Great outcomes. Done well.

Financial Conversations for Every Family

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Discussions about money are often taboo – even among loved ones – over fears they could become awkward or damage the relationship. But without these conversations, we're left making assumptions that could have disastrous, yet entirely avoidable, financial consequences for everyone. In this month's Wealth Management Insights, we look at some of the financial topics every family should discuss.

If you invested $12,500 a year at age 55, with a 6% annual return over 10 years you'd have a nest egg of $187,000. How much would you have if you instead started at age 25? More than $2 million.

What you should know:

Getting Started

Here are some lessons young people should learn about smart financial decision-making.

- Defer gratification. Creating good money habits when you're first starting out is essential. Learn to live within your means and stick to a budget – it's the surest way to build wealth.
- Beware of "little expenses" and missed opportunity costs. Seemingly inconsequential expenses can really add up over time. A small coffee ($3) on your way to work each morning, over a 40-year career, would cost $31,000. If you invested that $3/day and drank the coffee provided at work instead, that $31,000 could be worth more than $129,000.
- Watch out for traps. If you buy a $1,000 television with a credit card but only remit the monthly minimum, you could end up paying more than $1,500. Credit cards can be an excellent way to build credit, but only if used wisely. **Creating an emergency fund** can help.

Investments 101

It's not enough to just save – you need to invest to grow your savings.

- Beware of too much safety. While the dot-com bubble, Great Recession and flash crash may taint your perspective, average investment returns over the last two decades were actually quite positive – 6% from 1995 to 2016 after factoring in inflation, compared to 2% for Treasury bonds and 0% for CDs. While you don't want to invest recklessly, there's risk in being overly conservative too.

- Automate your investments. Perhaps the best way to invest is by "paying yourself first": Set up an automatic withdrawal so that a predetermined amount of money is deposited from each paycheck into your portfolio. That way you won't forget to invest or be tempted to spend that money elsewhere.

Your Golden Years

As you think about protecting and passing on your assets, also consider what's most important to your loved ones.

- Consider how you want your wealth distributed. Are your children or grandchildren old enough – or mature enough – to use an inheritance wisely? Think about staggering distributions over time or structure their inheritance based on age or certain behavioral criteria.
- Customize your giving. Be sure to consider each family member's needs when drafting an estate plan – a budding entrepreneur might benefit from seed money to start a business more than a 529 plan.

What you should do now:

Whether you are just starting out or enjoying your golden years, securing your family's future requires trust and open lines of communication. **Your Baird Financial Advisor** can help facilitate these conversations and ensure everyone is on the same page. ■