EDGEPOINT

I WISH SOMEONE HAD TOLD ME…

We all know young people who can benefit from the experiences of "someone who's been there" – life lessons that can help them make better decisions. EdgePoint portfolio manager and father of three, Tye Bousada, shares the following advice about money with his children and now you.

READ BEFORE YOUR 18TH BIRTHDAY

A few things I wish someone had told me about money when I was your age:

1. **Don't set out to be rich – just try not to be poor.**
   Some people start adulthood with the goal/hope of being rich. The richest people I know today set out with the goal of not being poor. I don't know why the brain works the way it does, but (in my experience) people seem to be more successful when they're trying to avoid something. For example, think about which of the following two statements is more motivating: "I want to lead a healthy lifestyle" or "I don't want to be an unhealthy, overweight, lethargic, couch potato because I don't want to die young of some crappy disease."

   Now that you're getting older, there's a very good chance at some point in your life you needed something that you didn't have the money for, and that feeling sucked. I guarantee you that feeling only gets worse the older you get. In my observation, working to avoid that feeling actually increases your chance of becoming wealthy. It also increases the chance that you'll have more success in pursuing the other points on this list.

2. **Spend less than you make.**
   So easy to say, so hard to do. There are few things as limiting to freedom as debt. Some of the unhappiest people I've met are unhappy because they've never figured this one out. If you regularly spend more than you make, you're destined to be poor for the rest of your life.

3. **Making money is DECEPTIVELY simple with an emphasis on deceptively.**
   The simple part involves some basic compounding math. If you hate math (Isabella), DON'T STOP READING. This is not high-level calculus or string theory stuff. It's basic and it can change your life for the better.

   Let's assume for a second that instead of Isabella being born before Liam that you both were born on the same day (twins). Noah, you still get to be the big brother. For this example, we're also going to assume that the twins are turning 18. Isabella saves $2,000 a year for eight years and then never saves a dime again. Liam doesn't save anything for the first eight years but then saves $2,000 a year until he reaches 65 (stated another way, Liam saves $2,000 a year for 40 years).

   We've talked a lot about saving but just as a reminder, saving money is the act of postponing consumption today so that you can consume tomorrow. Just saving money isn't enough because stuff generally gets more expensive every year due to inflation. Therefore, you have to invest your money. If you just hold your money in cash and don't invest it, you might not be able to afford much in the future.

   In this example, we're going to assume that you invest your money in the stock market. You both buy a good collection of businesses that increases in value by 9% every year. You're probably asking yourself, why 9%? I picked that number because it's the long-term return of the market over a super-long time (going all the way back to 1802). Now, I'm not trying to say that you'll make a guaranteed 9% return every year. I'm simply using this figure to illustrate the concept of compounding.

This table shows what happens to your investment over time:

Age	Isabella's contribution	Value of Isabella's portfolio		Liam's contribution	Value of Liam's portfolio
18	$2,000	$2,180		$0	$0
19	$2,000	$4,556		$0	$0
20	$2,000	$7,146		$0	$0
21	$2,000	$9,969		$0	$0
22	$2,000	$13,047		$0	$0
23	$2,000	$16,401		$0	$0
24	$2,000	$20,057		$0	$0
25	$2,000	$24,042		$0	$0
26	$0	$26,206		$2,000	$2,180
27	$0	$28,564		$2,000	$4,556
28	$0	$31,135		$2,000	$7,146
29	$0	$33,937		$2,000	$9,969
30	$0	$36,992		$2,000	$13,047
31	$0	$40,321		$2,000	$16,401
32	$0	$43,950		$2,000	$20,057
33	$0	$47,905		$2,000	$24,042
34	$0	$52,217		$2,000	$28,386
35	$0	$56,916		$2,000	$33,121
36	$0	$62,039		$2,000	$38,281
37	$0	$67,622		$2,000	$43,907
38	$0	$73,708		$2,000	$50,038
39	$0	$80,342		$2,000	$56,722
40	$0	$87,573		$2,000	$64,007
41	$0	$95,454		$2,000	$71,947
42	$0	$104,045		$2,000	$80,603
43	$0	$113,409		$2,000	$90,037
44	$0	$123,616		$2,000	$100,320
45	$0	$134,742		$2,000	$111,529
46	$0	$146,868		$2,000	$123,747
47	$0	$160,087		$2,000	$137,064
48	$0	$174,494		$2,000	$151,580
49	$0	$190,199		$2,000	$167,402
50	$0	$207,317		$2,000	$184,648
51	$0	$225,975		$2,000	$203,446
52	$0	$246,313		$2,000	$223,936
53	$0	$268,481		$2,000	$246,271
54	$0	$292,644		$2,000	$270,615
55	$0	$318,982		$2,000	$297,150
56	$0	$347,691		$2,000	$326,074
57	$0	$378,983		$2,000	$357,601
58	$0	$413,092		$2,000	$391,965
59	$0	$450,270		$2,000	$429,422
60	$0	$490,794		$2,000	$470,249
61	$0	$534,966		$2,000	$514,752
62	$0	$583,112		$2,000	$563,260
63	$0	$635,593		$2,000	$616,133
64	$0	$692,796		$2,000	$673,765
65	$0	$755,148		$2,000	$736,584

After saving $2,000 a year for only eight years, Isabella, you get to retire with $755,148 in the bank. After saving for 40 years, Liam you have $736,584. There are two important points in this example. The first is after only eight years of saving $2,000 a year, Isabella has the opportunity to turn her savings into $755,148. The second point is that even though Liam saves for 40 years and Isabella for only eight, Isabella still retires with more. The math is kind of hard to believe so I included the table above for you to follow the progression of growth.

What makes this math deceptively simple? The deception is in the fact that it can be brutally hard to save $2,000 a year because you want or need stuff now. You want the Galaxy S, J Brand jeans, your weekend away with friends. You have student loans, car insurance, rent. Here's the thing – other people your age are in the exact same financial position as you. Almost all will accept that it's tough to save and therefore won't save. A few will decide they don't want to be poor and forgo some consumption today. Saving $2,000 a year, or $5.50 a day for eight years, can help you not be poor. Again, this can't guarantee you'll be financially stable nor is saving $5.50/day some kind of magic formula. I'm just using it as an example. You may need to save more or less than that. If you don't mind increasing your chances of being poor in the future, then consciously accept the reality that consuming today is way more fun and stop reading this paternal drivel now. If you can forgo $5.50 a day worth of consumption today, then keep reading.

4. **Don't lose money.**
   This seems so painfully obvious, it's likely worthy of a heavy eye roll. Here's the thing though, when it comes to saving money, your brain is wired to work against you. Your brain usually makes you want to invest your money in the exact wrong thing at the exact wrong time. After a lot of people have made money investing in something, it gives others confidence to also invest in that area; however, usually the money has already been made and you're investing in something that's really expensive. Alternatively, when everyone is very fearful of investing because something bad is going on in the world, usually that makes you nervous as well. Historically, however, it's when most people are fearful that a lot of money can be made investing.

   One of the big keys to not losing money is fighting your brain. You must try to live in a narrow emotional band. It's hard to save, and it's even harder to constantly fight the feelings of fear and greed that go hand in hand with investing. If you can overcome the emotions, you increase your chance of not being poor. How do you increase your chances of winning the war against your brain? Read the next point.

5. **Get a good financial advisor.**
   You're probably asking, "What is a financial advisor?" An advisor is part psychologist, part money manager. Very simply, the best advisors help prevent you from separating yourself from your money. A good advisor will lay out a long-term financial plan for you and help you stick to it so that you can actually achieve something like what the table above shows.

   How do you find a good advisor? A good place to start might be to ask the sharpest person you know if they would recommend their advisor. If they say yes, contact the advisor to see if they're taking on new clients and, just as importantly, to see if the advisor makes sense for you. In your interview, ask them for examples of successes they've had with other clients. If they start going on about a stock that they recommended doubling in price, then thank them for their time and look for someone else. If they instead talk about helping clients through the highs and lows that go hand in hand with investing in an effort to achieve their client's goals, then you might have yourself a winner.

   Once you hire an advisor, pay a lot of attention to what they recommend. Think about whether their recommendations are based on facts and solid reasoning. Are they always recommending something that makes you feel comfortable because everyone else is doing the same thing? If so, fire them and look for someone that seems to understand that investing isn't always supposed to make you feel all warm and fuzzy. Are they always trying to get you to buy something that has already doubled in price, or are they regularly calling you after the price of one of your investments falls and telling you to sell? If so, then fire them and look for a new advisor who lives in that narrow emotional band.

6. **Financial freedom helps you get wealthier.**
   I have observed that wealthy people have an advantage in that they don't always feel the need to be invested in something. If investment opportunities look too expensive, they can wait. When they finally see something that looks like a deal, they can pounce. The wealthy person doesn't need the stock, bond or real estate market. These markets are simply tools for them. However, many people that aren't wealthy find themselves needing the markets. They need their investments to appreciate quickly so that they can catch up from not saving enough over time. They approach investing with unreasonable expectations and, as such, they look at the stock, bond or real estate market as sources of worry instead of opportunity. The bottom line is if you start saving too late in life, you'll sweat the markets more. A person that needs the markets hopes every day that their investments will go up, and this hope clouds their judgement (see point 5 about why this is dangerous).

   Investing can be boiled down to two simple things: You're either making a mistake or capitalizing on a mistake someone else has made. It's tough to be the one that takes advantage of mistakes if your judgement is clouded by hope. Sound judgement can be a positive by-product of a life lived trying not to be poor instead of one lived trying to be rich.

Final thought.

Most people equate wealth with freedom/happiness. I want you to have the freedom to pursue your interests in the future, which will make you most happy. Of course, there's no easy way to become wealthy. If there was, the world would be rich and it isn't for a reason. I have observed over time that people who have accumulated enough wealth to freely pursue their interests have a solid understanding of the six points above.

Love,
Dad

No, Tye didn't include the following disclaimer in his original letter to his children. It's here now so that we could properly share this with you on our website.