Personal Finance

- Girl Money Notes and Explanations
- Debt
- Personal Sacrifice & Delayed Gratification
- Gamestop & Market Manipulation
- Investing

Girl Money Notes and Explanations

Girl Money Spreadsheet Explainer

Some of my thoughts about how your money is organized and a few crib notes of the /r/personalfinance wiki and their young adults wiki.

Some Steps to Take

Step 0

Set up a realistic budget for yourself. Since you’re in school, you could break it down by each semester and the summer (~15 weeks in each). You largely know what your expenses are. To help you get a better understanding of what things cost, I think you should include all the stuff your folks pay for (tuition, phone, car insurance, etc) and include them on the income side too. In the personal finance world, we say to cover your “four walls” first:

1. Housing (rent/mortgage/dorm),
2. Food (groceries/meal plan)
3. Essentials (water/heat/toiletries, etc)
4. Income earning expenses (car payment/insurance, internet/phone plan)

Great news, your four walls are adequately covered! Again, I’d still account for them in your expenses so it helps you have a good understanding of your finances, but you’re in great shape.

You could do a simple budget in Google Sheets (I’ve got your first year school setup in the spreadsheet) or use budgeting software like Actual. I have Actual self-hosted for free on my personal server, if you want to do something like that. I would love to help you get it setup.

My advice is to break your budgeting down by weeks per semester, throw all the things that you might spend money on and all your sources of income in there to have a good understanding of what is going where. Don’t break out expenses across the semester as an average, instead put the amount that is due/earned in the cell of the week that it happens.

Don’t get too worked up about this, it’s just for visualizing purposes. You’re safe, secure, and blessed. You are enough. Your parents are taking care of most of this stuff for you, and that’s ok.

Step 1

Build a “baby” emergency fund of $1, 000. Now that you have an idea of what it costs for a semester, you might have a better idea of what your “regular” emergency fund should look like. You said you are setting aside $1,000 for your emergency fund - that’s AWESOME. This is checked off the list!

Your emergency fund should be liquid, but not attached to your primary bank/checking account so that if you have an emergency you can cover the cost right away but you also aren’t tempted to “splurge” or dip into your emergency fund for frivolous things. In your current account setup the best places for your emergency fund should be either your Wealthfront account (5.5% interest until August, then 5% after that) or your the cash fund of your Vanguard Brokerage account (I think it was about 4.65% if my memory serves). Just make sure you move it out of your checking account and into one of these interest bearing accounts.

You should only use the emergency funds for true emergencies that are unexpected and urgent. Examples include sudden medical expenses, emergency travel home, unexpected car repairs, or replacing essential items like a broken laptop needed for schoolwork. It's crucial to avoid using this fund for non-essential expenses like concert tickets, new clothes, or planned outings. The main purpose of your emergency fund is to provide financial security and peace of mind, ensuring you have a safety net for life's unforeseen challenges during your college years.

Step 2

Is technically “pay off debts”. You don’t have any. Keep it that way.

Step 3

Build up your fully funded emergency fund (FFEF). This is probably not going to be relevant until you’re out of school. If you decide to start working in the spring semester, it might be more relevant, but don’t starve yourself or really struggle to get this done until after graduation.

The general rule of thumb is 3-6 months of ESSENTIAL expenses (and I like to use the most expensive 3-6 months of the year). You should grow your $1000 into the FFEF by cash flowing it or using windfalls (gifts, inheritances, etc.). Again, since you’re in school this is a low priority. Once you graduate though, protect yourself by getting this done.

Step 4

Step 4 and beyond are about getting your retirement in place and saving for stuff bigger expenses like a house and stuff like that. If you start a business while you’re in school or get hired full time while you’re still in school or something, we can go more in depth, but for the next 4 years this is where you should stop. If you have this steps 0 - 3 in place, you will be way ahead of most full-grown adults: you’ll have a positive net worth coming out of college! Congratulations!

Accounts Structure & Planning

I wanted to leave you with some notes about what all we setup the weekend of your highschool graduation. It all happened quickly, and it’d be easy enough to not remember it all in the best of circumstances.

Personal Banking - Central Bank

- Checking account: this is where you should be depositing your paychecks. In theory, it’s attached to a debit card so you can easily access your money. Move your money from other accounts (Vanguard/Wealthfront) from here into there.

- Savings account: honestly, savings accounts like this are just not useful these days. Once upon a time, they bore more interest and were useful for consumers like us, but nowadays there are better places to keep your money. If you want to keep track of very short term savings, this is an ok place to do it.

High Yield Savings - Wealthfront

- This is the account we set up for you to store your fall semester $2,000. For the first three months it will earn 5.5%, and then 5% after that, unless the Federal Reserve Chairman adjusts rates (they could go up or down. You'll get emails from Wealthfront when they change, just keep an eye out). Instead of taking all the money out at once, transfer your budgeted amount each week - you'll earn more interest that way!

Investing - Vanguard

- Brokerage account: this is your "stock gambling account". The money in this account is taxable if you make a profit, even if you already paid income taxes from a job on the money. That's ok though: you only pay taxes when you make money! Only "gamble" with money you can afford to lose. If you want to save for a long term (3-5 years) goal, you could put money into conservative ETFs that are a mix of stocks. If you have money in the brokerage account that is not in a stock or a fund, it bears interest at 4.65% (when you set it up). This rate will fluctuate similarly to Wealthfront. Not a terrible place to sock away cash if you have nowhere else to put it.
- ROTH IRA: This is your retirement fund. You initially wanted to fund it with $2,000-$3,000. Once you put the money in there, don't forget to invest it in a mix of the Vanguard 2070 Retirement Fund and a fund that tracks the market like the Vanguard S&P ETF (VOO) or the Vanguard 500 Index Fund (VFIAX). They are very similar; you don't need both, and the differences are so small as to be irrelevant. If it were me, I'd go with VFIAX. Make the 2070 retirement fund the majority of your purchase (some where between 55%-60%) and the remainder in VOO or VFIAX. If you put more money in, don't forget to buy more funds! Once you buy funds in this account, let them play. If you want to try other strategies, do it with new money you add to this account - don't mess around trying to "game the market". You're in this for the long haul.

Until you get an employer sponsored retirement account like a 401k or a 403b, this is where you stick money you want to save for retirement (plan to put in ~10% of your gross income if you don't have a work sponsored account). You shouldn't plan to touch it until you're a little old lady. If you withdraw from this account, you'll probably be hit with really high tax penalties.

Long-term Planning

When we were talking, you mentioned that you wanted to start making a plan for a few long-term goals. That’s a great idea! It’ll take a little work and some sacrifice, but you can really set yourself up for a lifetime of success with good goal planning. In Boy Scouts, our leadership training uses the concept of “building a ticket” and SMART Goals to make a plan. Within each ticket you build SMART goals that correspond to specific areas in your life. One of your tickets should be for finances. You could have short-term and/or long-term goals in a ticket.

For example: "I want to have a down payment on a house." As it is written, it’s just a dream. No specific timeframe, no amount, no way of knowing whether it is achieved. A SMART goal would be, "By my 25th birthday (April 20, 2031), I will have saved $60,000, or 20% of a $300,000 house."

- Specific: The amount to be saved is clearly defined as $60,000 for a $300,000 house.
- Measurable: The goal is quantifiable; you will know if you have reached $60,000.
- Achievable: Consider whether saving $60,000 by the target date is realistic, which requires saving about $8,600 per year. It should be within your control and not reliant on external factors like inheritances or winning the lottery.
- Relevant: The goal is aligned with your personal desire to own a house, making it significant and meaningful.
- Timely: The goal has a clear deadline of your 25th birthday, providing a specific timeframe for achievement.

SMART goal planning doesn’t have to just be for finances! It can also be used for school, health, work, business, and pretty much anywhere you want to achieve success.

Debt

Debt is a significant financial burden that poses considerable risks and detrimental effects, particularly for young people and those with neurodivergences. The inherent danger of debt lies in its capacity to perpetuate a cycle of financial instability and stress, which can severely impact an individual's overall well-being and future prospects.

For young people, the allure of debt often comes in the form of student loans, credit cards, and personal loans, all of which promise immediate access to funds with the deferred responsibility of repayment. This immediate access can lead to poor financial decisions and an accumulation of debt that becomes increasingly difficult to manage over time. The burden of debt can hinder young individuals from achieving key life milestones such as purchasing a home, starting a family, or investing in their education or career development. The pressure to repay these debts can lead to chronic stress and anxiety, which can have long-term negative effects on mental health and quality of life.

Moreover, young people are often at the beginning stages of their financial literacy journey. Without adequate education and guidance on managing finances, they may not fully comprehend the implications of taking on debt. This lack of understanding can result in a vicious cycle of borrowing to pay off existing debt, leading to a perpetual state of financial insecurity. The long-term repercussions of this can include poor credit scores, limited access to future credit, and reduced financial opportunities.

For individuals with neurodivergences, the dangers of debt are compounded by the unique challenges they face in managing finances. Neurodivergent individuals may experience difficulties with executive functioning, which includes planning, organization, and impulse control. These challenges can make it more difficult to adhere to budgeting plans, resist impulsive spending, and keep track of repayment schedules. The stress associated with debt can exacerbate existing mental health conditions, creating a feedback loop where financial strain leads to increased psychological distress, which in turn impairs the ability to manage finances effectively.

Furthermore, neurodivergent individuals often face systemic barriers to stable employment and fair wages, which can limit their ability to generate sufficient income to repay debts. Discrimination in the workplace, lack of accommodations, and misunderstandings about their capabilities contribute to economic disparities that make it harder for them to achieve financial stability. Consequently, debt becomes an even more precarious burden, as it not only threatens their financial security but also their mental and emotional well-being.

In conclusion, debt is a perilous financial obligation that can have far-reaching and harmful effects, particularly for young people and neurodivergent individuals. The combination of financial inexperience, systemic barriers, and the psychological impact of debt underscores the need for comprehensive financial education, supportive policies, and tailored interventions to help these vulnerable groups navigate the complexities of debt management. By addressing these issues, we can mitigate the risks associated with debt and promote a more financially secure and equitable future for all.

Personal Sacrifice & Delayed Gratification

Personal sacrifice, particularly in the form of delayed gratification, is an essential component of achieving financial success for individuals within the lower and middle classes. This principle is rooted in the idea that immediate desires must often be postponed to secure a more stable and prosperous future. The path to financial success is fraught with challenges, and those who can master the discipline of delayed gratification are better positioned to navigate these obstacles effectively. One specific and often contentious aspect of this principle is the avoidance of debt, even so-called "good" debt such as student loans.

Avoiding debt altogether requires a high degree of personal sacrifice and discipline, but it can yield significant long-term benefits. Debt, regardless of its purpose, imposes a financial burden that can hinder one's ability to save and invest. For individuals in the lower and middle classes, this burden can be particularly heavy. Interest payments and loan repayments can consume a substantial portion of one's income, leaving less room for savings and investments that are crucial for financial growth.

By committing to a debt-free lifestyle, individuals can focus on living within their means and building wealth through savings and prudent financial management. This approach requires a keen awareness of one's financial situation and a willingness to make sacrifices, such as forgoing luxury items, minimizing discretionary spending, and prioritizing essential expenses. The discipline of delayed gratification plays a crucial role here, as it involves consistently choosing long-term financial stability over short-term pleasures.

The avoidance of student loan debt, in particular, highlights the importance of alternative strategies for achieving financial success. Higher education is often seen as a pathway to better job opportunities and higher earning potential, but it frequently comes with the heavy burden of student loan debt. By seeking out alternatives such as scholarships, grants, work-study programs, or attending more affordable institutions, individuals can still pursue educational advancement without incurring debt. Additionally, vocational training, apprenticeships, and online learning platforms can provide valuable skills and qualifications at a fraction of the cost of traditional college degrees.

One of the primary benefits of delayed gratification is the accumulation of savings. By consistently setting aside money, individuals can create an emergency fund that provides a safety net in times of unexpected financial hardship. This cushion can prevent the need for high-interest loans or credit card debt, which can trap individuals in a cycle of financial instability. Furthermore, savings can be directed towards investments that grow over time, such as stocks, bonds, or real estate. These investments can generate passive income, increasing one's wealth and financial security.

In addition to savings, personal sacrifice in the form of delayed gratification allows for the strategic allocation of resources towards education and skill development. Higher education and specialized training often require significant financial and time investments, but they can lead to better job opportunities and higher earning potential. For individuals in the lower and middle classes, investing in their human capital can be a powerful means of improving their economic standing and breaking the cycle of poverty.

Another critical aspect of avoiding debt is the emphasis on building an emergency fund and saving for major expenses in advance. This proactive approach ensures that individuals have the financial resources to handle unexpected costs and significant life events without resorting to loans or credit. Establishing a robust savings plan requires consistent effort and the ability to delay gratification, but it provides a sense of security and financial independence that is invaluable.

Furthermore, avoiding debt fosters a mindset of financial responsibility and careful planning. Individuals who are committed to remaining debt-free are more likely to develop and adhere to a budget, track their spending, and make informed financial decisions. This level of financial literacy and discipline can lead to better money management overall, reducing the risk of financial crises and enhancing one's ability to achieve long-term goals.

In conclusion, personal sacrifice through delayed gratification is a fundamental strategy for achieving financial success, particularly for the lower and middle classes. By avoiding debt altogether, even so-called "good" debt, individuals can focus on building wealth through savings, careful financial planning, and prudent management of resources. This approach requires significant discipline and a willingness to make sacrifices in the short term, but it offers the long-term benefits of financial stability, independence, and security. Embracing a debt-free lifestyle not only alleviates the financial burden of interest and repayments but also fosters a mindset of responsibility and long-term planning, paving the way for sustainable financial success.

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