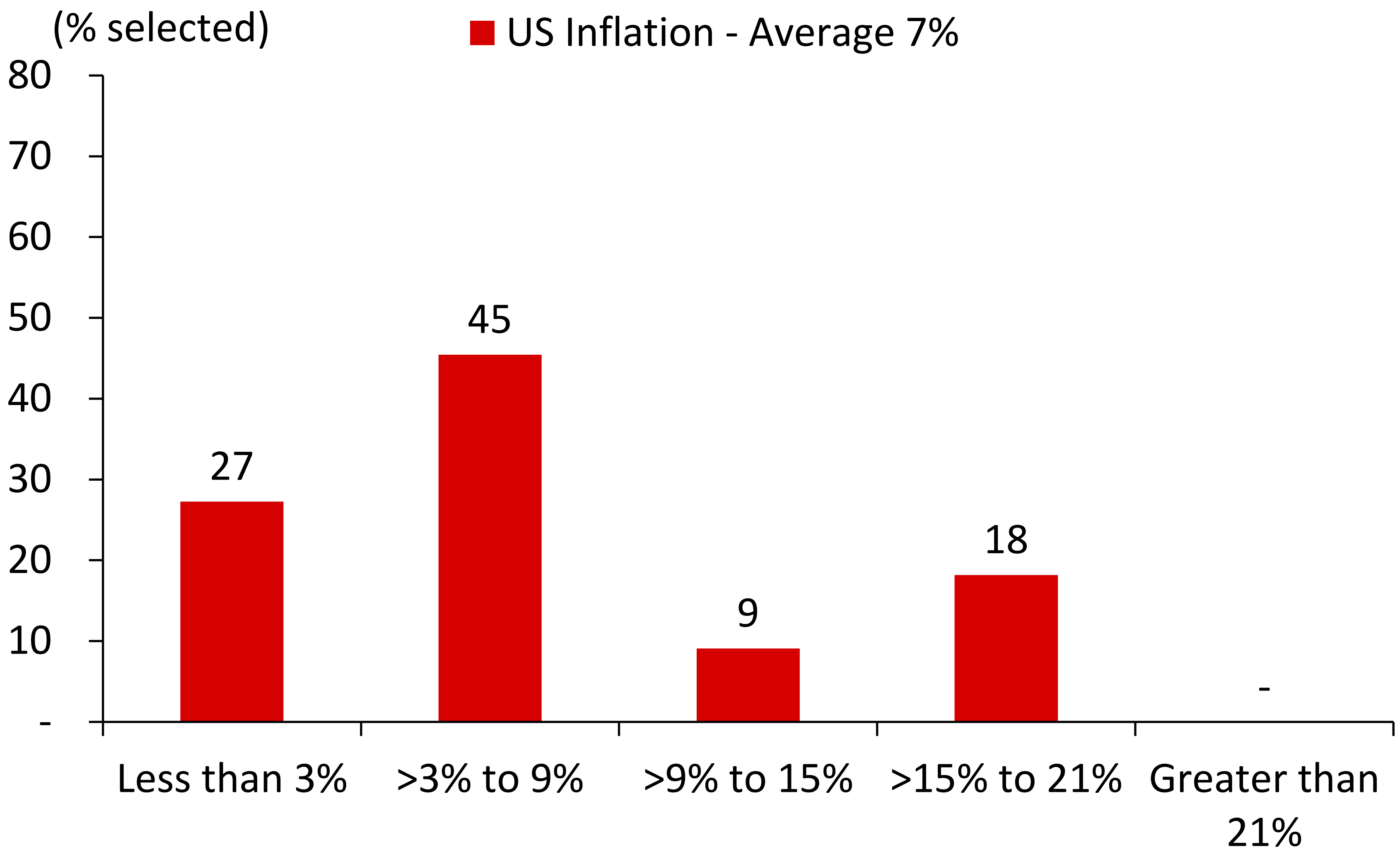
Inflation



Steps 1 2 3 4 5 6 7 8 9 10 11 12

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★ US inflation: 7%

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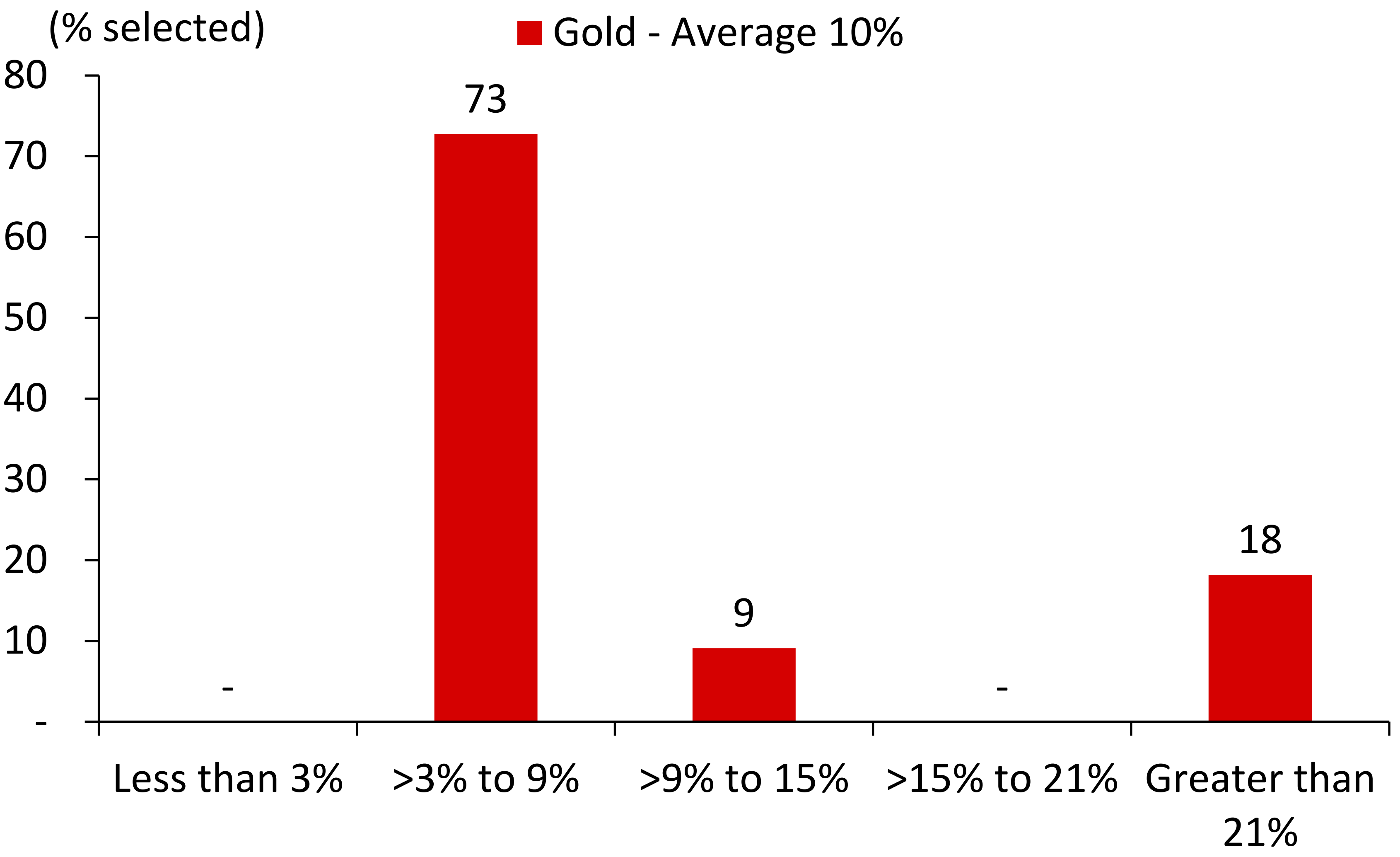
Gold



Steps 1 2 3 4 5 **6** 7 8 9 10 11 12

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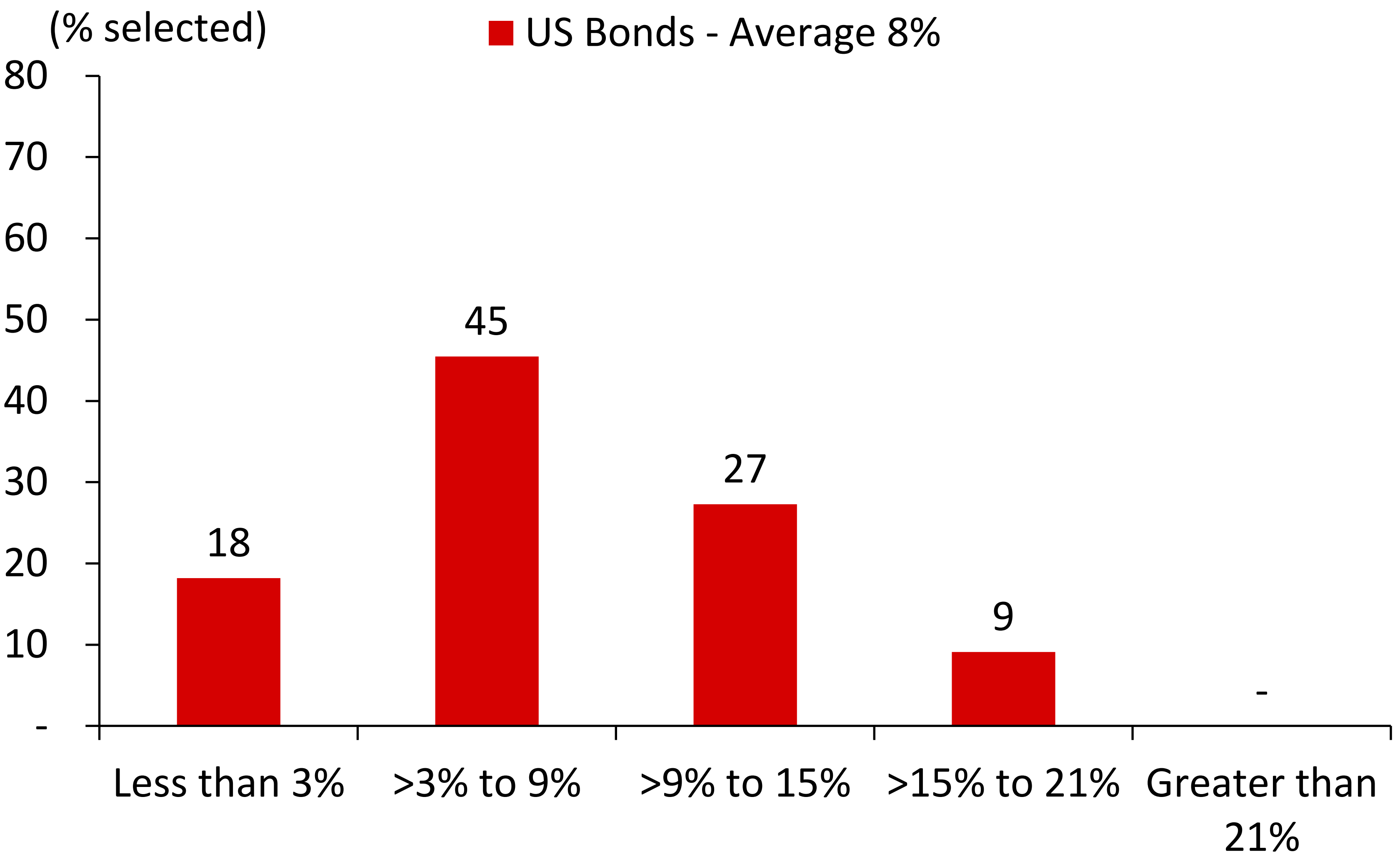
- ★ US inflation: 7%
- ★ Gold: 10%

US bonds



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- US inflation: 7%
- Gold: 10%
- US bonds: 8%

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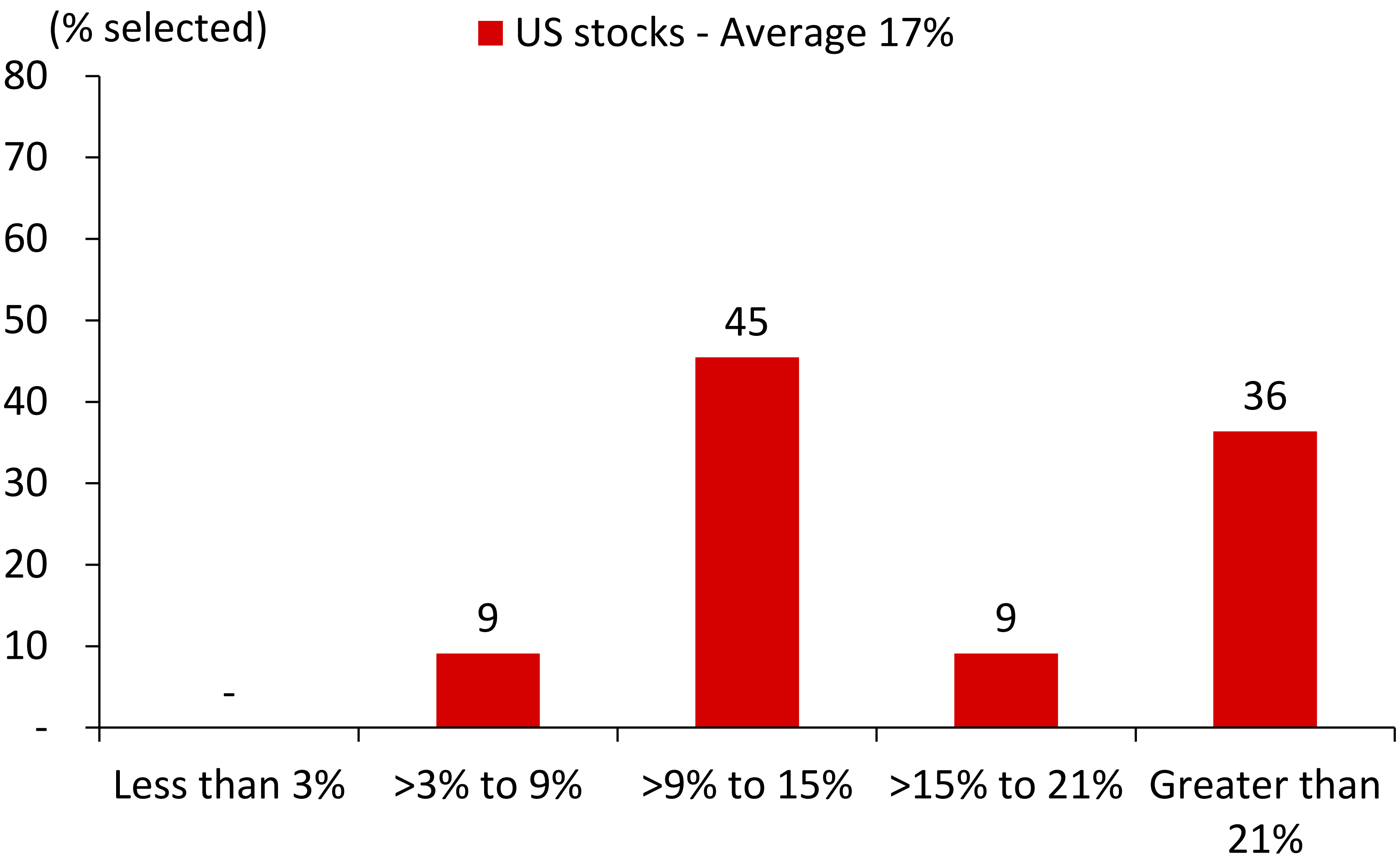
US stocks



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- ★ US inflation: 7%
- ★ Gold: 10%
- ★ US bonds: 8%
- ★ US stocks: 17%

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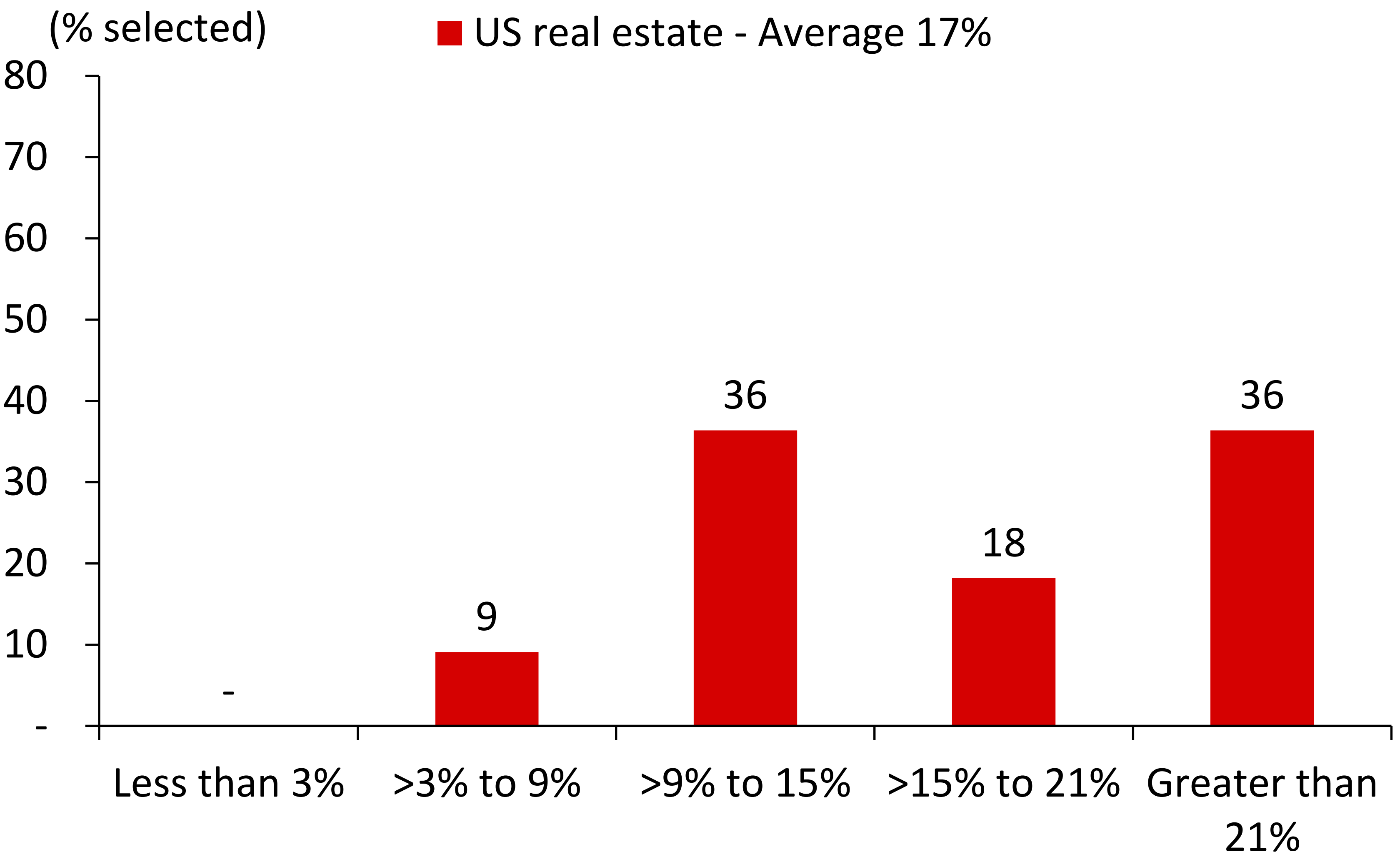
US real estate



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- US inflation: 7%
- Gold: 10%
- US bonds: 8%
- US stocks: 17%
- US real estate: 17%

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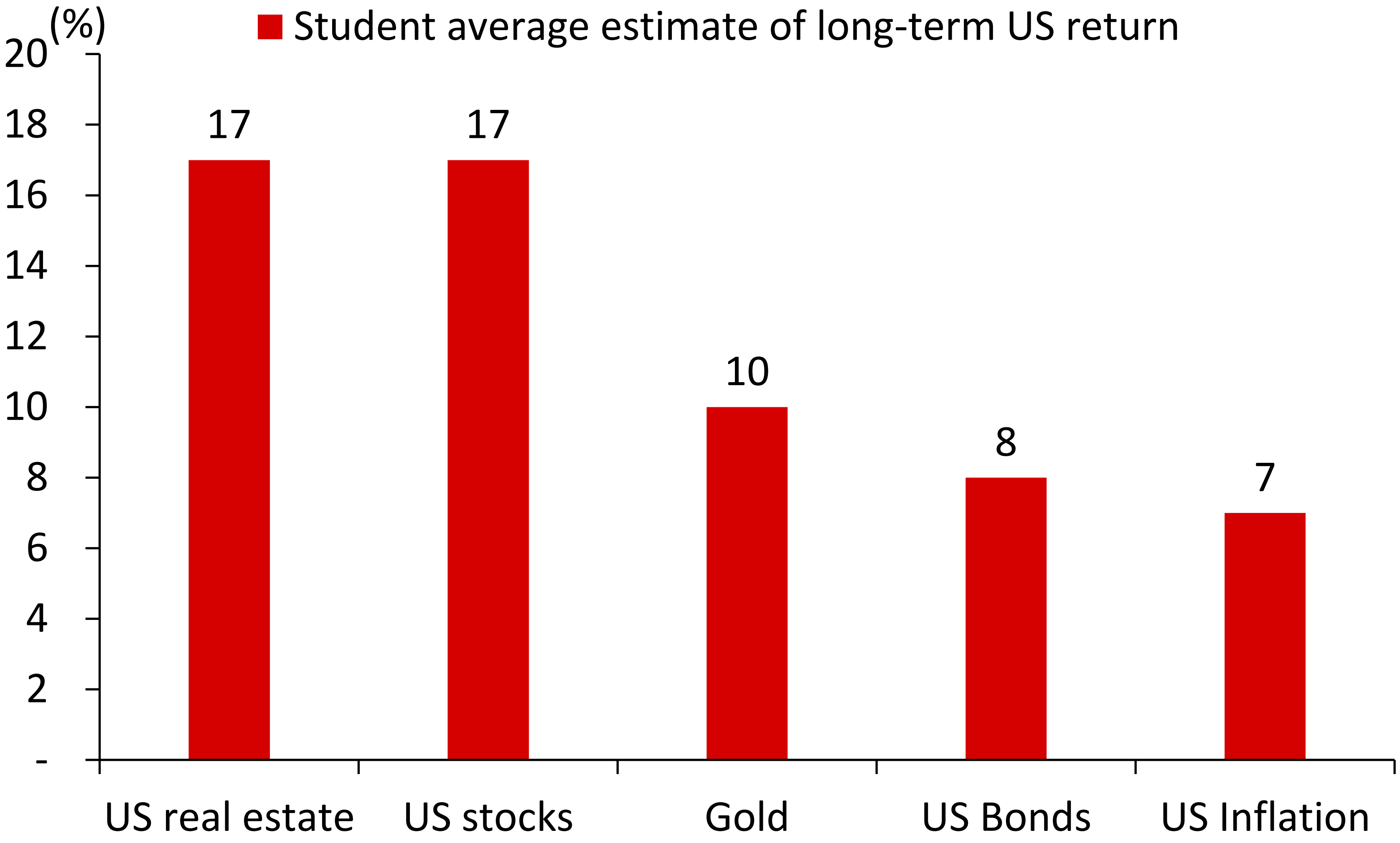
Your estimates compared to actual



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- US inflation: 7%
- Gold: 10%
- US bonds: 8%
- US stocks: 17%
- US real estate: 17%

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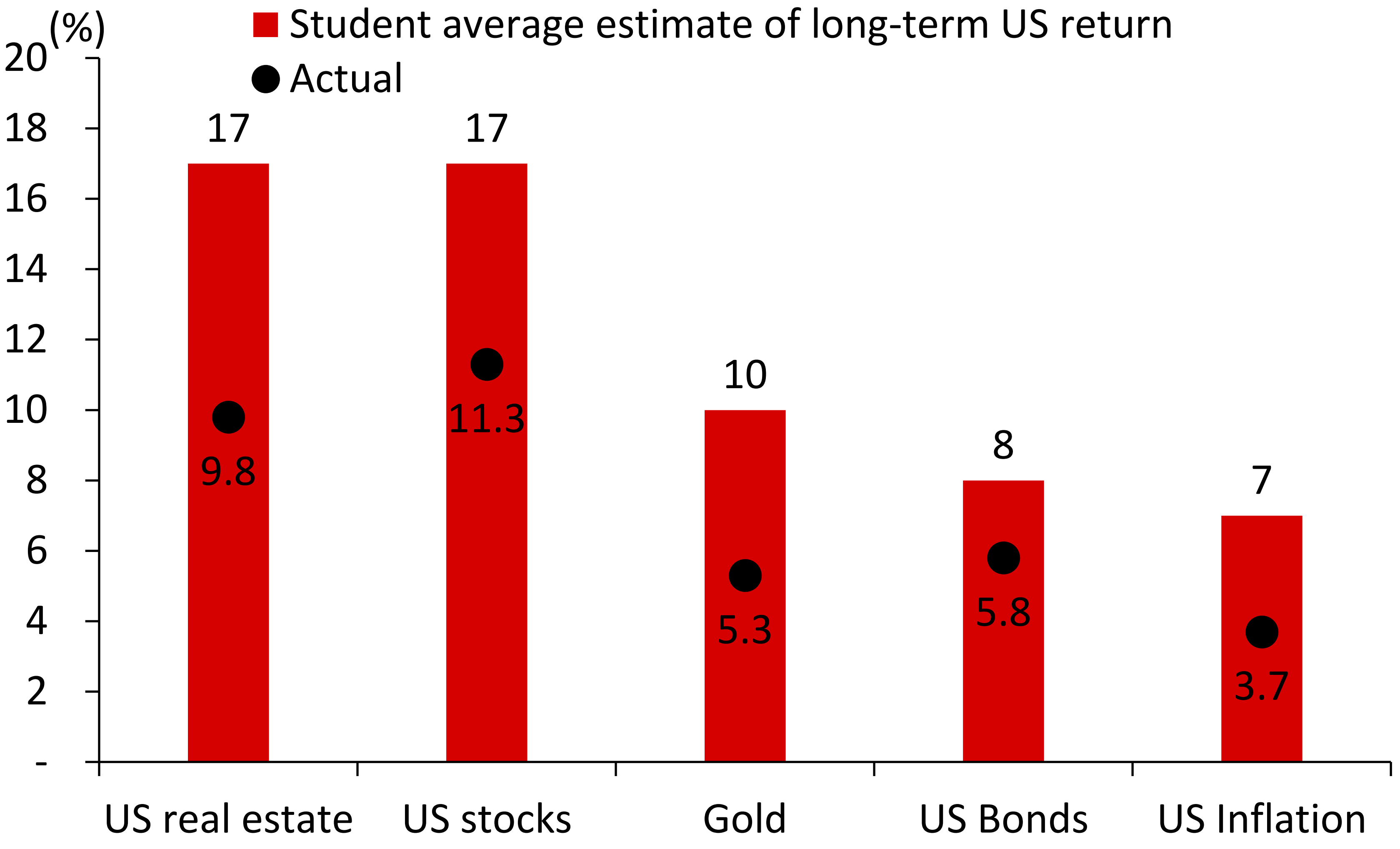
Your estimates compared to actual



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- US inflation: 7%/3.7%
- Gold: 10%/5.3%
- US bonds: 8%/5.8%
- US stocks: 17%/11.3%
- US real estate: 17%/9.8%

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Make big mistakes early in life

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Avoid mistakes when you are young

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Learning outcomes

- See what's wrong with the saying, "make your mistakes when you are young."
- Understand the importance of starting to invest now

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Don’t make your mistakes when you are young!

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- Have you ever heard someone say,
  - “Make your mistakes while you’re young”?

Don’t make your mistakes when you are young!

- Adults think young people don’t have much to lose, or that no matter how much money they do lose, they have time to earn it back

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Don’t make your mistakes when you are young!

- ★ It may sound like good advice, but it can be disastrous for your financial future

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Don’t make your mistakes when you are young!

★ My advice is to be especially careful to avoid financial mistakes while you are young

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Don’t make your mistakes when you are young!

★ Errors made in your youth, even small ones, can be very painful in the future

Steps 1 2 3 4 5 **6** 7 8 9 10 11 12

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3 major mistakes to avoid in your youth

- ★ #1 Postponing investing
- ★ #2 Losing money when you are young
- ★ #3 Overreliance on finance professionals

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#1: Postponing investing

- ★ Assume you invested $1,000 per month ($12,000 per year) over 30 years
- ★ Your total contribution would be $360,000 ($12,000 per year x 30 years)

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#1: Postponing investing

- Assuming you earned an 8% annual return
- At year 30 you would end up with $1,468,000

Steps 1 2 3 4 5 **6** 7 8 9 10 11 12

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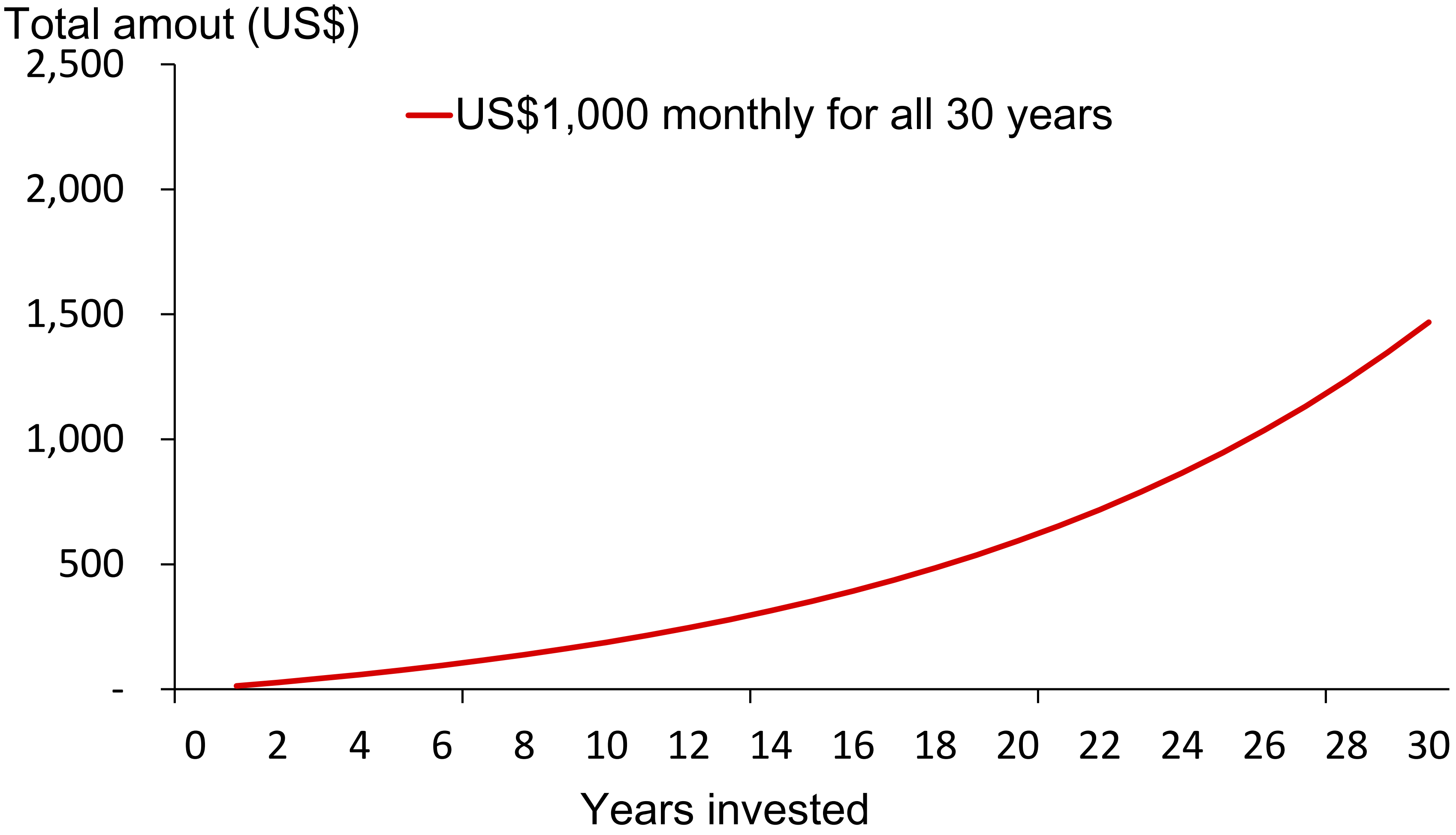
$1,000 per month over 30 years at 8% return



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- ⋆ If you invested equally over 30 years
- ⋆ $360,000 contribution would grow by 4x to be $1,468,000

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#1: Postponing investing

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- Now assume that you contributed the same $360,000 over only the second half of the 30 years ($2,000/month beginning in year 15)
  - **This $360,000 contribution would grow to $704,000 by year 30**

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#1: Postponing investing

★ It is less because the magic of compounding was only able to happen in the second 15-year period of the 30 years

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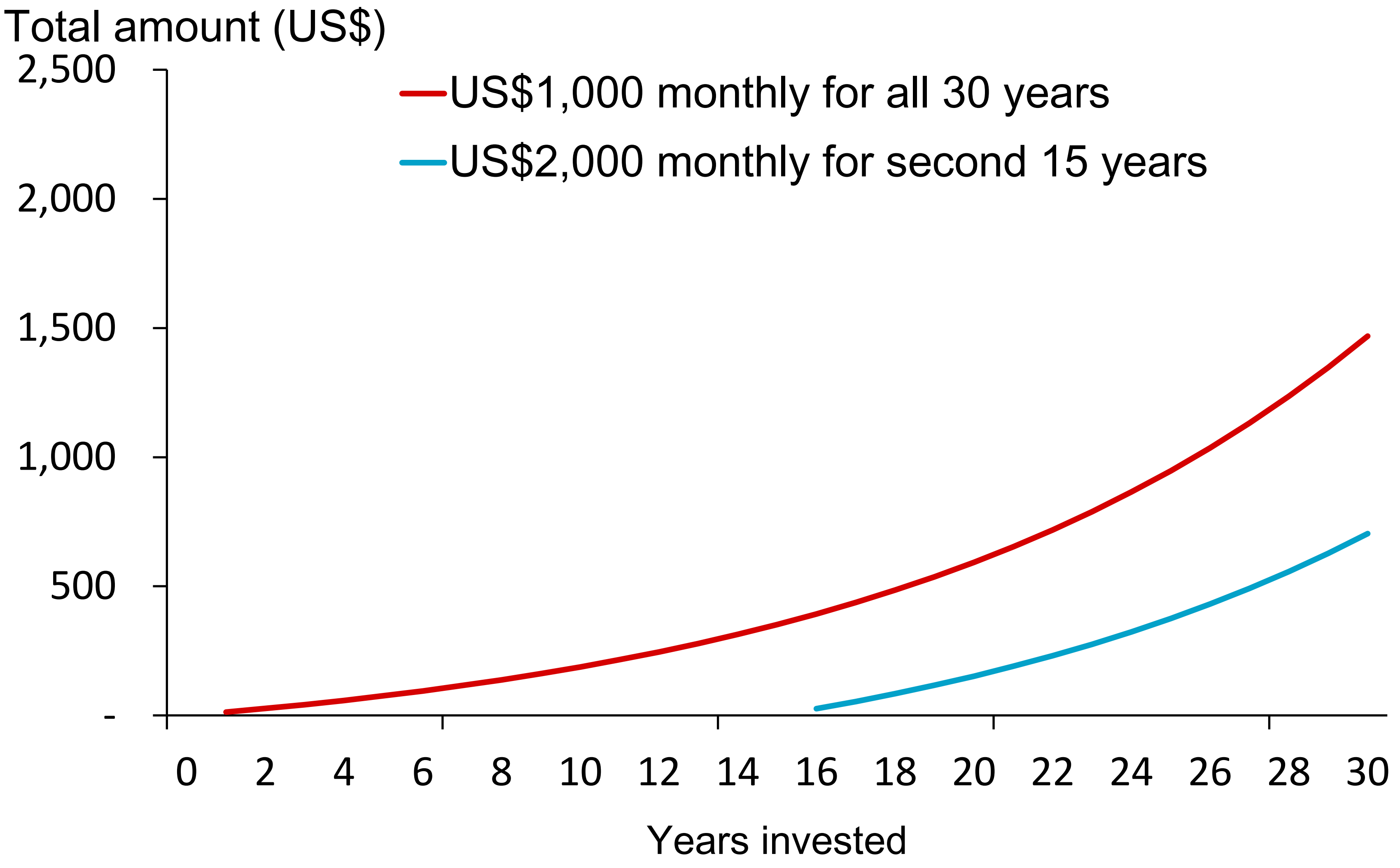
Doubled investment in the second 15 years



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- ⋆ You invested equally over only the second 15 years
- ⋆ $360,000 contribution would grow by 2x to be $704,000

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#1: Postponing investing

- What do you think the $360,000 contribution would grow to be at year 30 if it was invested only over the first 15 years?

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#1: Postponing investing

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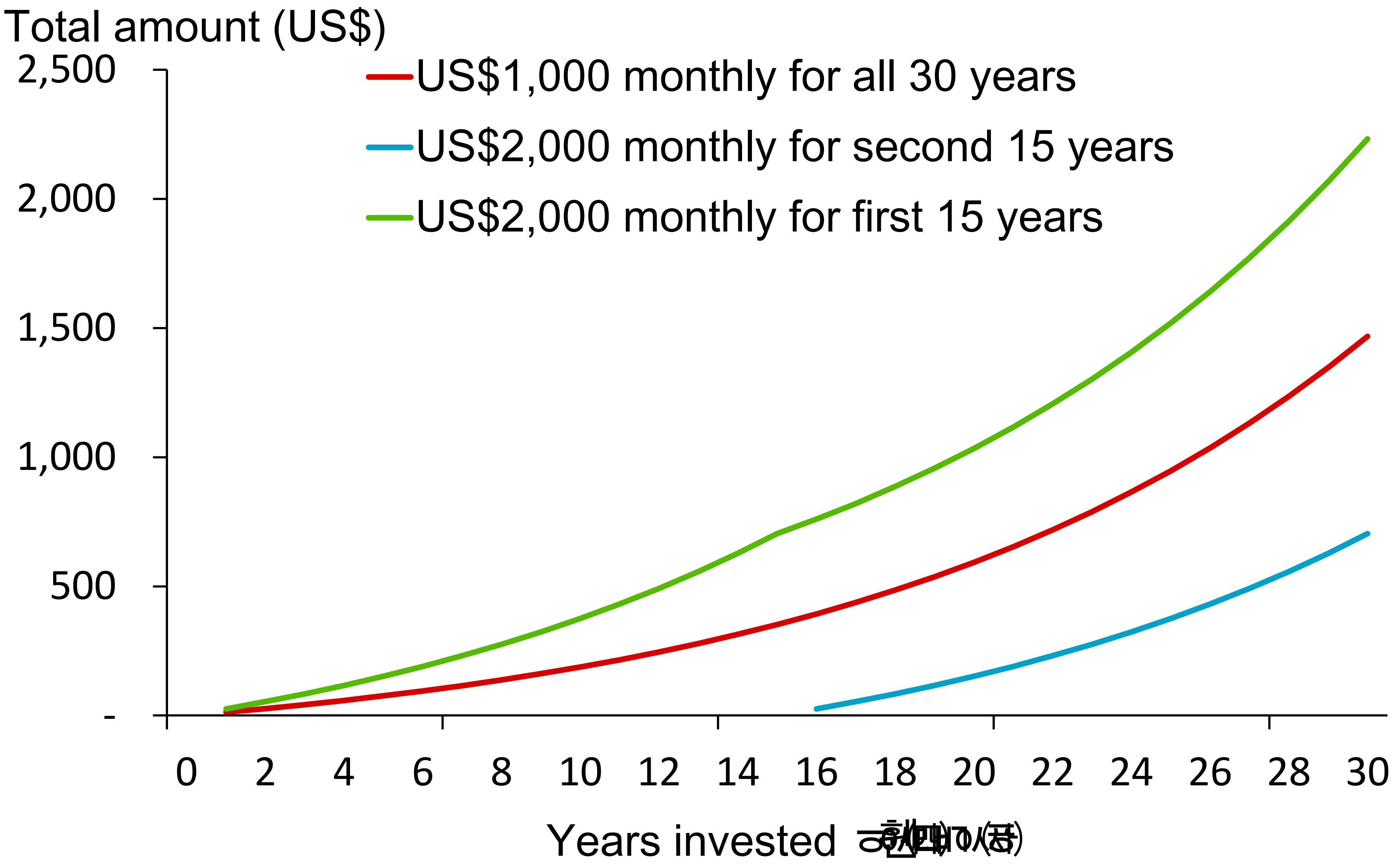
- Equally over the 30 years = $1,468,000
- Equally over the last 15 years = $704,000
- Equally over the first 15 years = ???

Doubled investment in the first 15 years



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- ⋆ If you invested equally over only the first 15 years
- ⋆ $360,000 contribution would grow by 6x to be $2,233,000

#1: Postponing investing

- ★ The chart shows that amazingly, it would grow to become more than $2 million ($2,233,000 to be exact!)
- ★ Because the money would have had much more time to compound

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#1: Postponing investing

- **Lesson**: An equal amount of money contributed in the 1st half of this period was >3x more valuable than money contributed in the final half of the period

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#1: Postponing investing

- Letting your money grow over a long period is the best thing you can do to ensure your financial success

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#1: Postponing investing

- ★ You may enjoy spending your money in the moment, but if you do not start investing while you are young, you will pay for the mistake of procrastination as much as threefold

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#1: Postponing investing

- Pay 1 now or 3 later, it's your choice

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#2: Losing money when you are young

- But what if you made a mistake?
- Let's use the prior case of contributing $1,000 per month for 30 years

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#2: Losing money when you are young

- ★ But let's assume that after five years someone tells you about an amazing stock to buy, you put all your money in it and wait
  - **Then it collapses by 30%!**
- ★ Boom! Your portfolio loses 30% in that year

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#2: Losing money when you are young

- Then, five years later, in the 10th year, a friend asks you to invest in her restaurant
- You sell 30% of the stocks in your portfolio, and invest that cash into your friend's restaurant

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#2: Losing money when you are young

- But the restaurant fails, and you lose all that money
- This would cause a second 30% fall of your investment portfolio

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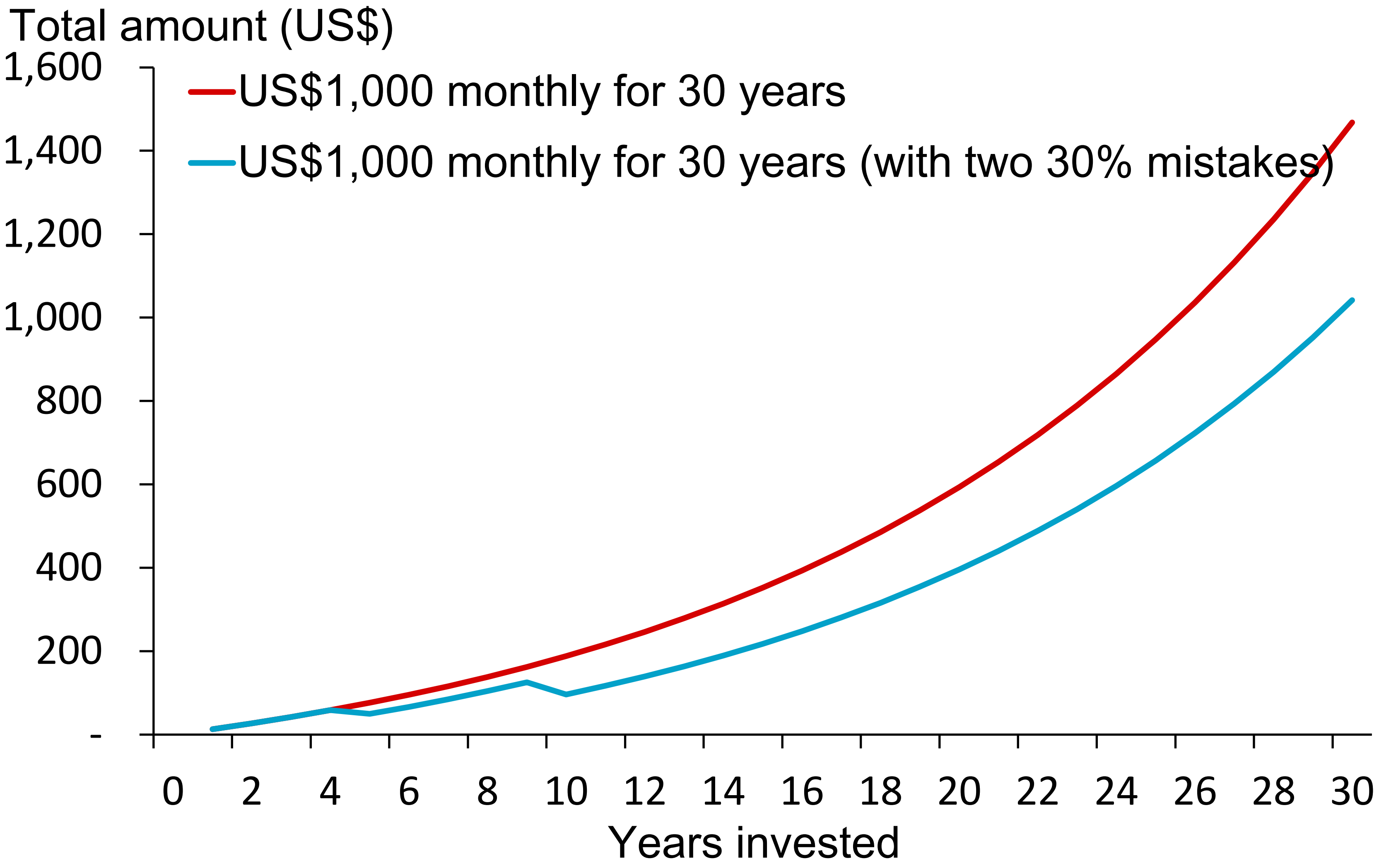
Two mistakes where you lose 30%



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#2: Losing money when you are young

- The $1,468,000 you would have had at the end of year 30 now becomes $1,042,000
- You lost nearly 29% of the terminal value from just two mistakes over 30 years

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#2: Losing money when you are young

- ★ Unfortunately, because of the effect of compound interest, the impact of your losses are magnified, because every dollar lost is a dollar that is not compounding interest for you

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#2: Losing money when you are young

- ★ If you follow my advice, you should be able to avoid making mistakes while you are young
- ★ Of course, you should also try to avoid them when you are older!

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#3: Overreliance on finance professionals

- ★ Don't listen too much to financial professionals

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#3: Overreliance on finance professionals

- Studies, including my own, have shown that even when they want to help you, on average, they don't beat the market

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#3: Overreliance on finance professionals

- When I was a financial analyst at an investment bank, like my peers, my goal was to make earnings forecasts, set target prices, and make “buy”, “sell”, or “hold” recommendations for individual stocks

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#3: Overreliance on finance professionals

- ★ Since that time I have done my own research which has shown that no matter how hard-working or impressive a financial professional is, on average, they are rarely able to consistently beat the market;

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#3: Overreliance on finance professionals

- The best they can usually do is match the performance of the stock market
  - But over the long-term it is more likely that they will underperform the stock market

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#3: Overreliance on finance professionals

- ★ In fact, when it comes to estimating what the price of a stock will be in a year, one of my studies showed that

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#3: Overreliance on finance professionals

- ★ Most of the time professional financial analysts were wrong by about 25%

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#3: Overreliance on finance professionals

- ★ This is mainly because in the investment world, professionals are often paid to appeal to emotions by exaggerating their predictions

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#3: Overreliance on finance professionals

- ★ In my research I have found a pattern in their predictions:

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#3: Overreliance on finance professionals

★ They are consistently overoptimistic in their predictions at the beginning of each year, but by the end they become much less optimistic

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#3: Overreliance on finance professionals

★ The following chart shows this pattern happening repeatedly

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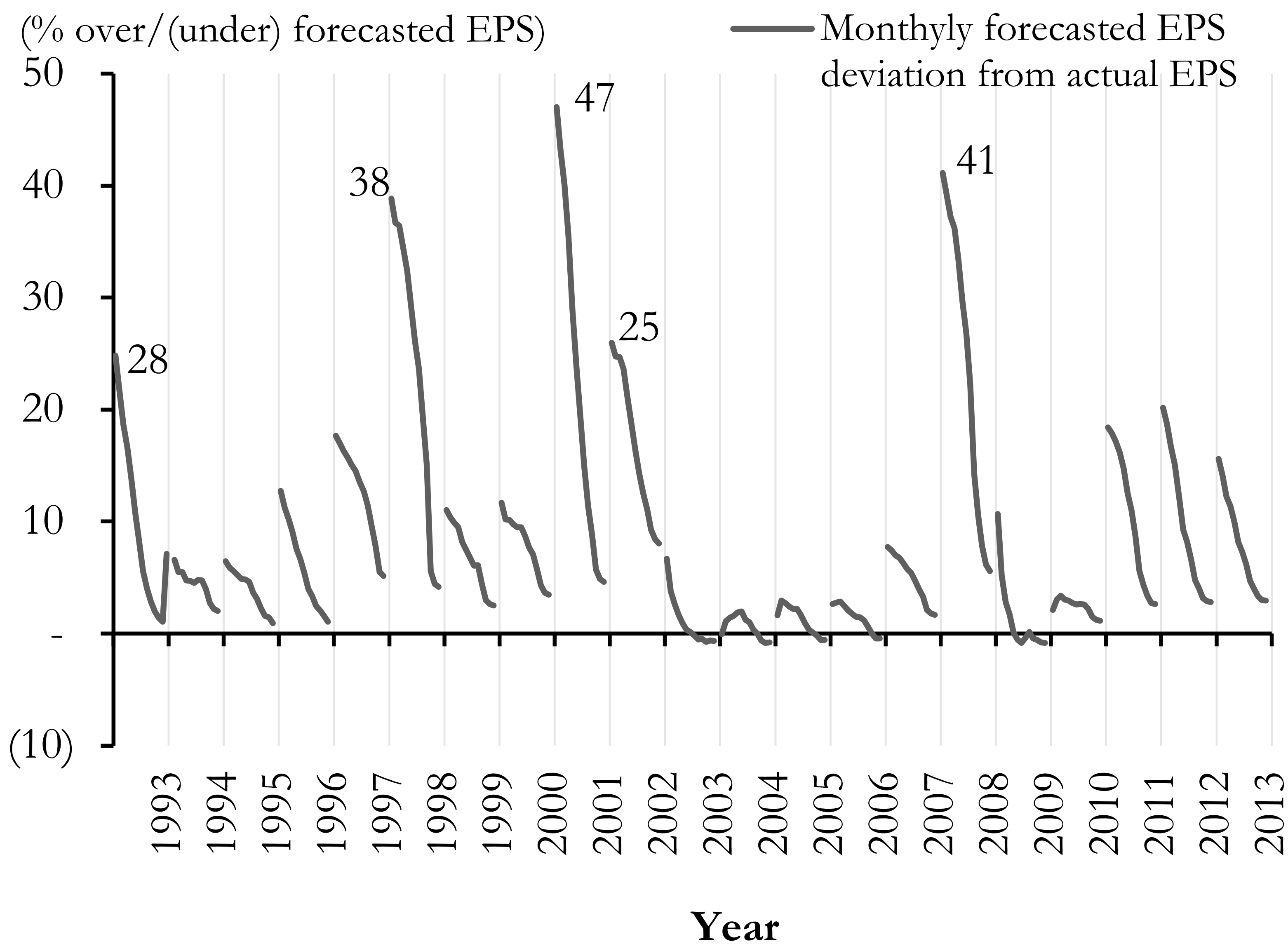
Research show analyst optimism bias



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#3: Overreliance on finance professionals

- Further research I have done shows that relying on analysts' forecasts rarely makes us more money than just looking at the market ourselves and studying the past performance of any given company

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#3: Overreliance on finance professionals

- And of course, this makes sense!
- If an analyst really had the secret to predicting the market, why would he share it?

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#3: Overreliance on finance professionals

★ If he kept it to himself, he would have the chance to be the richest person alive!

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#3: Overreliance on finance professionals

- It would make no sense to share that information
  - Even Warren Buffett only explains what he did after he did it, not before

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#3: Overreliance on finance professionals

- In conclusion, do not believe advisors or newsletters when they say they will provide you the secret

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#3: Overreliance on finance professionals

- ★ If they had a “secret”, they would not be selling it
- ★ Don’t be tempted into believing that there is someone out there who knows

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Youthful mistakes hurt more than you think

- To sum up, you must avoid the mistake of waiting to invest
- Every day that you procrastinate is a day that the magic of compounding is not working for you

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Youthful mistakes hurt more than you think

- If you start investing early and avoid being overly dependent on financial professionals, you will be well on your way to a solid financial future

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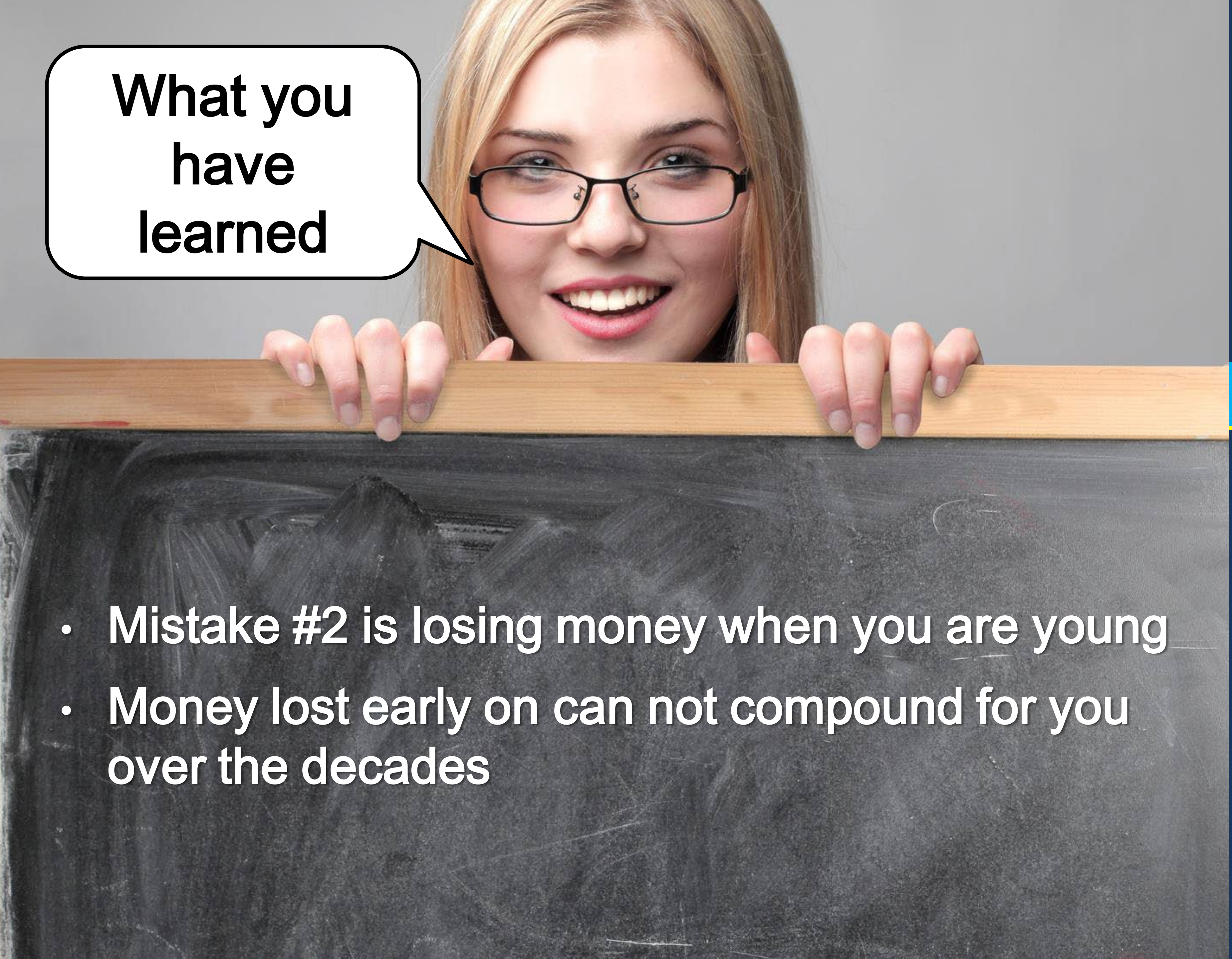
- Mistake #1 is postponing investing
- Early contributions are about 3x more valuable to reaching financial independence than later contributions



- Mistake #2 is losing money when you are young
- Money lost early on can not compound for you over the decades

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- Mistake #3 is an overreliance on financial professionals
- You must learn to take responsibility for your own money

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Make big mistakes early in life

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Avoid mistakes when you are young

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