HARTFORDFUNDS

Our benchmark is the investor.®

How to Start a Conversation With Your Grown Children Who Haven't Started Investing Yet

What are the words you dread hearing from your boss? Some might say, "Can I have a word with you in private?" or the even more anxiety-inducing, "We need to talk." What follows could be anything ranging from the worst news of your career to a casual invite to lunch. With the latter, you may wonder why on Earth they would choose to start the conversation in such an ominous way.

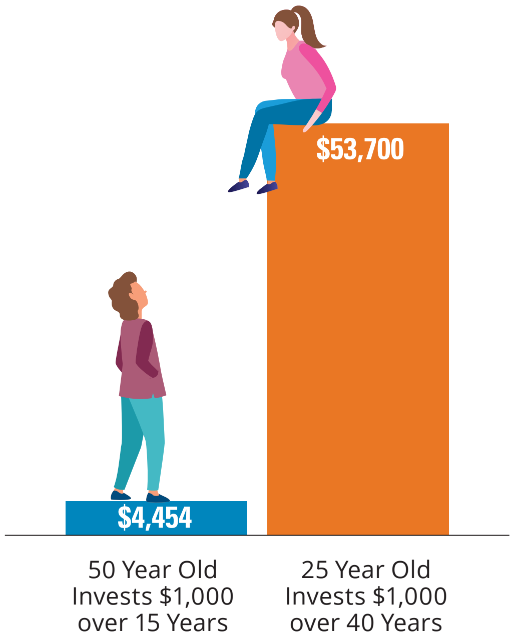
Likewise, if you're planning to talk to your 20-something child who hasn't started investing yet, the key to a productive conversation is how you start it. Many parents find themselves getting off on wrong foot, which effectively ends the conversation before it starts. Try these conversation starters to encourage your son or daughter to start improving their own financial future.

What We'll Cover:

- Things to say
- Things not to say
- Objections they may have (and how to respond)

Time: The Secret Weapon of Investing

What a one-time investment of $1,000 can look like over time



Source: Investor.gov Compound Interest Calculator, The chart above is for illustrative purposes only. Assumes a hypothetical 10% return average annual return on investment compounded monthly and does not take into account taxes, transaction costs, or market declines, For illustrative purposes only. The illustration doesn't represent any particular investment, nor does it account for inflation.

First, Things to Say

A direct approach, such as “You need to start investing,” can earn you an eye roll and a disinterested look. Try an indirect approach like this:

“Do you know why you have a huge advantage over me when it comes to investing?”

Starting a conversation with this question inspires curiosity. Your child will likely wonder how this is possible since they assume you’re more experienced and have more money to invest. But young people actually do have an advantage: time. And it’s the secret weapon of investing.

Your son or daughter may not realize the benefit of starting to invest at a young age, even if they only have a small amount to invest. Here’s how to help them see that each year they’re not investing is a missed opportunity for financial growth.

Share this hypothetical scenario:

A 25-year-old and a 50-year-old each invest a one-time investment of $1,000, earn a 10% average annual return and keep it invested until they’re 65 years old. Since 1926, the average annual return of the S&P 500 Index was 10.5%. For the last 40 years, 1982–2021, it was 12.4%.[1]

Over the course of 40 years, the 25-year-old would end up with $53,700. With only 15 years in the market, the 50-year-old would have $4,454.[2]

The difference is clear. Investing early, and allowing compound interest to grow, can pay off.

“Do you think you could ever be a millionaire?”

This question garners intrigue as well as some doubt. When it comes to finances, many 20-somethings are focused the short-term, e.g. paying student loans, affording rent, and enjoying living on their own. Becoming a millionaire probably seems far from a realistic goal—especially when they might be just trying to stay afloat financially. In reality, investing early and consistently can make becoming a millionaire probable. Use this scenario to explain why it might be more attainable than they think.

Imagine that a 25-year old begins investing $160 each month and earns a 10% return annually, in a tax-deferred account, until he or she turns 65. At 65, this investor could end up with $1,011,853.[2] Furthermore, emphasize that investing $160 each month would become more manageable as he or she progresses through their career, and as their salary increases, that amount would likely grow, which could increase their overall return.

Becoming a Millionaire May Be More Doable Than You Think

Also, point out that if their company offers a 401(k) match, it may take even less out of their own pocket to reach $1

Could Your Son or Daughter Be a Millionaire?

Imagine that a 25-year old begins investing $160 each month and earns a 10% return annually, in a tax-deferred account, until he or she turns 65. At 65, this investor could end up with $1,011,853.

25-YEAR-OLD INVESTS
$160/MONTH

AT AGE 65 CAN END UP WITH
$1 MILLION

(10% return, tax-deferred account)

Source: Investor.org Compound Interest Calculator. The chart above is for illustrative purposes only. Assumes a hypothetical 10% return average annual return on investment compounded monthly and does not take into account taxes, transaction costs, or market declines, For illustrative purposes only. The illustration doesn’t represent any particular investment, nor does it account for inflation.

million. For example, imagine that same 25-year-old invests just 3% of their salary in their company-sponsored retirement plan, which ends up being just $80 a month. If the account grows at 10% average annual return, by age 65, they'd reach $1 million.[3]

Your son or daughter may get excited about what's possible as a result of investing consistently over time. For many, just seeing what's attainable is the motivation they need to start working toward their goal. Now that we've covered how to start your conversation, let's discuss some of the challenges parents tend to run into when discussing investing.

Second, Things Not to Say

Some discussion starters, despite how sensible they sound, can trigger unintended responses. Try to avoid statements like this:

"Investing is the most important financial goal you should have right now."

Starting a conversation in this way seems reasonable. After all, you're just trying to give important financial advice.

But insisting that investing should be your child's #1 priority can strike the wrong tone with your son or daughter. Why? For many 20-somethings, investing for a distant, unknowable future may not seem feasible. Financial burdens such as student debt may seem like a much bigger priority than investing in any retirement plan.

Therefore, this direct approach without any mention of how little money is actually needed to start investing may cause your child to see you as insensitive and not understanding of their financial strains.

"You need to stop spending so much and start saving more."

While in theory this may be true, no one likes being told what to do. There's even a scientific term for it: psychological reactance, the brain's response to a threat to freedom. For instance, anti-smoking ads actually cause some people want to smoke more.[4]

Disapproval of your child's spending habits can be perceived as disapproval of their lifestyle and values. Young professionals are generally more willing to spend money on travel, experiences, and convenience,[5] therefore focusing on enjoying their well-earned money now as opposed to later.

By saying this, your son or daughter may see you as out of touch with their reality. Instead of leading to a conversation about investing, this may inevitably lead to an argument.

Now that we've covered some faux pas to avoid, let's cover some objections your son or daughter may have.

Third, Objections They May Have (And How to Respond)

Even if you do a great job of helping your son or daughter see the benefits of investing early, it'll require some financial sacrifices on their part—which they probably won't find very appealing. They may have strong objections, especially when they're saddled with debt and their earning peak is distant. Here's how to respond to some objections they may have:

"I don't have enough money to invest."

This is a common misperception for young people. In fact, 45% of Millennials who don't invest say this is why.[5]

Therefore, a simple "you're not alone in thinking that" can go a long way in showing empathy. From there, you can suggest that your child may have more to invest than they think. Offer to help with a monthly budget and figure out how investing even small amounts can add up.

Share this scenario:

A person invests $50 per month, earning 10% average annual return.	
After 1 year	$628
After 3 years	$2,089
After 5 years	$3,872
After 10 years	$10,242

Source: Investor.org Compound Interest Calculator. The chart above is for illustrative purposes only. Assumes a hypothetical 10% return average annual return on investment compounded monthly and does not take into account taxes, transaction costs, or market declines, For illustrative purposes only. The illustration doesn't represent any particular investment, nor does it account for inflation..

"I'm afraid to lose money in the stock market."

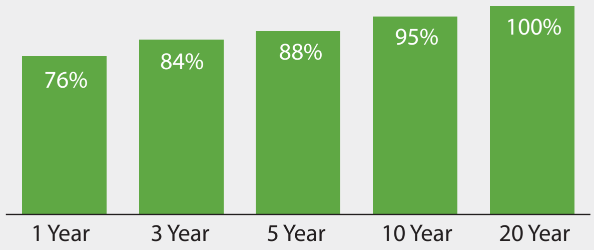
Again, this is a legitimate fear for many young people who witnessed or were impacted by the 2008 financial crisis, the the market dropping 34% by March 2020, and a drop of more than 21% by June 2022.[6] Start by acknowledging that yes, in the short term, the stock market can be volatile, sometimes extremely so. However, historically, the risk of losing money in equities has decreased over time.

The Possibility of Negative Returns Has Decreased Over Time

This graph shows all of the 1-, 3-, 5-, 10-, and 20-year periods that the S&P 500 Index produced a positive return. Historically, over the short term, there was more of a chance for a negative return. But the possibility of a negative return decreased over longer periods of time.

Source: Morningstar and Hartford Funds, 12/21

Percentage of Rolling Periods With Positive Returns for the S&P 500 Index (1926–2021)



Past performance does not guarantee future results. For illustrative purposes only. The performance shown is index performance and is not indicative of any investment. Investors cannot invest directly in an index.

But What if They Still Won't Listen?

You really can't force your adult child to take action. When money's tight, saving for decades away can seem out of reach. And at the end of the day, financial arguments are not worth harming your relationship.

You can offer to connect your child with someone else who isn't their parent. Perhaps you could set up a quick introductory meeting between your child and your financial professional. Or, you could ask a friend or sibling who has invested well to talk to your son or daughter. Sometimes, hearing advice from someone other than our own parents can have a better outcome.

To Summarize

First, consider a positive and intriguing approach to bringing up the topic of investing to your child. Make sure they know that investing involves risk, including the possible loss of principal. Second, be aware of how seemingly reasonable statements can have unintended consequences. Third, know how to acknowledge and respond to common objections that many 20-somethings have on the topic of investing.

Your Approach is Key

We all want our sons and daughters to have a secure financial future. You may not remember what it was like to be navigating the world at their age: trying to establish greater independence but feeling hindered financially. When you bring up the topic of investing, think through how you'll start your conversation to empathize with them—and also avoid making their heart race the way yours does when you hear, "We need to talk." By following these suggestions, you can walk away with a much more productive outcome.

Next Step

This week, try one of the conversation starters from the first section with your son or daughter. From there, you can connect them to your financial professional to guide them through their early investment decisions.

Investing involves risk, including the possible loss of principal.

[1] Morningstar and Hartford Funds, 12/21.

[2] Investor.org Compound Interest Calculator. Assumes a 10% average annual return on investment compounded monthly.

[3] Hartford Funds, 8/22

[4] *Why We Hate People Telling Us What to Do*, Psychology Today, 6/6/19. Most recent data available.

[5] *A Look at How Millennials Spend Their Money*, U.S. News, 7/14/20. Most recent data available.

[6] *S&P 500 Sets First Record Since February, Erasing Its Coronavirus Plunge*, The Wall Street Journal, 8/18/20; S&P 500 tumbles nearly 4% to new low for the year, closes in bear market territory, CNBC, 6/12/22

S&P 500 Index is a market capitalization-weighted price index composed of 500 widely held common stocks.

Hartford Funds Distributors, LLC, Member FINRA.

hartfordfunds.com 800-456-7526

MAI274_0822 2404562