SUMMARY

MILLENNIAL MONEY MAKEOVER

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Summary of “Millennial Money Makeover” by Connor Richardson

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How to transcend your money woes (yes, even as a millennial!)

Introduction

Money: we all know it’s important. But it’s not necessarily something we all know a lot about. For example, we might know that it’s important to manage our finances wisely, to budget, to save, to stay out of debt, but we might not be able to identify concrete action steps that will help us do that. It can be even tougher when you feel like the financial deck is stacked against you, and unfortunately, that’s the future that many millennials face. But those struggles don’t have to write a future of financial despair. Over the course of this summary, we’re going to unpack some hard truths about money management and learn how you can achieve financial success. By exploring some of the author’s theories on personal finance, you can discover the key to successful budgeting, saving, and making valuable investments. So, let’s dive in! Your financial future can only get better from here!

The Millennial's Financial Frontier

As a millennial, you've probably noticed that this is not your grandma's economy. Despite the frequent lectures about how, "Back in my day, I bought a house right out of college!" or "I worked hard to support myself through school-- what are you kids whining about?" the truth is that most millenials aren't just lazy. They're actually living in a radically different economic landscape. And as much as people from older generations might mock millennials for moving in with their parents after college, the logic behind that isn't as straightforward as it seems. No, you're not just looking for a hand-out, and no, you don't expect your parents to keep supporting you until you're forty. But what else can you do when you're crippled by $120,000 worth of student loan debt and your job pays minimum wage?

This is the economic landscape millennials have been forced to navigate, often with little or no support. So, if they seem to find a lot of enjoyment in seemingly frivolous things like Netflix and memes, can you blame them? At the core, these are really just harmless coping mechanisms and not, as some baby boomers might assume, indicators of laziness or stupidity. But now that we've addressed some of the most common misconceptions we might have about millennials, let's take a closer look and develop our understanding of millennials in relation to America's economy. Although "millennial" has become a synonym for "young person" and is often used in a derogatory context, the term can't be applied with such broad brushstrokes. That's because the term "millennial" actually applies exclusively to people who were born between 1981 and 1996. So, even though you might want to rant at your 16-year-old granddaughter for being "such a millennial" because she's always on her phone, as of 2020, the youngest millennials will only be between 23 and 24 years of age. So, not all young people are millennials!

But what makes millennials different from other generations? As you've probably already guessed, one of the big distinguishing factors is the obstacle course they have to navigate to achieve financial success. Gone is the climate of the 1950s, where you could expect to land a good job in your field following your college graduation. With that, we've also lost the expectation that you can buy a decent house relatively early, enjoy your status as a homeowner, and work one steady job until you're ready to retire and live comfortably off a combination of your savings and investments. The stock market crash of 2008 changed all of that forever. Everyone hopes to graduate college with a good job and a bright future ahead of them, but as the oldest millennials entered the workforce, that possibility was increasingly scarce. The milestones we use to define success-- like a promising career and financial stability-- hadn't changed, but the ability to procure those things had. And the worst part was that no one really knew what to do about it.

And even though we've since worked at rebuilding our economy, the age of financial insecurity isn't over. Those same millennials are still struggling in jobs whose salaries can't stretch to meet the cost of housing. Owning your own home before you're thirty is a distant pipe dream for most; moving in with your parents has become the new norm as young professionals strive to save a little money in the hopes of getting by. And with the mounting pressure of student loans and credit card debt to pay off, saving for retirement is off the table entirely. In fact, many young professionals feel that they can't afford to even think that far ahead; they're too busy trying to get on their feet right now!

As a result, it's hardly surprising that studies reflect some pretty sobering statistics: for one thing, 70% millennials have reported that they experience high levels of finance-related stress. Secondly, 72% of millennials have indicated that they have less $10,000 in savings. And most disturbingly of all, a 2014 Gallup study conducted by The George Washington School of Business found that over 76% of millennials are financially illiterate. This means that they lack knowledge of even the most basic personal finance concepts. And if that describes you, chances are, you feel pretty scared on a daily basis! But over the course of the next few chapters, we're going to learn about what you can do to make up for that knowledge deficit and achieve financial success.

The Greatest Financial Commodity

If you had to guess, what would you say is the greatest financial commodity you can possess? Would it be stocks? Bonds? Investments? A hefty savings account? All of these are valuable, but here's the shocker: none of these things are the key ingredient to achieving financial success. That's because the most valuable financial commodity you can have is confidence. If that sounds like overly simplistic advice, think again! Confidence matters because our financial decisions are most heavily influenced by our emotions and not by how much information we have.

For example, how many times have you thought, "Screw it!" and purchased something just because you really, really wanted it, even though you knew it was unwise and you probably couldn't afford it? This can be especially dangerous with credit cards-- and pretty much everyone knows that-- but that doesn't always stop us from thinking of credit cards as free money and letting our future selves worry about how to deal with debt. Similarly, how often do we neglect to invest our money or attempt to do our taxes on our own? We know that there is a wealth of information out there on both topics and that those resources almost unanimously encourage us to do both. But because we're apprehensive or feel as though we don't know enough to safely make investments or handle our own taxes, we decline to do so out of fear.

That's why financial confidence matters. Because if we start with a baseline of confidence in our own abilities and our capacity to understand, we'll be better equipped to make sound financial choices. Here's what you can do. The first step is to cut through the noise. As consumers, we're frequently on the receiving end of confusing mixed messages; loans promise us the ability to realize our dreams, but hide the crippling interest rates in fine print. Similarly, credit cards offer the opportunities to get what we want right now, preying on our desire to live in the moment and forget the importance of building a strong credit score. These cues are enough to scare us to death and make us stingy and suspicious, but at the same time, we are constantly bombarded by pressure from commercials, ads, and social media to keep up with the latest and greatest trends. These conflicting inputs often leave us feeling helpless and confused, which can result in a checkered financial history.

But if you have a history of making unwise financial decisions, the good news is that it doesn't mean you're inherently bad with money and it definitely doesn't mean you're beyond hope. Instead, it simply means that you need more confidence and understanding about what smart financial decisions look like and how they can be attainable for you. Reenvisioning your concept of financial success is one step that can help. We all have an idea of what financial success looks like but we rarely articulate it to ourselves in the form of outlining a concrete plan for actually achieving that success. For example, would you define financial success as having multiple vacation homes, a private yacht, and fancy cars? Or do you instead view it as having a stable job, a steady paycheck, and the ability to provide for your family?

There's no right or wrong answer to that question; the important thing is simply to understand what financial success looks like for you because that will help you construct a viable definition that you can work towards. It can also help you get rid of some unrealistic misconceptions that might trap you in an unhealthy cycle of financial decisions. For example, if you believe that you're only "financially successful" when you own three lamborghinis and a wealth of designer clothes, then anything that falls short of that is going to strike you as unsatisfying. It might also create a cycle of perpetual disappointment and discontent if you feel that you'll never be able to attain those dreams. This might result in you making a lot of unwise impulse purchases in a desperate bid to live as much of the high life as you can right now, only to regret it when this too is revealed to be beyond your budget.

So, how can you break free of this cycle? The author suggests that crafting a realistic version of financial success is the key to freedom. Maybe you can totally achieve that vision of wealth you dream about. Or maybe that's just not in the cards for you. One way or another, it's important to rip the bandaid off once and for all and be truly realistic with yourself about your future plans. Because it might be that mega wealth isn't the realistic option for you-- but financial autonomy is. Financial autonomy is defined as the ability to live without debt and to establish a substantial savings account. When you're financially autonomous, you can afford to rent your own apartment or make payments toward your own house. You can splurge on small luxuries, and even take time off for a vacation.

And once you've built a solid foundation of financial autonomy, you can move on to the next (even better) stage: financial freedom. If that sounds pretty great, that's because it is! Financial freedom is the stage where you get to be free of the worry of living from paycheck to paycheck. In this stage, you're no longer beset with worries like, "If I buy this, how will I afford groceries?" or the terror that comes with emergencies necessitating new expenses. When you have financial freedom, you might be able to embark on a "grown up gap year" and quit your job to travel for a year! You might even be able to sink some money into funding a start-up! In the next chapter, we're going to dive in and take a closer look at the steps necessary for achieving financial autonomy and (ultimately) financial freedom.

Overcoming Debt

As we've discussed in the previous chapters, debt is one of the most crippling obstacles millennials face when it comes to achieving financial autonomy. Being in debt is a scary and paralyzing feeling and it can prevent you from accomplishing a number of successful milestones, to say nothing of stealing your joy! And unfortunately, the type of debt doesn't really make much difference when it comes to your stress levels. Whether you're worried about paying off $120,000 in student loan debt or worrying about the credit card bills you've racked up, any debt is enough to keep you up at night, feverishly wondering how you'll ever break free. But because debt is such a heavy burden to bear, you may feel as though you'll never be free of its pressure.

However, the author asserts that that's absolutely not true! Here's how you can unlock your debt-free future. The first step is to start by making a list of all your debts and organizing them from smallest to biggest. It may feel overwhelming, but stick with it! This list is going to be your guide for prioritizing which debts to pay off first. While of course it's important for you to pay off all your debts, researchers at Northwestern University have discovered that the order in which you pay them off can make a big difference. For example, paying off smaller debts is usually more manageable for anybody's budget. And as you start paying off those smaller debts, you can establish a track record of proven success. Then, as you look back over your history of payments, you'll be able to see how you're closing the gap and your confidence will grow. This is the first crucial step towards building your confidence and becoming debt-free.

So, even if you have a big expense like paying off your student loans, you can work with your loan provider to plan a repayment schedule that you can break into small, manageable chunks. And once you've identified the order in which you plan to pay off your debts, you can start creating a budget that works for you. Unlike other budgeting plans, which focus on how much you'll have left over at the end of the month or how you can budget enough to afford splurging, a debt-free action plan has only one goal: breaking free of your debt. So, under this budgeting model, we're not necessarily looking at how you can set aside money for extra treats or small luxuries; in fact, with this plan, you might have to forego a lot of treats. But you will get out of debt and that's the biggest treat of all!

The good news is that it's pretty simple to follow. Start with a realistic evaluation of your income and your expenses and use that to calculate what you'll have left over every month. Once you've done that, the remaining money should be devoted exclusively to paying off your debt. It might sound like a pretty brutal approach-- and it is-- but the truth is that-- short of winning the lottery-- this is the fastest way to guarantee you'll eliminate your debt. But this aggressive approach doesn't mean you have to live a life of crushing drudgery without so much as an extra latte to cheer you up. Over the course of the next chapter, we'll learn more about why brutal budgeting doesn't equal zero fun.

How to Budget Like a Boss

In addition to the perception that we're constantly on our phones, obsessed with weird food trends, and financially unstable, one of the biggest stereotypes about millennials is that we spend money on stupid things like frequent trips to Starbucks. And in the interest of fairness, if you were afflicted with crippling debt and paralyzing fear of the future, wouldn't you want a treat every now and then as well? These little treats often provide a much-needed boost to our morale and fortunately, the author's brutal budgeting plan recognizes that.

Richardson knows that everybody needs those small purchases which spark joy and understands that our lives would be horribly dull without some little luxuries. That's why he's designed a strategy to help millennials break free of debt and maintain a decent quality of life. Sure, in the previous chapter, we said that all your leftover money goes to paying off your debt, but that doesn't mean every single cent; at the very least, you should be able to splurge on a McDonald's hamburger on your way home from work. You can do this by following a formula known as the 80/20 rule. Here's how it works: as we discussed in the previous chapter, start by identifying your essential expenses. These are the things you can't do without and absolutely have to pay in order to sustain life. This is going to be the 80% part of your 80/20 rule.

What remains in the 20% column is your non-essential purchases. For example, if your skin-care routine is a big priority for you and closely linked to your mental health, then you need to include this under the essential category, even though it's not an "essential bill" in the same sense as your rent or utilities. Likewise, if you're a coffee fiend, you don't have to skip the Starbucks; include this under "essentials" too. But did you really need that celebrity gossip magazine you snagged on your way through the check-out? What about those candy bars you keep buying and forgetting about? If they don't actively contribute to your quality of life or bring you a sense of joy that you can't do without, these are the non-essentials.

In short, you need to "Marie Kondo" your finances. And as you do so, you'll find that you're not only able to budget aggressively, you have more money to pay off your debts! Because that's what happens when you take stock of all the meaningless purchases you make and purge that financial deadwood from your life. Thus, by following this method, you'll be able to increase your joy, pay off your debt, and free up more of your money!

Final Summary

For most millennials, the word “finances” is synonymous with drowning under the crushing weight of expenses and debt. Combined with the helplessness of financial illiteracy, this often leaves young professionals feeling trapped and clueless. But the author asserts that it is absolutely possible to achieve both financial autonomy and financial freedom. Boosting your financial confidence is the first step; the more you know, the more your confidence will grow. And before long, you’ll realize that you were never bad with money, you just lacked the confidence to make smart decisions!

As you learn to live into the freedom of this new knowledge, you can invest in other healthy habits like brutal budgeting. This will be your first step to living debt-free and relinquishing the financial burdens that hold you back in life. Following the author’s 80/20 budget plan will also help you find more joy in your finances and put you on the road to financial autonomy.