

## A Good Lesson For Millennial Investors

"Experience is what you got when you didn't get what you wanted." - Howard Marks

[The Snapchat IPO](#) has done something most finance books, personal finance experts or nagging parents could not -- it got large groups of millennials excited about investing in the stock market.

The following comes from the USA Today just a few days after the company went public in early-March:

*Millennials have largely stayed out of the stock market, held back by student loans, recent memories of the last crash and financial crisis, and a shortage of funds. Brokers and advisers had wondered, given Snapchat's popularity, if this IPO could entice them in.*

*The early answer: yes.*

*Online stock trading app Robinhood, whose core demographic has an average age of 30, says that Thursday was its biggest day ever, and that 43% of all its traders that day went for Snap stock.*

*"Snap's IPO revitalized investing among the younger generation," notes Baiju Bhatt, the co-founder of Robinhood. "We also saw a surge in new accounts, with many new customers opening up their first brokerage account."*

*The median age of Robinhood investors buying Snap on Robinhood has been 26, the same age as Snap CEO Evan Spiegel.*

It's hard to get young people interested in index funds or targetdate retirement funds so, although buying IPOs isn't the ideal strategy for young people saving for their future, just getting started is a step in the right direction. Learning about individual businesses is a great way to get people more interested in the stock market.

Unfortunately, things haven't gone so well for those who bought after the stock went public. The offering price was \$17 but shares opened trading at \$24 and quickly shot up past \$29 on the first day of trading. From those opening day highs, Snap is down around 35%. Most of that loss came after the company reported earnings this past Wednesday following the market close when the stock proceeded to drop more than 20% early the next day.

It's still too early to tell whether Snapchat will be a successful investment or company but this will serve as a good lesson for these first-time investors.

More experienced investors may be tempted to mock these youngsters for their missteps -- and

many have -- but I think it's a great thing that Snap is getting millennials more interested in the stock market. It's better to take your lumps when you're young, inexperienced and have much less money at stake. That's when you want to make your mistakes and learn about how you deal with seeing your savings evaporate before your eyes.

Learning how to take a loss is a huge part of the learning process. The worst thing that can happen for most inexperienced investors is to see success early on with their investments. Early success in this game can make it seem easy when investing is anything but. Lost savings should be thought of as tuition paid.

You might think you can handle seeing your hard-earned savings chopped in half or worse but living through it in real-time is unbelievably difficult. No one knows their actual tolerance for risk until this happens.

Fred Schwed, one of the funniest investment writers of all-time, [once wrote](#):

*There are certain things that cannot be adequately explained to a virgin by either words or pictures. Nor can any description I might offer here even approximate what it feels like to lose a real chunk of money that you used to own.*

The risk-return relationship is one of the most important to understand in all of finance yet it can be the hardest to accept when losses start piling up. If you want to earn higher long-term returns you're occasionally going to have to live with gut-wrenching losses. And if you want to avoid gut-wrenching losses you're going to have to live with lower long-term returns.

My hope is that these initial losses won't turn these first-time investors off from future risk-taking in stocks. Young people have a huge advantage over all other investors because they have so much time ahead of them to allow their savings to compound. They also have a huge asset in their human capital.

The combination of a long time horizon and future earnings power also gives young investors the opportunity to make up for early mistakes.

Who knows? Maybe Snap will bounce back and turn out to be a great stock to own for the long-term. But if it doesn't those young investors who were hoping to strike it rich by buying stock in a company they're familiar with should use this experience as a lesson learned.

Your time horizon is so long you're guaranteed to experience many losses in the future. Get used to it.

Source:

[Who bought Snap stock? Snapchat's young users snap up stock -- and want more IPOs \(USA](#)

[Today\)](#)

Further Reading:

[Financial Advice For My Fellow Millennials](#)