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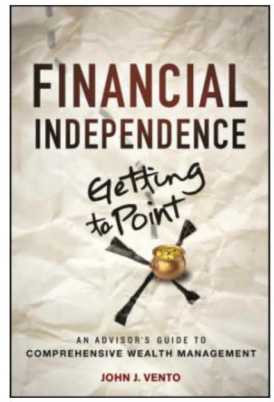

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"The Lost Generation" or "Survivors of the Great Recession"? A Financial Expert Explains How the Under-40 Crowd Can Get on Track to Financial Independence Despite the Slow Economy

A recent study from the Urban Institute found that Americans under 40 have financially fallen behind where previous generations were at that age. John Vento explains how they can shake off the constraints of the Great Recession.

Hoboken, NJ (April 2013)—*Go to a good college. Get a high-paying job. Then you'll be set for life*. These simple instructions sum up the financial advice that a whole generation of Americans was given growing up, as visions of big houses, fancy cars, and carefree living danced in their heads. Of course, the reality for Americans under 40 is proving to be much different. Mountains of student loan debt, unemployment lines, and barely getting by have resulted from a Great Recession and slow economy that have stifled what has been dubbed the "Lost Generation" before they could get a solid financial foundation under their feet. In fact, a new study from the Urban Institute shows that the average wealth for Americans under 40 is 7 percent less than for those under 40 in 1983.

But financial expert John Vento says that there is a brighter side to this coin. He explains that this generation will learn from these economic hardships and can therefore set up more financially stable lives in the long term.

"Just look at how the Great Depression generation reacted to that harsh economic climate," says Vento, president of his New York City-based Certified Public Accounting firm, John J. Vento, CPA, P.C., and Comprehensive Wealth Management, Ltd., as well as the author of the new book *Financial Independence (Getting to Point X): An Advisor's Guide to*

Comprehensive Wealth Management (Wiley, 2013, ISBN: 978-1-1184-6021-4, $40.00, www.ventocpa.com).

"The clients I work with who grew up during that time know the value of a dollar. To this day, many of them live very conservatively because they understand what it feels like to not have some of the necessities of life. Today's survivors of the Great Recession will learn the importance of making sound financial decisions because they won't be able to get by otherwise. They understand there is no such thing as guaranteed employment and as a result, I think, many of them will have a greater appreciation for the value of financial planning. What's more, they have the benefit of having seen what results from living on credit and excess. They've seen what happens when bubbles burst and how long it takes to dig out of a stock market crash."

Vento's new book focuses on helping readers from all walks of life reach financial independence. It is a complete resource for anyone concerned with building wealth and financial security in today's no-guarantee financial environment.

"Of course, it won't be easy for these young people," says Vento. "Many of them have to overcome significant student loan and credit card debt. In addition, unemployment and stagnant wages may have stifled their ability to save for retirement or to purchase a home. But just as many in the Great Depression generation survived by living conservatively and saving at every turn, the survivors of the Great Recession can still build up sound financial futures by doing the same."

Below Vento provides a few tips for the "Lost Generation," which he prefers to call the "Survivors of the Great Recession," on how to get their finances in order and start building wealth for a brighter future.

Make financial literacy a priority. Financial literacy means having a firm understanding of fundamental financial concepts and strategies and the ability to manage money responsibly in order to ensure financial security.

"Truthfully, I think a course in financial literacy should be a core requirement in high schools and universities," says Vento. "Such a course would provide essential knowledge in personal finance that today's young people simply don't get anywhere else. But since such courses are the exception instead of the rule, it is imperative that young people find other ways to become financially literate. After all, a lack of financial literacy is in part what led to the recent financial collapse.

“Many Americans simply didn’t have the financial knowledge needed to manage their finances in a responsible way. They took out mortgages they couldn’t afford. They made risky investments. They spent every dime rather than saving for a rainy day. When you have financial literacy, you can manage your money in a way that sets you up for long-term security. You know how to save, how to approach your taxes, how to make decisions regarding purchasing real estate and saving for retirement, and so on. Having this knowledge is the first step to reaching financial independence, and that’s why I tried to make *Financial Independence (Getting to Point X)* as comprehensive as possible when it comes to learning the essentials that lead to financial literacy.”

Live within your means. In his book, Vento establishes that every hardworking American has the ability to save and ultimately become a millionaire if they follow certain wealth-building principles. Even with the challenges they face, the “Lost Generation” is no different. The first step for them is to live within their means.

“Real wages for young Americans are stagnant at best and decreasing at worst,” says Vento. “Clearly that’s negative. But it can be overcome if you simply accept that your standard of living will have to be lower than that of the previous generation. And that’s okay. A lower standard of living does not have to mean a lower quality of life; the two are independent of one another.

“The single most important step any individual must take to become financially independent is to commit to living within his or her means,” he adds. “In addition to living within your means, if you are ever going to reach financial independence, you must also *save* money. Therefore, ‘living within your means’ must include not only such necessities as shelter, food, utilities, and clothing, but also payment into your personal savings. Ideally, that payment should be 10 percent or more of your gross pay. A great way to start out saving is to find ways to save $20 or more per week. I offer 101 ways to do just that in my book. Remember, the biggest asset you have is time. If you tuck away that extra $20 into a savings account every week, at the end of the year, *you will have $1,040.* If you are 30 years old and invest that additional $1,040 for 35 years (until you are 65) at an 8 percent rate of return, *you will have $179,209.* If you are able to save $20 or more per day ($7,300 per year) for 35 years at an 8 percent rate of return, *you will have $1,254,466.** It’s amazing that is all you need to do to one day become a millionaire. The trick is to stay focused and believe that being financially independent is possible.”

Get a handle on student loan debt. Managing student loan debt must become a top priority for those under 40 (and anyone still working toward paying off their loans!). “Many people in this age group have opted to remain in school because of the stagnant job market,” says Vento. “That means they’ve taken on more student loan debt than they otherwise might have had the economy been better. This trend has to end. I understand that the job market is very tough, and many recent college grads simply can’t find work doing what they want to do. But accruing more and more student loan debt to continue their education isn’t a good solution. My suggestion is to take a job, any job, and stop adding to your student loan debt. A job that pays $25,000-$30,000 a year is better than no job at all. With time and patience, you may be able to move up the corporate ladder, and hopefully your salary will move up with you.

“You should also put a plan in place, right away, for paying off your student loans. Speak to each lender and try to get your rate reduced and the terms extended. Consolidate debt where possible, extend the number of years for payment, and lower the interest rate. In later years when your financial situation improves you can always pay down these loans. And always pay your student loans on time, every time; not doing so will have a negative effect on your credit score, which will only make your financial picture worse.”

Pay yourself first. Regardless of age, everyone should always focus on paying themselves first. That is especially true of today’s under-40 population, notes Vento.

“If you’re employed, set aside 10 percent or more of your gross earnings by contributing to an employer-sponsored retirement account such as a 401(k),” he says. “If your employer does not provide a retirement plan savings vehicle, then open up an individual retirement account (IRA). Once again, make sure you put 10 percent or more into this account with a maximum of $5,500 allowed for 2013 for those under the age of 50. After you have done this, you have now succeeded at paying yourself first. Doing this allows you to then determine your standard of living. You can spend only what you have left after funding your retirement savings and of course paying the related taxes. Paying yourself first and saving for the future is not a choice; it is a necessity and must come before all of the other unnecessary wants in life. Will this be easy? Of course not, but anything that is worth something is never easy.”

Don’t rush into buying a home. Because of the financial hardships they’ve experienced as a result of the Great Recession and the economic downturns that came before it, members of the “Lost Generation” are also having difficulties buying a home.

“Part of the American Dream is owning your own home,” says Vento. “And that is all well and good, but we saw during the housing crisis what happens when people purchase homes they can’t afford. Young people should not rush into buying property. Anyone who can’t put down 20 percent toward the purchase of a home should keep saving and wait until they *can* before buying. It’s okay to rent an apartment or even live in your parents’ basement if that’s what makes sense for you financially. In fact, I lived in my parents’ basement until I was married and able to afford a home.

“That said, for those fortunate enough to have saved enough for a down payment, the timing of purchasing a home could not be better,” he adds. “This is a terrific opportunity for this generation since property values across the country are significantly lower than in 2008, and interest rates are at a historical low. The benefits of home ownership are significant, which include the deductibility of real estate taxes and mortgage interest as well as points paid on the initial purchase. The key here is to purchase a modest home, one that will provide shelter, not one that will provide you with bragging rights among your friends and family. It is much better to own a $300,000 home with a $100,000 mortgage than it is to own an $800,000 home with a $600,000 mortgage. Remember, live responsibly and save.”

Avoid using credit cards. Many young adults in this generation have accumulated lots of credit card debt. Credit card debt is the financial equivalent of having terminal cancer. It is a surefire way of killing your chances of becoming financially independent. The only reason people have

credit card debt is because they have spent more money than they earned. Sometimes this is necessary, such as in cases of a medical emergency, but the majority of the cases of credit card debt come from living irresponsibly. Remember, if you spend more money than you make, the only way to make up the shortfall is by going into debt. This vicious cycle must end and it must end immediately.

"First and foremost, throw out your credit cards," suggests Vento. "Instead use cash or a debit card. Guess what? If you don't have the money in your account, then you cannot purchase the things you want. Another possibility is renegotiating with the credit card companies. Often you can come to an agreement to eliminate some of this debt for pennies on the dollar.

"If you have an extreme amount of credit card debt—for example, if your overall debt exceeds your assets—then you are considered insolvent," he adds. "If this is the case, you may want to consider filing for personal bankruptcy. (Unfortunately, student loans typically cannot be wiped out as part of bankruptcy.) Although this will ruin your credit for at least seven years, it may give you a fresh start and will allow you to start rebuilding your finances from ground zero. Of course, anyone can avoid these problems by simply avoiding using credit cards."

"We have just gone through a horrific decade when it comes to economic and financial matters," says Vento. "The choices and decisions the under-40 generation makes now and the lessons they have learned will have a direct impact on their futures. Will this generation have to change their goals and expected retirement age? Most probably yes. Will they live high and mighty and as irresponsibly as the previous generation? I certainly hope not. The key for them will be to stay focused and understand the basic principles of becoming financially independent.

"To sum it all up, work hard and earn an honest living," he concludes. "Always live within your means and pay yourself first by contributing to your retirement plan and taking advantage of the associated pretax savings. Throw away those credit cards and stop adding additional debt. Focus on increasing your quality of life, not your standard of living. I am optimistic about the future of this generation. Their path may be much different from the one they envisioned growing up, but by following established wealth management principles, they can absolutely reach financial independence."

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About the Author:
John J. Vento is author of *Financial Independence (Getting to Point X): An Advisor's Guide to Comprehensive Wealth Management* (Wiley, 2013, ISBN: 978-1-1184-6021-4, $40.00, www.ventocpa.com). He has been the president of the New York City-based Certified Public Accounting firm John J. Vento, CPA, P.C., and Comprehensive Wealth Management since 1987. His organization is focused on professional practices, high net worth individuals, and those committed to becoming financially independent. He has been the keynote speaker at various seminars and conferences throughout the United States that focus on tax and financial strategies that create wealth. John has been ranked among the most successful advisors of a nationwide investment service firm and has held this distinction since 2008.

Mr. Vento brings with him his vast experience from working with KPMG, one of the big four Certified Public Accounting firms, where he specialized in audits of the medical and dental professions and the financial services industry. He has been an adjunct professor at St. Francis College in Brooklyn, NY, as well as Wagner College in Staten Island, NY. John has also been an advocate for promoting financial literacy and has been a lecturer throughout the New York City Public Library system.

John J. Vento graduated from Pace University with a bachelor's degree in business administration in public accounting, and continued on to earn an MBA in taxation from St. John's University. He is a Certified Public Accountant (CPA) and a member of the American Institute of Certified Public Accountants and the New York State Society of Certified Public Accountants. Mr. Vento is also a Certified Financial Planner™ (CFP®).

About the Book:
Financial Independence (Getting to Point X): An Advisor's Guide to Comprehensive Wealth Management (Wiley, 2013, ISBN: 978-1-1184-6021-4, $40.00, www.ventocpa.com) is available at bookstores nationwide, from major online booksellers, and direct from the publisher by calling 800-225-5945. In Canada, call 800-567-4797. For more information, please visit the book's page on www.wiley.com.

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