"Letters" to a Young Investor

Perhaps a result of a confluence of factors — buoyant markets, social media influence, today's ease of investing and rapid returns — we have been receiving more questions about how to support young investors.

In his new book, *Letters to a Young Athlete*, former Toronto Raptors star, Chris Bosh, provides invaluable lessons to the next generation about the value of sweat, the importance of humility and how to tame your inner voice to become your ally. Bosh is seemingly a polymath: he spent his off-seasons learning computer coding, taking guitar lessons and practicing Spanish. His book, he says, is meant for anyone who aspires to greatness in any field: "it takes hard work to achieve your goals."[1]

It is good advice that may be relevant to young investors just starting out. Successful investing is a culmination of many elements — wealth comes from choices, not chances: choosing to save wisely, using time to your advantage and eventually putting in place an investment plan that encourages value, quality, and diversification. Most importantly, and perhaps somewhat lost in today's rapidly ascending markets, investing is also about training your inner voice to have the patience and understanding that building wealth often occurs over the longer term.

Here are three tenets of successful investing that may be worth passing along:

1. Saving can be one of your best investments. It doesn't matter how skilled you are when it comes to the markets, if you do not have savings to deploy you cannot generate wealth. Wealth is the accumulated difference between what you bring in and what you spend. You can build wealth without a high income but you have no chance without a high savings rate. More importantly, individuals with just modest pay and steady jobs have been able to amass a tidy fortune — all because of saving. Fostering good savings habits at a young age and before you make a lot of money is important: If you can't manage a little, you likely won't be able to manage a lot.

2. Markets will not always be this easy: risk and reward are intrinsically linked. Markets don't always go in one direction. Making money over recent times has been easy, but as the saying goes, "never confuse brains with a bull market." While we didn't see significant volatility for most of 2021, volatility is the norm. Markets are cyclical by nature and this means accepting that, sometimes, risk assets will significantly decline in value. Increased potential returns of an investment go hand-in-hand with increased risk. You have to be willing to live through losses in the short term to experience gains over the long term. At the same time, down markets can provide opportunity — to buy in at lower valuations, higher dividend yields and better price points — all of which help to generate better overall wealth years down the road.

3. Time is the ultimate equalizer...and can be a significant asset! While short-term periods of volatility will be commonplace, over longer time horizons this volatility smooths out. Younger folk have one of the greatest assets available: time. Add in the power of compounding and this provides the opportunity to grow wealth into the future. Consider the benefits of starting early: As a 25-year old, if you saved and invested $500 each month for 20 years, and left this amount to compound until the age of 65, you would end up with around $545,000, based on a compounded annual rate of return of 5 percent. If you started later at age 45, you would need to save almost 2.7 times more per month, or $1,327, to end up with the same amount by age 65. Starting early means you'd need less capital to achieve the same outcome: at age 25, this would require $120,000 over 20 years, compared to around $318,000 if you started 20 years later.

1. www.wsj.com/articles/chris-bosh-on-the-sudden-surreal-end-of-his-nba-career-11621528351

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