Financial Foundations
The Wealth Years: Young Adults 18+

The financial decisions you make as a young adult — how you budget, borrow, save, and invest — have a compounding effect on everything that follows. This guide brings together the essentials: practical principles and clear tools to help you build lasting financial confidence.

Building a strong financial foundation

Set your goals

Defining what you want — both near-term and long-term — gives your financial decisions direction and purpose.

- **Short-term:** Saving for travel, a laptop, or moving expenses.
- **Long-term:** Building a down payment, retirement savings, or future education needs.
- **Reaching your goals:** Stay on track with a clear plan — create a budget, save regularly, and think long term. Avoid setbacks such as impulse spending or delaying financial planning.

Budgeting and saving

A well-designed budget balances income and expenses, while creating space for savings and future growth.

- **Cash-in vs. cash-out:** Balance what you earn with what you spend.
- **Budgeting 101:** Allocate income across essentials, savings, and discretionary purchases.

Needs vs. wants:

- **Needs:** Essential expenses required to live and function, such as housing, groceries, transportation, and education.
- **Wants:** Non-essential items that bring enjoyment, such as dining out, entertainment, and travel. Prioritize needs first to stay financially secure.

Budgeting allocation rule (50/30/20)

- **50%** of your income toward needs (housing, groceries, transportation, education).
- **30%** toward wants (dining out, entertainment, vacations, non-essential purchases).
- **20%** toward savings and debt repayment.

This guideline helps balance responsibilities, enjoyment, and future goals.

Emergency savings

An emergency fund is your financial safety net — the buffer that protects you when the unexpected happens. Without one, an unplanned expense can quickly become debt. How much you need depends on where you are in life:

- **1–3 months:** Early stage of your career (internships, entry-level roles).
- **3–6 months:** Independent living.
- **6+ months:** Self-employed or managing variable income.

Banking basics

The accounts and tools you use for everyday banking form the foundation of your financial life. Understanding what each one is designed for helps you use them more effectively and avoid unnecessary fees.

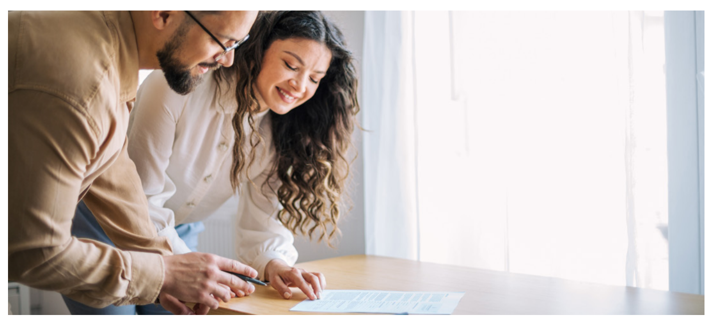
- **Chequing accounts:** Designed to manage everyday transactions such as paying bills and accessing cash.
- **Savings accounts:** Allow your money to grow over time through interest, helping you meet both short- and long-term goals.
- **Debit cards:** Provide secure, convenient access to funds in your account.

Credit, debt & borrowing

Understanding credit and debt

Different borrowing products are designed for different needs. Choosing the right option starts with understanding how each one works, what it costs, and when it makes sense to use it.

- **Credit:** The ability to borrow with the commitment to repay. Used responsibly, it builds trust with lenders.
- **Debt:** The balance owed after using credit. Managing it wisely ensures flexibility and stability.
- **Credit cards:** A valuable tool for building credit when managed carefully. Paying in full avoids interest and protects your score.
- **Good habits:** Pay bills on time, and monitor your credit score (Canadian average ~672).
- **Common pitfalls:** Making only minimum payments, over-applying for cards, carrying high balances, or ignoring statements.
- **Fraud prevention:** Use secure apps, avoid suspicious links, and review transactions regularly.



The true cost of borrowing

Borrowing and credit can help you achieve important goals — but understanding interest, repayment, and long-term costs is essential to using debt responsibly.

- **Interest** is the cost of using someone else's money — always understand the rate before committing.
- **Compound interest** works against you when carrying debt — balances grow faster than most people expect.
- **Monthly payments** can obscure the real cost — always check the total repayment amount, not just the installment.

Your borrowing choices

Borrowing can be a useful financial tool when used strategically. The key is understanding what it actually costs and choosing the right product for the right purpose.

- **Credit cards:** Convenient but costly if balances aren't paid in full each month.
- **Lines of credit:** Flexible, lower rates, revolving access — well-suited for short-term needs.
- **Car loans & mortgages:** Secured, long-term commitments tied to an underlying asset.
- **Buy Now, Pay Later (BNPL):** Easy to access but still debt — watch for hidden fees and the risk of overspending.

Smart banking practices

Beyond choosing the right accounts, a few everyday habits can significantly strengthen your financial foundation over time:

- **Co-signing and authorized users** affect your credit — understand the implications before agreeing.
- **Automate savings and bill payments** to remove friction and stay consistent.
- **Overdraft protection** isn't free — use it sparingly and understand the costs.

Getting your first credit card
To apply for a credit card in your own name, you must be the age of majority in your province or territory:

18 years old in: Alberta, Manitoba, Ontario, Prince Edward Island, Quebec, Saskatchewan

19 years old in: All other provinces and territories

Tip: Start with a low-limit card, pay your balance in full, and monitor your credit score regularly. Establishing credit early helps build financial independence.

Investing — building wealth through diversification

Why invest?

Investing helps your money grow beyond what saving alone can achieve. Investing gives your money the opportunity to grow over time and can help you work toward future goals like school, travel, a home, or long-term financial security.

Time Value of Money: When you invest, your returns can begin earning returns of their own over time via compound interest. Starting early gives your money more time to grow, meaning smaller amounts invested sooner can often outpace larger contributions made later in life.

Asset classes & diversification

Each asset class plays a different role in your financial plan. Combining them thoughtfully reduces risk and smooths returns over time.

- **Cash:** Safe and liquid, but low return — best for short-term needs and emergency funds.
- **Equities:** Ownership in companies — higher risk and reward, best suited to longer time horizons.
- **Fixed income:** Stability and predictable income — bonds and similar instruments.
- **Alternatives:** Real estate, commodities — add variety but are typically less liquid.
- **Diversification:** Spreading investments across asset classes smooths returns and protects against volatility.

Knowing yourself as an investor

- **Risk tolerance:** Reflects your comfort with market ups and downs — both your financial capacity to absorb losses and your emotional response to volatility.
- **Time horizon:** The longer your runway, the more growth-oriented your portfolio can be. Shorter timelines call for more stability.

Aligning your investments with both your risk tolerance and time horizon helps you stay the course through changing market conditions.

Stocks and bonds: the core building blocks

- **Stocks (Equities):** Partial ownership in a company. Higher long-term return potential, but greater short-term fluctuation.
- **Bonds (Fixed Income):** Loans to governments or corporations in exchange for regular interest payments. More stable than stocks, typically lower return.

Mutual funds & ETFs

- **Mutual funds:** Professionally managed, offering access to a broad mix of investments. Priced at end of day.
- **ETFs:** Trade on an exchange throughout the day like a stock — often lower cost and more transparent.

Both provide built-in diversification, making it easier to participate in markets without selecting individual securities.

Matching your approach to your goals

- **Short-term (under 3 years):** Prioritize stability and easy access to funds.
- **Medium-term (3–7 years):** Some growth potential while still managing risk.
- **Long-term (7+ years):** More time to navigate market fluctuations and benefit from compound growth.

How interest works — for you and against you

- **On investments:** Compound interest allows your money to grow on both your original principal and previously earned interest — a powerful long-term advantage.
- **On debt:** The same compounding works in reverse. Carrying high-interest balances means interest accumulates on top of interest, making debt harder to reduce.

Staying informed as an investor

The digital world provides both valuable insight and misleading information. Be cautious of investment commentary from influencers or celebrities whose interests may not align with yours. Cryptoassets, NFTs, and speculative trends can be highly volatile and may not be appropriate for all investors. Always understand what you're invested in and why.

Investment accounts in Canada

Canada offers several tax-advantaged accounts designed to help you save and invest more effectively. Selecting the right mix can help you keep more of what you earn and maximize long-term financial potential.

- **TFSA (Tax-Free Savings Account):** Flexible savings and investment account with tax-free growth and tax-free withdrawals for any reason. Annual contribution limit of $7,000 (2026). Unused contribution room carries forward.
- **RRSP (Registered Retirement Savings Plan):** Retirement savings account that allows tax-deductible contributions and tax-deferred growth. Contribution limit is 18% of previous year's earned income to a maximum of $33,810 (2026).
  Contribution room starts accumulating once you earn income and file a tax return.
- **FHSA (First Home Savings Account):** Savings and investment account designed to help first-time homebuyers save for a home with tax-deductible contributions and tax-free qualifying withdrawals. Annual contribution limit of $8,000 and lifetime limit of $40,000.
  Contribution room starts when the account is opened.
- **RESP (Registered Education Savings Plan):** Education savings account that helps families save for post-secondary education, with government grants available for eligible beneficiaries.

Opening a TFSA or investment account
Contribution room starts at age 18 and carries forward if unused.

18 years old in: Alberta, Manitoba, Ontario, Quebec, Prince Edward Island, Saskatchewan

19 years old in: All other provinces and territories

Tip: You begin accumulating TFSA contribution room from the year you turn 18, even if you can't open the account until 19. That room carries forward — so you won't lose it

Planning, taxes & estate

As your income and assets grow, so does the complexity of managing them well. Wealth planning brings together all the moving pieces — investments, tax strategy, insurance, and estate considerations — so they work as a coordinated whole rather than in isolation.

Tax planning

Taxes influence nearly every financial decision. Understanding how to manage them throughout the year — not just at filing time — can make a meaningful difference over time.

- **Tax-advantaged accounts** (TFSA, RRSP, RESP) help shelter growth and keep more of what you earn.
- **Year-round considerations** include charitable donations, tax-loss harvesting, and timely account contributions.

What wealth planning covers

A comprehensive wealth plan integrates every dimension of your financial life:

- Risk management
- Tax optimization
- Education planning
- Insurance needs
- Philanthropic objectives
- Investment management
- Retirement planning
- Estate and trust planning
- Business succession

Retirement planning

The earlier you start, the more flexibility you have later. Retirement planning aligns your investments, savings, and tax strategies to provide security and freedom over the long term.

Estate planning

Estate planning is more than creating a Will. A complete plan includes powers of attorney, trusts, beneficiary designations, and life insurance — tools that ensure your wishes are respected and reduce complexity for the people you care about.

- **Wills:** Outline how your assets are distributed.
- **Powers of Attorney:** Designated decision-makers for your health and finances if you become unable to act.
- **Trusts:** Manage and protect assets for future generations.
- **Beneficiary Designations:** Ensure registered accounts and insurance policies transfer smoothly.
- **Life Insurance:** Provide financial security for dependents and cover obligations.

The bigger picture

Building wealth isn't a single decision — it's the result of many small, intentional ones made consistently over time. The concepts in this guide work best when they work together: a budget that creates room to save, savings that become investments, investments that grow toward your goals, and a plan that evolves into a vision for your future.

You don't need to have everything figured out, you just need to start.

Continuing your financial education

Building financial knowledge is an ongoing process. BMO Private Wealth offers a range of resources and services to support you as your needs evolve.

- **BMO Real Financial Progress Hub:** A streamlined, client-focused hub that brings together tools and insights to support progress across multiple financial goals.

  bmo.com/en-ca/main/personal/financial-progress-hub

- **BMO SmartProgress™:** Interactive, self-paced learning modules on saving, budgeting, and financial decision-making.

  bmosmartprogress.everfi-next.net

- **BMO Wealth Insights:** Articles, podcasts, and perspectives from BMO's wealth management team.

  bmo.com/wealthinsights

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