!

THE PERKS

They are very safe

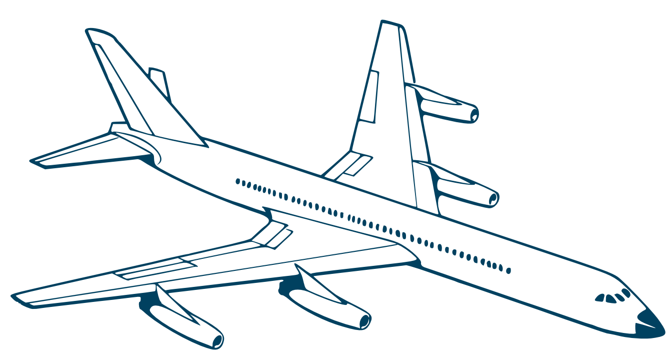
They are much safer than debit cards, cash, or checks.

Big banks are better at protecting their money than you are at protecting yours. Since their money is actually spent, if your card gets stolen or you get mischarged, the big bad bank will help.

They'll stop payment vendors who you say ripped you off, cancel a missing card quickly, and not make you pay for whatever was charged if your card gets stolen.

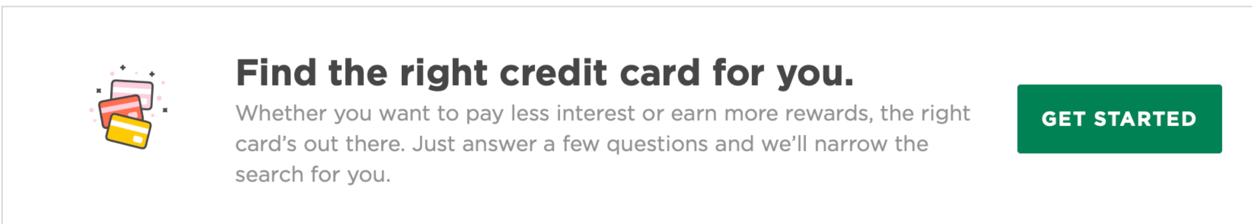
They give you free money

Many cards have cash back, points, rewards, etc etc-- it's literally free money if you use your card for stuff you would buy anyway



RECCOMENDED CARDS

1. Google "NerdWallet Credit Card Quiz"



2. Capital One Savor Card (general)

- $95 dollars a year after the first year
- 4% back on dining/entertainment, 2% at grocery stores, 1% on other
- $300 back if you spend $3000 in the first 3 months
  (*only* good if you spend that much in three months anyway, or when you plan to spend a lot)

3. Chase Sapphire (travel)

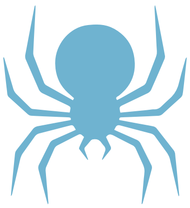
- $95/year
- 2 points/dollar spent on travel/entertainment, 1 point/dollar for other
- You can spend points on things like flights & hotels
- No foreign transaction fees when you're abroad-- get one for trips!
- 60,000 points if you spend $4,000 in the first 3 months
  (*only* good if you would spend that much in three months anyway, or when you plan to spend a lot)

OK SO

STUDENT LOAN DEBT

how to deal with a shockingly terrible thing

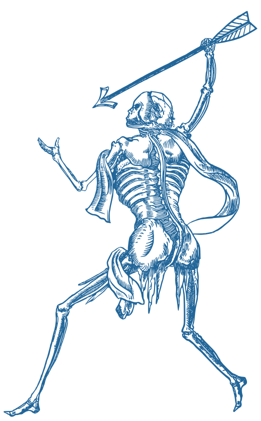
THE BASICS OF STUDENT LOANS



Set up the AutoPay option

Try to overpay as frequently as possible

Do not miss a payment



Do not change your loans from the ones you got from your school

(aka all those robocalls about your loans)

If you absolutely must miss a payment, apply for a deferment or be in grad school

Vote the Bernie/Warren ticket of our dreams

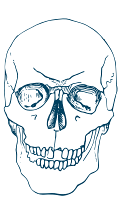
GOOD THINGS ABOUT STUDENT LOANS

1. Paying off your loans on time and in full is very good for your credit

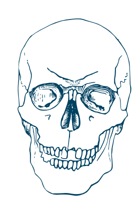
2. We loved college!

VERY IMPORTANT NOTE

YOU CANNOT DECLARE BANKRUPTCY ON STUDENT LOAN DEBT

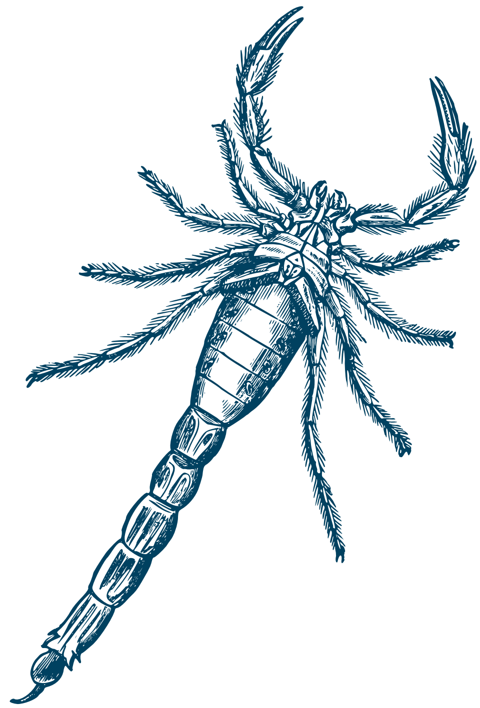


which means you can literally never get rid of it until you pay all of it



PAYING YOUR POUND OF FLESH

Set up AutoPay



It gives you a lower interest rate & you are less likely to miss a payment

Overpay

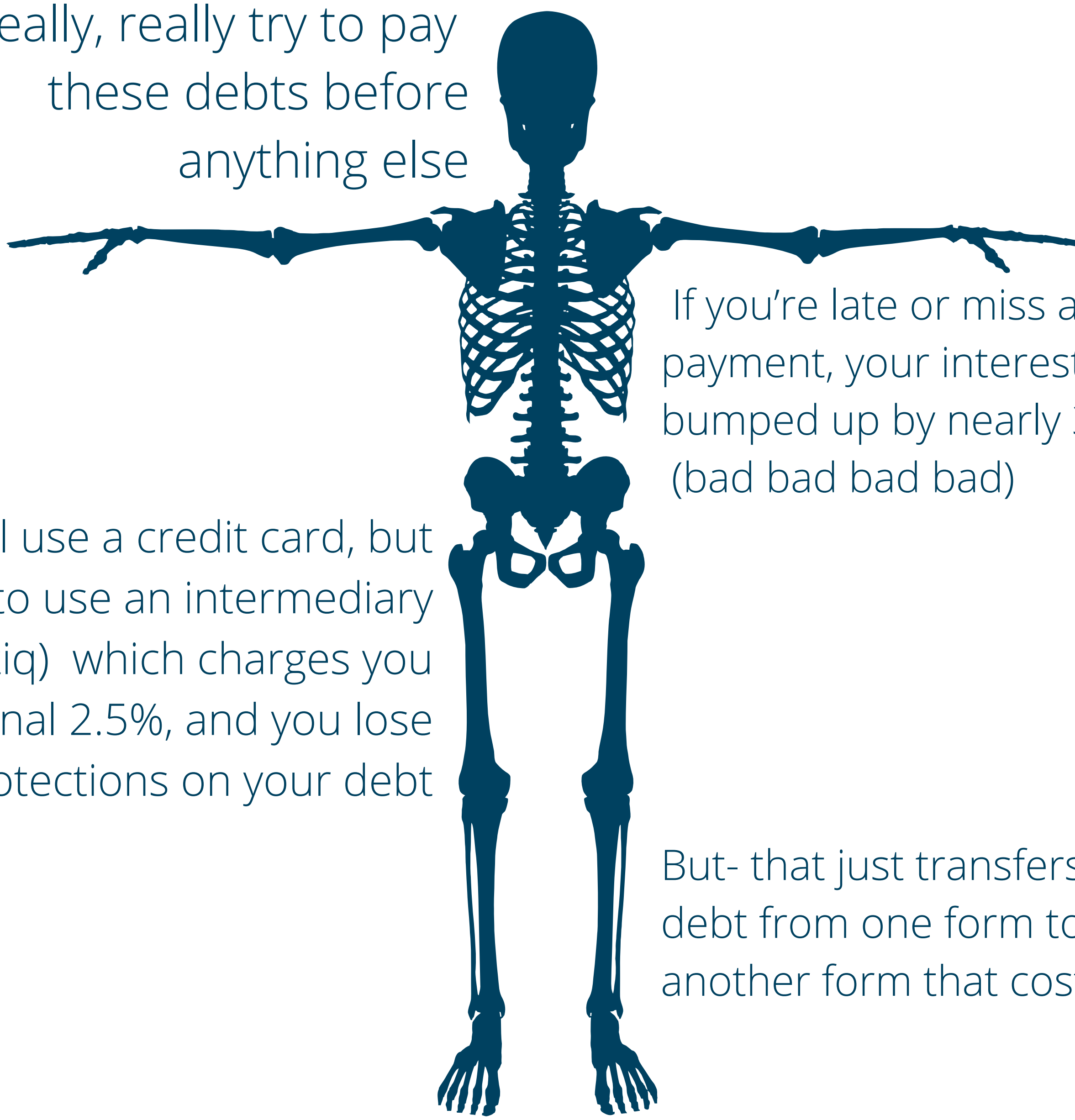
Overpay the bill every time you can

The faster you pay off your debt, the less you'll have to pay (because the interest will have less time to compound)

IF YOU'RE IN A TIGHT SPOT

Warning: We are now stepping out of solid theory and into Kira's non-certified advice

really, really try to pay these debts before anything else



If you're late or miss a payment, your interest can get bumped up by nearly 30% (bad bad bad bad)

You can still use a credit card, but you need to use an intermediary (like Plastiq) which charges you an additional 2.5%, and you lose some protections on your debt

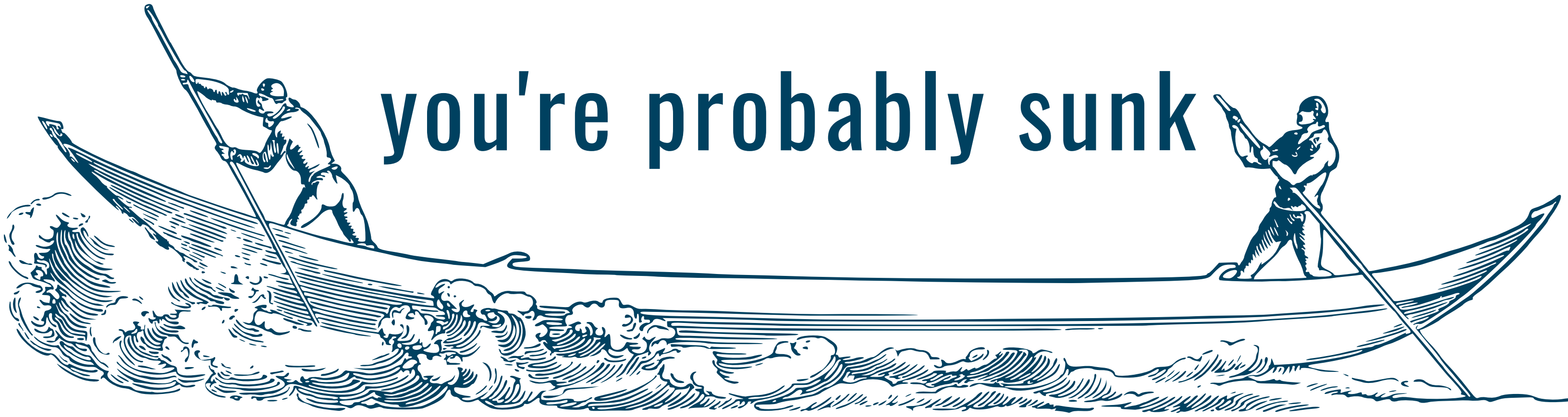
But- that just transfers your debt from one form to another form that costs more

Look, this whole thing is a **really bad deal; do your best to not get behind**

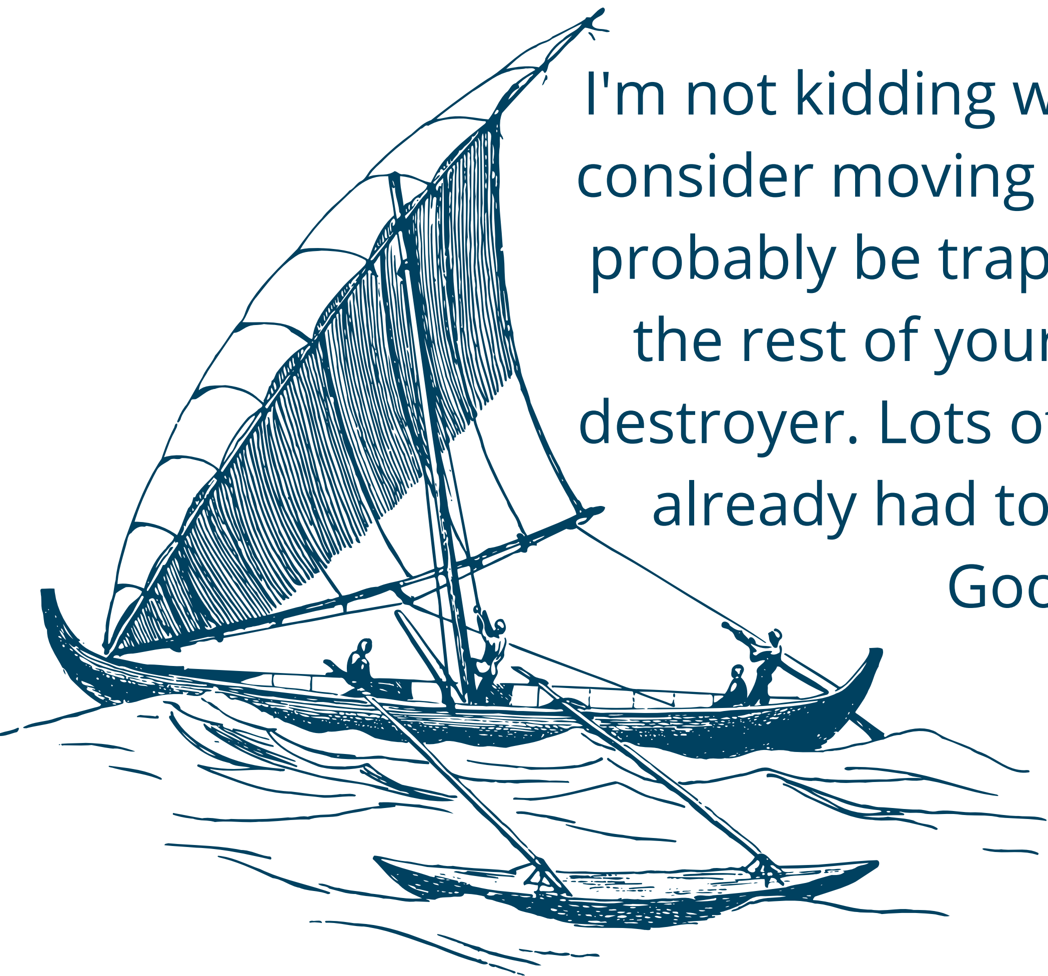
IF YOU'RE SUNK

If you owe more money at the end of the year than you did at the begining of the year--

you're probably sunk



I'm not kidding when I say: Seriously consider moving out of the US. You'll probably be trapped in this debt for the rest of your life, and it's a life destroyer. Lots of college grads have already had to move. Seriously, Google it.



IF YOU CARE

Skip this if you're not interested in Kira's rant

I know I've been making lots of jokes about how evil student loans are, but really and truly, they are pretty high up on the list of terrible things the US has done to its young student citizens. Incredibly expensive schools (Scripps...) offer students government subsidized loans. And, oh by the way, that same government mandated that you cannot declare bankruptcy to get rid of them (meaning even if all of your other debt is cancelled, you will still have to pay them off). That incredibly valuable debt (because it's guaranteed to pay out until the person dies) is sold off to debt collectors who can harass you and your family, take money from your paycheck, and frequently "lose" payments so your interest rate gets bumped up to absurd levels. Trapping young, educated people in lifelong debt is not only evil forced on individuals, but poison in the overall economy.

I personally think there is going to be a massive market correction where overpriced schools go bankrupt, the education sector finally gets reined in, and we have a recession á la 2008.

WE'RE GONNA

LIVE FOREVER

RETIREMENT

and it's going to be expensive as hell

Ok: We are now stepping back into solid theory but still Kira's non-certified advice

THE BASICS OF RETIREMENT

If you have the option, put **as much money as possible into** a 401k

(or at least as much at your company will match)

You **need** to start a **Roth IRA**

Throw literally whatever you can at those accounts now

(srsly, one $10 deposit now will be $150 when you’re 65)

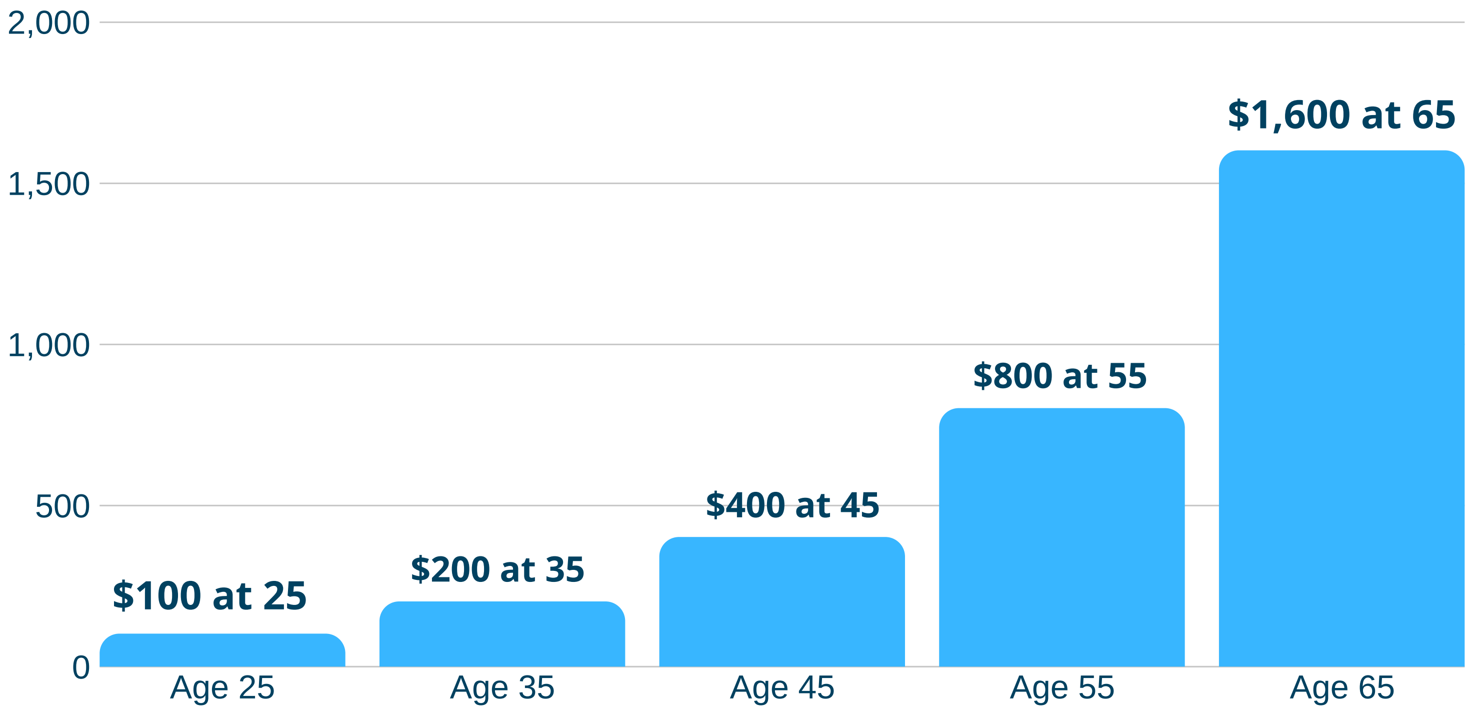
Make sure you go for high risk/high return portfolios while you are **young**

THE POWER OF COMPOUNDING

Compounding interest is ***insane***

Basically, figure your money doubles every ten years

which is a little on the higher side of very normal returns (around 7.2%)



Your money does **most of the growing** in the ***last* 10 years**

So it's really, really, really important you save *now*

QUICK MATH ON COMPOUNDING

ok, one more graph to show you how important saving when you're young is

this is the last math thing, i promise

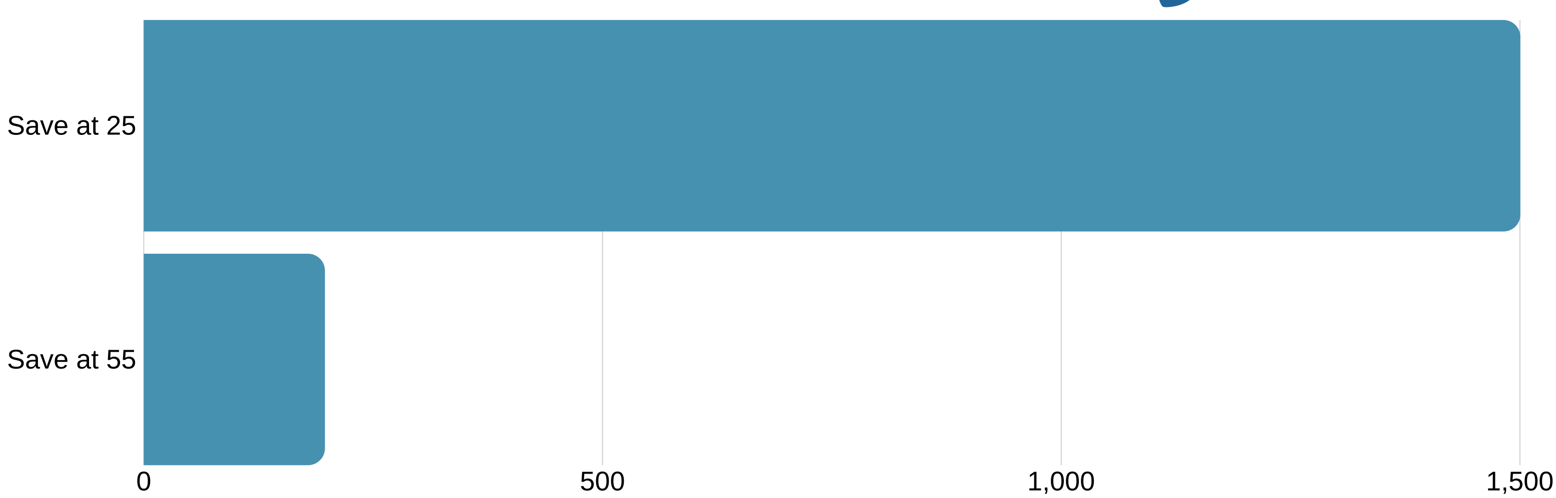
If you save $100 when you're 25
with 7% interest

→ $100(1+.07)^{40} =$ ***$1,500***

If you save $100 when you're age 55
with 7% interest

→ $100(1+.07)^{10} =$ ***$197***

which looks like this



saving at age 25 gets you nearly ten times the amount of money when you retire at 65

TYPES OF RETIREMENT ACCOUNTS

401k vs Roth IRA vs IRA

401k

An *Employer Sponsored* Retirement Account

Money from your paycheck goes into this account
This money needs to be moved when you change or quit jobs.
Get a Roth 401k if they have it (see Roth details below!)

Roth IRA

An *Individual* Retirement Account

A personal retirement account you put money from your paycheck into
You do not pay usually taxes when you withdraw

IRA

An *Individual* Retirement Account

Same thing as the Roth IRA, except whatever money you deposit is not taxed in this year's income, it's taxed when you withdraw

for more info, I can put you in contact with my accountant mother

SOO WHICH DO I GET?

☑ Roth 401k

Frequently employers will match the first 3%-5% of your paycheck that you contribute (free money!); so put in *at least* the amount your employer matches. It's a hassle when you quit/change jobs, since this money will need to be moved to a new 401k or Roth IRA. If no Roth option is available, just get a 401k.

<u>If you leave a job, make sure you:</u>

- Transfer the money broker to broker to avoid fees
- Keep your final paycheck
- Keep a 401k statement (so you don't lose track of it)

The max yearly contribution is $19,000

☑ Roth IRA

If you want, text me & I can explain why, or you can Google it, but Roth IRAs are better than standard IRAs. Basically the rules around it are more lenient and you generally don't have to pay taxes when you withdraw. I use Vanguard's.

The max yearly contribution is $6,000

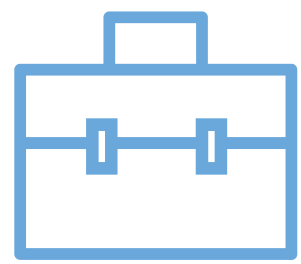
•IF WE'RE LUCKY•

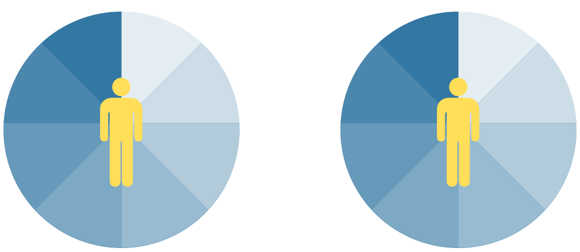
UHH... YA, NOT GONNA SAVE $25,000 THIS YEAR

If you don't have a 401k option, just stick as much money as you can in a Roth IRA

Ok, so, it's a touch complicated to get the most bang for your retirement buck, but stay with me.

First: put the amount of money your employer will match into your 401K (usually like 3% - 5% of your salary) bc free $$





Then: max our your *Roth* IRA (*not* IRA)

Lastly: with whatever money you have to save left, put into your 401k.

note!

make sure in your 401k you choose funds that **are not** actively managed! but use index funds in like a 60/35/5 split of domestic equities/foreign equities/bonds (don't worry, info on index funds is coming up)

#RISKITFORTHEBISCUIT

For now, go for "aggressive growth" portfolios

Aggressive growth means you are taking on higher risk investments for a higher return

When you are young, higher risk investments are suitable

since you won't use this money for years

you will have time to bounce back from any setbacks (aka losses)

As you get older, you will need to move to less aggressive (aka less risky) portfolios

since you will need to use the money soon

and won't be able to ride out any sudden big losses

TL;DR: Have aggressive growth & riskier investments now, less aggressive & risky later

LEGAL GAMBLING

INVESTMENT

seems scary but is mostly okay

THE BASICS OF INVESTMENT

Kira is not responsible for lost money pls don’t sue her she is your friend (all investments have risk!)

Invest in an Index Fund!!

(also called ETFs)

Own lots of different stocks in lots of different industries (diversify!)

Watch for your own investing biases

(Google "8 investor biases")

Play the long game

Think long term, don't stress about daily changes (even really big, scary changes!)

A LITTLE BIT OF EVERYTHING

Invest in an Index Fund

Index Funds are where you basically buy a single stock that contains a small amount of the top 500 or so companies, and you scoop up the combined returns

So if a company you're invested in goes under, you're okay because you have lots of other companies to balance it out & reduce risk (that's called **diversification**)

The market has returned about 10% per year for the last 20 years (not including inflation), so it's been a pretty good deal

Basically, you can put your money in here and not think about it for years

I'm using Charles Schwab's index fund, but just Google "Best Index Funds" and pick one

IF YOU CARE

Skip if you don't care about the theory behind index funds

There are lots of very smart people in the world who spend their entire lives trying to beat the stock market and spend billions of dollars on research, and you, Kira's sweet friend, probably don't want to do that.

Luckily for you, anytime those capitalist pigs buy/sell/trade based on expensive research, they add that information into the market via the prices they are willing to pay (don't worry about it, it's weird econ theory, I can explain in more detail later if you want).

Sooo the best things you can do are:

1. Protect your self from specific company/industry failures (idiosyncratic risk)
2. Get strong, consistent return on investments without paying fees to a banker you'd probably hate if you knew and who won't make you enough money back to justify their fees (idiot-ego-maniac risk)

So definitely at least get an index fund

IF YOU CARE

Skip if you don't care about playing the stock market

The two things I remember from my finance class are

1. There is a pension crisis on the horizon
2. You will literally never beat the market

So I don't really have specific advice on stocks

But, your general mentality should be:

I'm young, I can bounce back

1. Go for higher risk/higher reward stocks (aggressive growth) while you are young
2. Make sure you invest in lots of different companies/regions/sections (diversify!)
3. Do not check the market everyday!

It's a quick way to lose money & years off your life

Also! Please remember that you are a hooman and will fall prey to biases that will make you lose money (Google "8 investor biases"!)

And, again, get an index fund

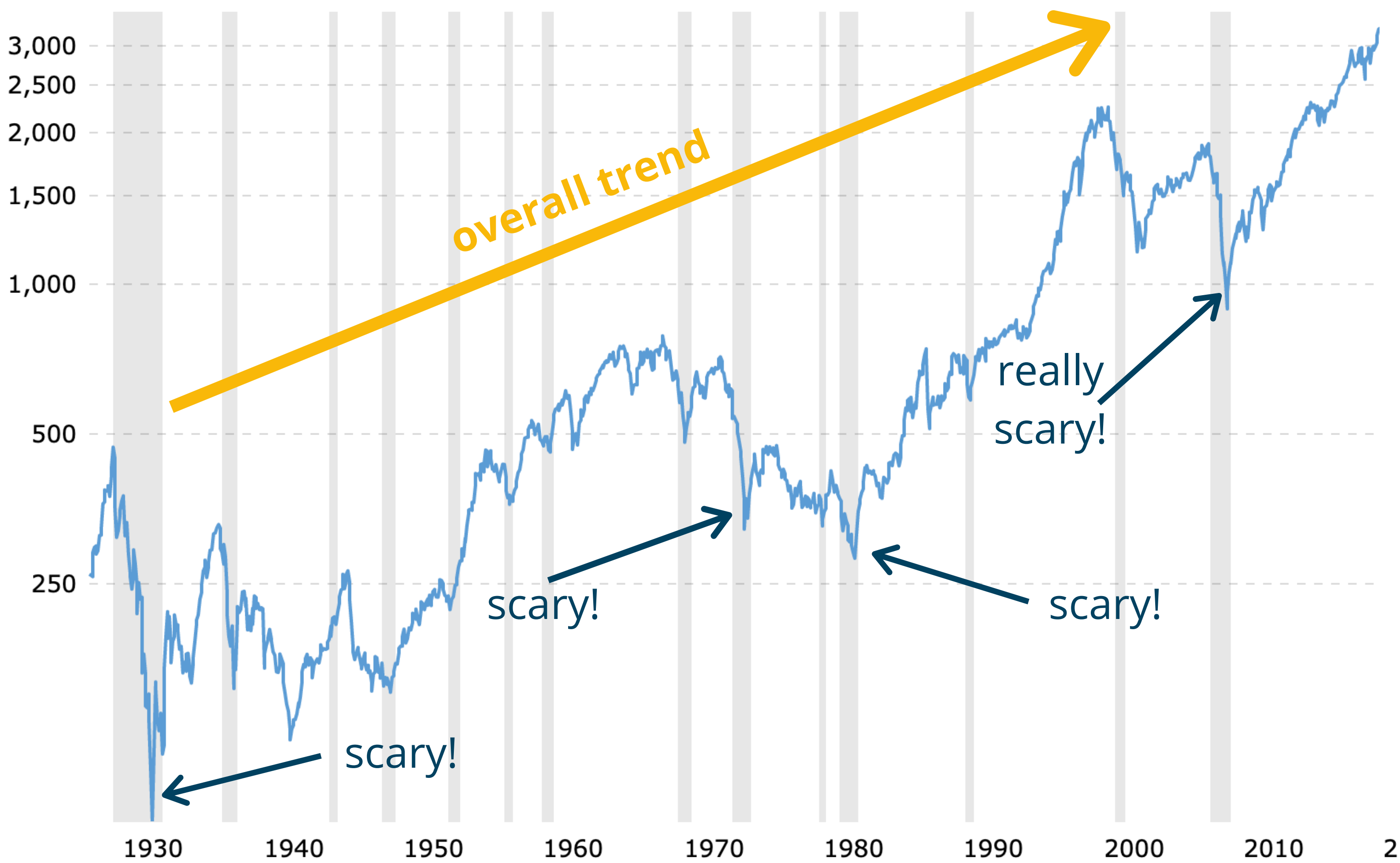
FINAL THOUGHTS

This looks math-y, but it isn't

Things can get scary! But you just gotta **stick it out**

Lifetime chart of the stock market

(more or less)



overall, the market trends upward, and *every drop eventually ends* and bounces back up

NEXT STEPS

SO NOW WHAT?

how to actually apply the theory

BUDGETING

I don't have real advice about budgeting

only really notes on what works for me

I'm bad at the whole "$50 for lattes" and "$100 for clothes" thing

so what I do is set up automatic payments and deduct for all my bills and savings and monthly stuff (laundry, rent, train, 401k, etc)

and sort out how much cash I have left at the end of the month, and divide that number by 30

giving myself a *per diem*

aka how much money I can spend per day

and try to spend around that much (or save it for another day)

ex: $300 ÷ 30 days = $10 per day

***per weekium* works pretty well too**

ex: $300 ÷ 4 weeks = $75 per week

TO DO CHECK LIST

- [ ] Set up AutoPay on student loans
- [ ] Open a 401k (if possible)
- [ ] Get a credit card
- [ ] Open a Roth IRA account
- [ ] Invest in an Index Fund

WHAT KIRA USES

401k: Fidelity
(employer chose)

Roth IRA: Vanguard
(b/c my family uses them; they're kind of annoying, I probably would have chosen Wealthfront or Schwab)

Credit Card: Chase Sapphire
(though I wish I had gotten Capital One Savor card)

Index fund: Schwab S&P 500

AUTOPAY ON STUDENT LOANS

- Get your bank account routing & account numbers
- Login to your Student Loan account
- Fill out the AutoPay or automatic payments forms
- SCREENSHOT the confirmation page + save somewhere
- Receive the confirmation email

GET A CREDIT CARD

- [ ] Google "NerdWallet credit card quiz"
- [ ] Take the quiz
- [ ] Choose a card
- [ ] Apply for the card
- [ ] Once you are approved for a card, set up autopay on your account

for my account, I have to manually go in and pay the full amount (very intentional, very annoying)

☐ OPEN A 401K

- ☐ Search your mail or work email for "401k"
- ☐ Calculate what percentage of your income to deposit
  (at least as much as your employer will match!)
- ☐ Follow the instructions to set up an account
- ☐ Check your paystub for your contributions (under "deductions")

OPEN A ROTH IRA

- [ ] Get your bank routing and account numbers
- [ ] Google "best Roth IRA accounts"
- [ ] Choose one, considering the minimum deposit requirements
  (I have Vanguard, which has low expenses)
- [ ] Deposit at least the minimum & at most $6,000 per year

OPEN AN INDEX FUND

- [ ] Get your bank routing and account numbers

- [ ] Google "best Index Funds"

- [ ] Choose one
(I have the Schwab one; do **not** pay more than .09%)

- [ ] Deposit whatever spare cash you have

the end

hope this helped

now go open a dang retirement fund!