4 Money-Saving tips for new graduates and everyone

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Money-Saving tips for new graduates.(Shutterstock)

When I speak at a college or graduate school, my message is always the same: Today, this month, this year is your moment of maximum opportunity. Every day that ticks by is a day that is gone forever. If you have things you want to accomplish, things you want to learn, things you want to do — start today, RIGHT NOW!

This absolutely goes for personal financial planning. In the world of investing, our best possible friend is time.

The more time you have, the more secure you can make your own life, the more fantastic experiences you can create for you and your family, the better lifestyle you will enjoy and the more you will be able to give back to your community. Time is essential and more time is better.

If you can do these four things starting today, you will be in great shape for the rest of your life:

1. Develop a habit of savings. Set aside 15% or 10% if you have a 5% employer match. The more you save, the faster you get there and the earlier you are done. I can’t emphasize enough the power of a regular savings habit —month in and month out, starting today and for the rest of your life. Nothing will leave you in better financial condition than creating this habit.

2. Create a cash cushion. Make sure you have 3-6 months of cash to cover living expenses before you start investing, since life happens and you need to be prepared. An injury or illness (yours or family members) that requires you to miss work for a lengthy period can be financially devastating.

The times when something unexpected comes along, and you need a little extra cash to put new tires on the car or replace the hot water heater, you'll be happy to have that cash cushion. Or, if you have the opportunity to learn a new skill and take your career to the next level, a cash cushion is also a blessing. Last year, I went home to support my dad when he had his knees replaced. I couldn't have done it without a little extra cash on hand.

3. Diversification, asset allocation and rebalance. Start investing in stocks, bonds and retirement accounts — max your 401(k) and Roth IRA as long as you can. If you are young and starting out and you have your 3-6 month cash cushion, then start investing. But limit bonds to 40% of your portfolio.
This means you should keep a minimum of 60% in stocks and equities. Stocks are where you will get the long-term, life-sustaining performance. Yes, it is also where you get volatility and risk, but you can't have one without the other, and you need the one, so you must accept — and learn to deal with — the other. This process is one-part education and one-part emotional acceptance.

Graduates need to develop a habit of savings. (Shutterstock photo)

4. When you are young, dollar-cost averaging will be your most important tool. No amount of prognostication or tool selection or other market mysticism will do better than simple dollar-cost averaging. When you are contributing regularly, volatility is a magical positive. Then, when you have built up some real assets, and you are getting closer to withdrawing the funds, you can start thinking about risk-reduction strategies.
For a lifetime of financial success, start with these four things. As you gain more experience and more things, you can always refer back to these four, which are a great beginning. And, done right, they are really all you need.

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Learn more about Jonathan DeYoe on NerdWallet's Ask an Advisor.

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