Money Tips for Millennials: Steer a Steady Course in a Turbulent Year

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From the pandemic, to a hard-fought election, to social unrest, 2020 has been a challenging period on many fronts. In such times of great uncertainty, people can make hasty and unwise financial decisions. For those who may not have lived through earlier market cycles, here are five critical points to consider.

1. Protect and Bulk-Up Your Rainy Day Fund

We typically think of a rainy day/emergency fund as a 3- to 6-month pool of savings you can easily access in a pinch. Given the duration and severity of the disruption, the pandemic has called into question the right amount to have in an emergency fund. The baseline advice has been 6 months for a single income household and 3 months for a dual income household. But, I believe we must take a more conservative approach and ask ourselves: Is 6 months the right amount? How much would you need to live on should the worst-case scenario arise (as it has for so many in recent months)? What if that scenario is protracted, like the one we are currently experiencing? If you believe that uncertainty is the "new normal," think about saving more and bringing down your monthly spending where possible.

2. Don't Give In to Bad Money Habits

Even if you have been spared the worst financial impact of the crisis thus far, you may have formed some bad habits due to the quarantine lifestyle. I have seen people spending money to rent an out-of-town home to gain more space and avoid urban centers. Others may be spending more on recreational activities in lieu of being able to travel (such as renting a boat for an extended period). These increased costs may be affordable as long as your situation doesn't worsen, but could have long and meaningful impacts on your savings and general ability to accumulate assets that may be needed later on.

For example, a family spending an extra $60,000 on a rental home for the year to escape their downtown home/condo is passing up a major savings opportunity. The "rule of 72" states that the annual rate of return divided into 72 equals the amount of time it will take for an invested amount to double. That $60,000 saved and invested, assuming a 7% rate of return, will double in 10 years. So, over 10 years, the amount spent on the unnecessary rental equates to $120,000 in "lost" value. In another 10 years, the amount of value lost becomes $240,000. These decisions have big consequences for long-term planning and accumulation of a family's wealth. Think about how these savings might affect college spending for your children, retirement spending, long term care in the case of illness, etc.

3. Real Estate – Do I Stay or Do I Go?

As people become frustrated by stay-at-home restrictions, many are asking whether they should buy a new home to gain more living, working and green space, and sell their current home/condo to facilitate the change. The result is a boom in suburban homes of a certain price range – which is unprecedented in the face of a recession. Expensive New York condos are in price correction, while suburban homes are seeing a price bump of anywhere from 10-15%+. I will give the same advice about the housing market as I do when equity markets are volatile, and clients ask me what they should do with their portfolios: wait it out. Periods of high volatility are the worst time to make a change. I understand the desire for "wide open spaces". However, the market may correct after this initial surge ends, and I believe waiting out the storm is better than potentially taking a loss on your current property and paying an upcharge for a new home because of the current price escalation.

4. Don't Try to Time the Market

I can't say this often enough: "Timing the market is a loser's game." You may get it right once or twice, but over the long haul you will lose. It is understandable that many investors sat on the sidelines in fear when the market was down 30- 40% earlier this year; it's hard to pull the trigger when everything is blinking red and everyone is in panic mode. But, if you had invested consistently over the last few years, instead of waiting for a correction, you'd have had a better return – without the stress of trying to time it right or missing the short opportunity. I recommend getting into the market when you have the cash available to save and invest. You need to look at the market like an investor: you're in it for the long haul. If your portfolio is invested properly and managed diligently, your efforts should pay off in 5 and 10 years and grow. Also, consider dollar cost averaging when you are looking to get into the market to take timing out of the game and buy into a better average price of the market as opposed to a one-day up or down swing.

5. Don't Sit on the Sidelines Due to Election Uncertainty

I know this election and this news cycle are the cause of exceptional anxiety for many people. You should not sit out the market because you fear election results or volatility. Typically, election results have a very short-term impact on the markets and then "wash out". You should not "play" the election with your portfolio. Stand your ground with your investment strategy and remain disciplined.

But, regardless of who wins the White House, you should plan for higher taxes. The stimulus packages adopted in response to the pandemic massively expanded the federal deficit, and taxes will undoubtedly rise as a result. Your after-tax income in the next few years may be very different from what it is today. As a millennial in the asset-accumulation stage of life, you should price in the impact of a bigger tax burden and consider how that will impact your finances more broadly.

At the start of 2020, no one could have predicted the kind of uncertainty that has now become part of our daily lives. That's all the more reason to have a cautious, thoughtful "steady as you go" investment approach that is focused on you long term needs and goals.

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