MONEY MATTERS

ALTAIR

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Altair's personal finance tips for the young investor

What Is Our Money For?

Money is about more than just buying things. It is a limited resource, and as we grow up we develop values about the purpose of money that guide our financial decisions. Often these values are handed down from one generation to the next in a family and in many cases these lessons are unspoken – we learn from observing what our parents or grandparents do rather than talking about it directly.

Considering how important this topic is, we think families should talk about their money values. **Take time to ask your parents and grandparents what they consider to be the purpose of money.** What do they want money to provide for their own lives and for the life of the family? Who are the people and what are the experiences that influenced their money values and decisions? What are the values around money that they hope to pass on to you? These are important questions that may take some thought, so let your parents and grandparents know ahead of time what you plan to ask them.

You Can't Always Get (all of) What You Want – Appreciating Tradeoffs

A lot of life is about tradeoffs – making the choice to do one thing and recognizing how that decision limits or affects other options. For example, if you spend your allowance on a small toy today, it will take you longer to save up for a bigger item. As you get older and make more independent decisions, it's important to develop the skills to recognize what tradeoffs are involved – particularly with decisions about money. Like anything else, you can practice and get better at identifying and evaluating tradeoffs. **Start by going through a series of questions in your head even with small purchases:**

- ☑ Do I actually want this item?
- ☑ Is it worth the price?
- ☑ Will it bring me happiness or satisfaction and for how long?
- ☑ If I use my money for this now, how does that affect what I can buy or do with my money later?
- ☑ Would I be happier saving my money for something else?

By developing the habit of pausing to consider these questions, you will likely make fewer impulse buys, have fewer regrets about your spending and feel happier about the things and experiences that you do spend your money on.

What Do You Want to Learn About?

We want to answer your questions! After asking your parents' permission, write to us at anichols@altairadvisers.com and tell us the money questions and issues you would like to see covered in the next edition of Money Matters.

We will send a **$10 Amazon gift card** to everyone who sends in their question(s) by **March 30**.

One gift card per email address.

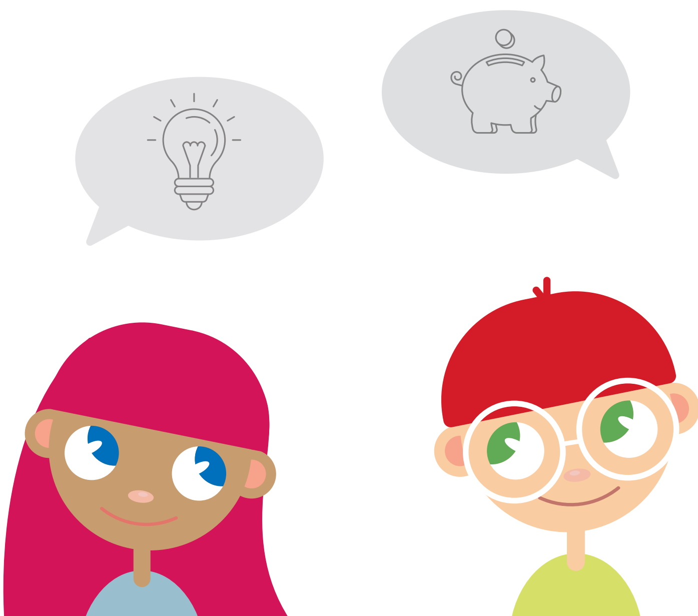
just for kids!

How Does a Loan Work?

For large expenses like a house or a car, a loan allows you to spread out the cost of that item across many small payments over time instead of having to pay the full price all at once. For example, if a car costs $20,000, it's a lot easier for most people to make a payment of $378 every month than pay the full amount up front.

Why would a bank or financial institution lend you money? Because they make money by charging interest. You have to pay back the full amount of the loan plus a fee for the right to borrow the money. How much they charge for the loan depends on the interest rate. Using the same car example, if you borrow $20,000 from the bank at a 5 percent interest rate and you have to pay back the loan in five years, you would be charged a monthly payment of $378. This means after five years, you actually pay $22,680 back to the bank. So the bank earns $2,680 from the loan.

Even if you can pay in full for the car, you might prefer to take out a loan. If your $20,000 would earn more in another investment than you would save by avoiding loan fees, that would be a reason. Or you might just want all or part of the $20,000 for another purpose rather than spending the full amount all at once. Whatever the reason, it's important to understand how loans work and the responsibilities that go with borrowing.



ARE YOU READY TO PRACTICE BORROWING?

You don't have to wait until you are ready to buy a car or house to learn how a loan works. Ask your parents if they will give you a loan to purchase an item you are saving for. You and your parents will have to make decisions together on the following:

1. Is the item worth taking out a loan? Does it have lasting value?

2. Can you realistically pay Mom and Dad back within a few weeks or months? If the loan is too expensive, you will get frustrated with the time it takes to pay it back.

3. Have you already saved some money for this item? If I want a loan for an item that costs $100 and I have already saved $20 for it, I only need to borrow $80.

4. What will the interest rate be? As a starting place, look online to see what rate banks charge for personal loans.

5. What will the length of the loan be? It shouldn't be too short as you might not be able to earn enough to pay it back in that time or so long that everyone forgets about it.

6. What will the timing of payments be? Weekly, monthly?

7. Do you have other expenses to consider? Set up a payment plan that still leaves you with some money for other things.

Importantly, are you ready for this responsibility? No asking Mom and Dad to just forget about the loan. Only try this out if you are committed to paying it back. Also, you can start with a small loan so that no one gets frustrated and you still get the chance to learn about the process.

teen page

“Is that something I have to pay for?”

Who Pays for What?

As you get older and start to earn income from a part-time job, babysitting or even just an increase in your allowance, your parents may begin to expect you to cover some of your expenses. This can be an exciting time for you to take on more responsibility, but it’s important to talk with your parents about who will cover what costs to avoid confusion and frustration.

Budgeting takes practice, so start by using your own money to pay for smaller, less critical items before working your way up to more significant purchases. For example, trips to Starbucks with friends after school or going to the movies on Friday night – these are expenses that you should be able to plan out according to how much money you make per month. If you mess up and run out of money at the end of the first few months, then you’ll be ordering water instead of a latte until you get better at budgeting.

Once you master budgeting for non-essential items, you can move on to a more complicated expense category like clothing. Work with your mom or dad to calculate the cost of a reasonably priced outfit based on real prices from stores and websites where you shop. Decide together how many outfits you need per season and how the total expense breaks down per month. If your parents then increase your monthly allowance to enable you to cover that expense, it’s your responsibility to make good spending decisions that fit with the agreed upon budget.

There will be a learning curve on both sides, and both you and your parents should be open to reevaluating the plan after a set time period. In the end, learning how to budget for different expenses will go a long way toward increasing your awareness of what things cost. You may become more selective of where you shop and compare prices and sales. You’ll probably also become more aware of the tradeoffs you are willing to make to buy certain items by giving up others. You will be asking for money less often and your parents will have the satisfaction of covering your expenses to a point, then giving you the control to take responsibility for the rest.

An Instagram Photo Is Forever

(and so are all your other web posts)

You’ve heard it before and unfortunately it’s true: Whatever you post online – an image, a joke, comments about someone else - never goes away.

The actions we take on the internet, even when we have set the highest privacy settings on different apps, are essentially public actions. The web is like an un-editable scrapbook of your life that anyone can pull up and view.

Never share an image or statement that may later make you cringe...

...or, worse, could get you in trouble or even be used to blackmail you, including texts and emails.

If you have something personal to share with someone, tell them in person or speak to them on the phone.

The internet is a wonderful tool, but we should all respect that we leave a trail as we use it. It’s important to be thoughtful as opposed to impulsive in our digital actions, as those actions will represent us for years to come.

parent page

Preparing Your College Student for Credit Card Ownership

Getting a credit card is one of the early independent financial steps many college students take. While parents worry about the temptations that a credit card can introduce for spending and the potential for escalating debt, it can also be a terrific tool for learning about budgeting, tracking expenditures, bill payment and building credit. There are steps you can take with your young adult to help him or her evaluate different credit card options and develop healthy habits with credit cards while also creating awareness of the dangers.

1. Research the best options for student credit cards. Both Consumer Reports and U.S. News & World Report conduct an annual ranking of credit card options for first-time card holders with no credit history. On their websites, you can compare rates and transaction fees plus additional features and benefits. Doing this activity together gives you the chance to talk about these aspects and explain what they mean.

2. Help your child understand what a credit score is and how to view their credit report. College students should know how to find and track their credit score and understand the factors that affect it, including credit card ownership and usage.

3. Walk through how billing and payments work for a credit card. It can be hard for a first time credit card holder to foresee how quickly interest and fees can add up when you pay only the minimum on a monthly bill. Visit a few of the online credit card interest calculators together, such as the one on www.consumercredit.com, and plug in hypothetical (but realistic) numbers so that your student can see how holding a balance becomes expensive fast.

4. Share your real-life experiences, good and bad, with credit card ownership. Did you get behind in payments and end up with a huge bill? Do you have a personal cap on what you will place on a credit card? Sharing your own experiences and advice may be what makes the biggest impression on your child.

5. Make sure expectations about this responsibility are clear on both sides. If you would prefer for your child to come to you early on if he/she gets into trouble with their credit card, say so and explain why. If you are co-signing on their first credit card or giving your child a card from your account as a starting place, everyone should be clear about spending limits and who pays what portion of the bills.

Credit cards are a financial tool. They have real benefits and real downsides. Take the time to talk with your college student about all that is involved with responsibly owning a credit card before they start receiving solicitations from different providers. It's an important money conversation that can set them up for success.

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Parents, connect with us!