To Heck With The Rosebuds, Gather Ye Snowballs

"Life is like a snowball. The important thing is finding wet snow and a really long hill." – Warren Buffett

This is a busy time of year in every household with school-age children. In addition to preparing for year-end exams, there are proms and sports banquets to attend, and this year, for our household, there is a high school graduation ceremony. Amid all this, there was also an 18th birthday celebration. All good, but there's more than a hint of awareness that these are milestones passing, and for us, these will be the last of their kind.

I have a penchant to drift unnecessarily into melancholy, and so with all these "triggering" events approaching, I was pleased to experience something acutely positive. For her 18th birthday, my daughter asked me to help open an investment account so she could start investing.

First of all, I was thrilled to have been asked even for my opinion on something, let alone assistance. Talk about a milestone. This was huge. For perspective, this is the same daughter who would rather risk failing a math class instead of asking her math-major brother for help. Second, I was overjoyed that even the tiniest spark of interest in investing might be alive in her mind, not just because I love it but because starting early is perhaps the single most important thing a young person can do.

We are sometimes asked what the best investing apps for young people are or what the best kinds of accounts are. My answer is it doesn't matter. The fact that a young person is thinking about their financial future is already a huge win.

Sure, if the 18-year-old has some earned income, one could help them open a Roth IRA. The teen could then enjoy the benefits of tax-free growth and also tax-free withdrawals in retirement. But unless the teen is especially industrious and earns significant income, investing in the account will be limited to some fraction of earned income and, due to other claims on the youngster's time, such as school, the account might languish.

I believe that any account is a good investment account for young beginners because of the extraordinary favor they do themselves if they can incorporate the power of compounding into their lives as soon as they can.

The primary lesson I would like for my daughter to learn is that the earlier an investor gets started the better. Warren Buffett created virtually all of his current net worth after he turned 50, but that's because he started when he was 11 years old. The power of compounding is truly the eighth wonder of the world.

Here's an example I have shared with her and with other young people.

There are three investors: Ralph Short, Jane Middle, and Billy Long. Ralph is 40 years old. Jane is 30 and Billy is a mere 20. They each start investing with $10,000. They each earn 10% per year on their investments. On Ralph Short's 50th birthday, he will have about $26,000. On Jane Middle's 50th birthday, she will have about $67,000. As for Billy, he will have an account worth more than $174,000. Moreover, in the last five years, before Billy Long turns 50, his account will increase in value by $66,000, almost as much as Jane's final balance and more than double Ralph's balance. That's where the compounding shows up.

What's more, even if Ralph earned 20% per year for ten years, his account would still be less than a third of the size of Billy Long's. The moral of the story? It pays to think "Long-term."
I know, Dad humor is just the worst...

Investor	Invested	Rate of Return	Years	Value at 50
Ralph Short (40)	$10,000.00	10%	10	$25,937.42
Jane Middle (30)	$10,000.00	10%	20	$67,275.00
Billy Long (20)	$10,000.00	10%	30	$174,494.02
			vs. Jane	$107,219.02
			vs. Ralph	$148,556.60
Investor	Invested	Rate of Return	Years	Value at 50
Ralph Short (40)	$10,000.00	20%	10	$61,917.36
Jane Middle (30)	$10,000.00	15%	20	$163,665.37
Billy Long (20)	$10,000.00	10%	30	$174,494.02

There are plenty of apps that offer easy access to markets, offering free trading, but personally, thinking about this during the same month that online gambling just became legal in North Carolina, I do not think teaching a young person how to trade stocks is the same thing as teaching one to invest for the long term. With some counsel, a young person might be convinced to just make regular contributions, no matter how small, to an investment account and then NOT trade the account. Developing that habit, the reflex of saving and investing, is just as important as developing good study habits or exercise habits.

Yes, there is value in teaching a young person what a stock is and what a bond is and how to evaluate investment opportunities, and I will go further in saying that the lack of financial literacy in this country is becoming a national crisis. That's why it is especially fantastic when young people (and not-so-young people) have concrete financial goals such as saving for a down payment on a house or having a retirement bucket. But those are separate issues. By far the most important lesson is getting a young person to appreciate the extraordinary advantage they have in having a longer expected time horizon.

So, while I've got my daughter's attention, we're going to open this account and get going. She can gather rosebuds later. Today, snowballs.

M. Burke Koonce III
Investment Strategist, Principal
bkoonce@tcts.com

DISCLOSURES

This communication is for informational purposes only and should not be used for any other purpose, as it does not constitute a recommendation or solicitation of the purchase or sale of any security or of any investment services. Some information referenced in this memo is generated by independent, third parties that are believed but not guaranteed to be reliable. Opinions expressed herein are subject to change without notice. These materials are not intended to be tax or legal advice, and readers are encouraged to consult with their own legal, tax, and investment advisors before implementing any financial strategy.