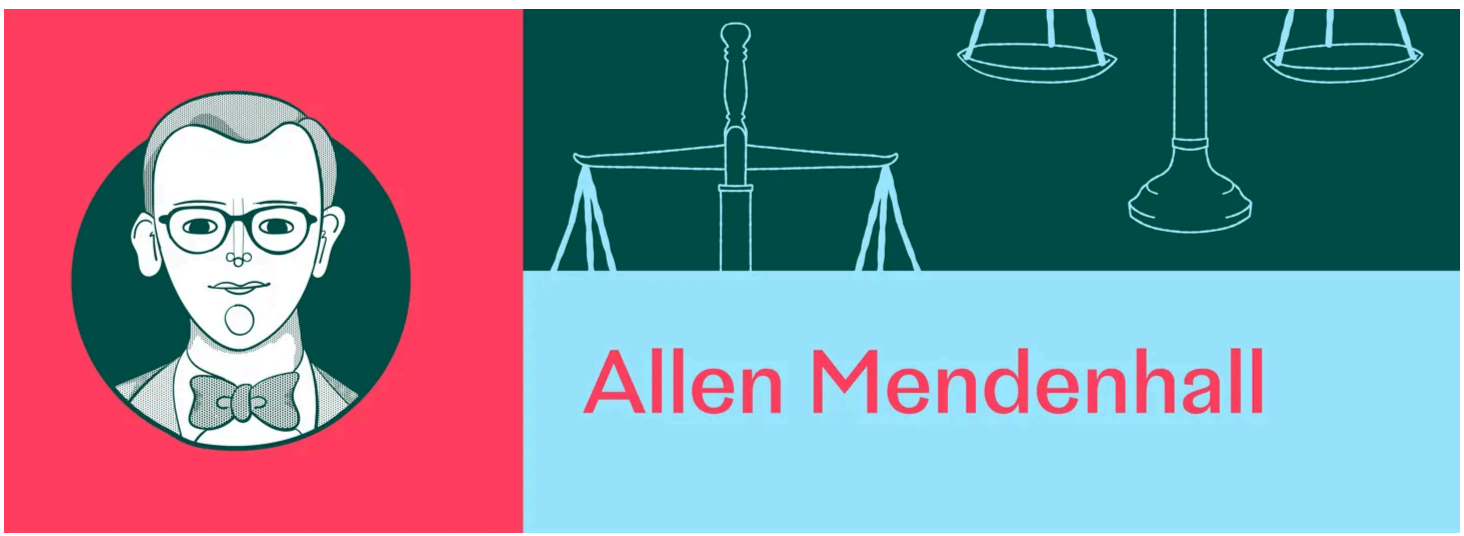
What I wish I'd known when I was 18

by Allen Mendenhall

THE FREEMAN
AUG 07, 2025



At eighteen, I possessed that peculiar blindness of youth—not the inability to see, but the unwillingness to look closely at what lay before me. Money occupied my thoughts, but only in its most romantic form. I dreamed of wealth the way young men dream of glory, imagining myself lifted above ordinary concerns, never pausing to consider what such elevation actually required.

The fantasy was seductive: someday, somehow, I would emerge from my circumstances transformed, my pockets heavy with success. Yet I gave no serious thought to how wealth is built, little by little, or more crucially, how it is preserved once earned. For it is in this latter work—the patient custody of what we have rightfully earned—that the real struggle for prosperity is won or lost.

Time reveals its secrets reluctantly, but to those who begin early, it offers something approaching a gift. There exists in finance a force as steady as the tide: compound interest. It is the quiet engine that transforms the modest contributions of youth into the substantial provisions of age. Those who grasp this truth early grant themselves a real advantage in the long game of retirement.

I think now of those teenage years, working holidays at The Gap, running the cash register after school at Kmart, caddying at golf courses on grass-stained summer mornings; then the ache of muscles bent to construction work under a hot Georgia sun. Each paycheck was a small victory, quickly spent, quickly forgotten. Yet each represented something more valuable than I understood: seed money that might have been planted in a mutual fund, Exchange Traded Fund (ETF), or Roth IRA (Individual Retirement Account).

A mutual fund, in essence, represents the democratization of Wall Street sophistication. Consider the predicament of the young investor: armed with modest savings but lacking the knowledge to select individual securities, the resources to achieve meaningful diversification, or the time to monitor a portfolio with professional diligence. The mutual fund solves this trinity of problems with beautiful simplicity.

When you purchase shares in a mutual fund, you join a collective of investors whose money is pooled and entrusted to professional management. Your dollars mingle with those of thousands of others: retirees seeking income, young professionals building wealth, institutions managing endowments. This pooling achieves what individual investors cannot: the ability to own fractional shares of hundreds, sometimes thousands, of different securities with a single purchase.

A mutual fund manager makes the daily decisions of what to buy, what to sell, and when to act. You receive, in return for a modest annual fee, professional stewardship of your capital and the peace of mind that comes from broad diversification. Regardless of whether the fund invests in large-company stocks, emerging markets, government bonds, or real estate investment trusts, the underlying principle is consistent: individual contributions enable access to a broader range of investment options that may not be available otherwise.

An ETF, by contrast, is an advancement in investment options, serving as a hybrid that offers the diversification benefits of mutual funds with the flexibility of individual stock trading. Traditional mutual funds determine their value only once a day, after the market closes. ETFs, however, move with the market's pulse. They can be bought or sold at any time during trading hours, just like individual stocks, thereby giving investors the flexibility to act in real time in response to breaking news, sudden opportunities, or personal financial needs.

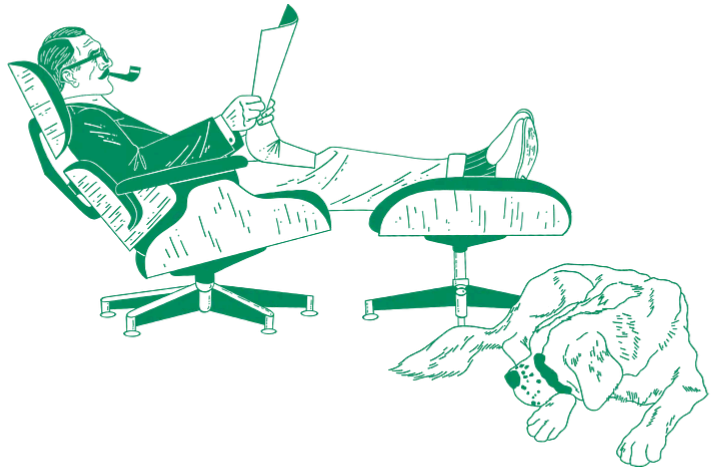
More significantly for the cost-conscious young investor, ETFs typically track market indices rather than attempting to beat them through active management. This passive approach eliminates the need for expensive research teams and frequent trading, allowing ETF providers to charge annual fees that are often a fraction of those levied by actively managed mutual funds. The result: more of your money remaining invested and compounding rather than being siphoned off to pay for professional management that rarely delivers superior returns over extended periods.

The Roth IRA offers perhaps the most elegant solution to the young person's dilemma. Its genius lies in recognizing a simple truth: the years of our greatest earning power are often those when we are taxed most heavily, while the years of our greatest need may be those when we are taxed least. By accepting the tax burden now, in comparative poverty, teenagers free their future selves from the obligation to share accumulated wealth with the government.

Any young person who earns income has crossed the threshold into eligibility. The modest contributions of youth, sheltered within the Roth IRA's protection, are granted decades to work their quiet magic. Tax-free compounding becomes the patient gardener of the financial future, tending small seeds until they grow into something substantial.

Looking back, I understand that those summer and holiday paychecks should have been more than just spending money. Time, allied with consistent saving and wise investment choices, becomes the great equalizer that can transform modest beginnings into financial security. Had I known then what I know now, even small acts of financial foresight would have yielded outsized rewards.

Start early, save smart, and let time work its magic.



Allen Mendenhall is a lawyer with a PhD in English from Auburn University. He is a senior analyst with the Capital Markets Initiative at the Heritage Foundation.

Discussion about this post