

Teach Our Children To Save And Invest

One of the most valuable lessons that regrettably our parents hardly ever take the time to teach us is that of saving, investing and managing our money. It is important, however, that children are aware of the importance of saving money and investing that money wisely. While this requires some effort, it is well worth it at the end to know that you have not only taught your children to be more financially savvy but that the lessons taught are ones that they will surely take with them through their whole life. With the kids home for summer, take the opportunity to teach them a lesson or two on money management and investing. Following are some tips to get you started.

Starting an allowance

In order to “get the ball rolling” on teaching your kids about money you first have to engage their interest. This can be done by granting them an allowance and explaining to them that a portion of it should be saved and the rest can be spent at their discretion. Knowing that their allowance is a fixed amount would give your children the freedom to make decisions on how their money will be rationed and will instill prudent buying decisions, thus subtly teaching them about budgeting. Additionally the kids will also develop a sense of responsibility by knowing that they have the control on how they spend their cash.

Explaining the concept of saving

It is important to develop saving habits earlier rather than later. The share of your children's allowance that is to be allocated to savings should be placed into an interest-bearing account. In teaching your children about saving, involve them in every step of the process so that they get a full appreciation for how saving money can actually make money “grow”. When opening the bank account, take your kids to the bank with you and explain the concept of interest to them. When the bank statements come, let your children open them and review the account balances. You will need to ensure that they understand the basics of how the amount of money that they placed in the account increased. The next allowance day, allow your children to tag along with you to the bank, and let them take part in filling out the deposit slips. This familiarizes them with the entire process of saving. Subsequent allowance days can then be used as routine visits to the bank. Ultimately, the goal is to teach your children to make saving a customary practice.

Motivating your kids to save

Setting goals

To encourage and inspire your kids to save, assist them in setting simple goals. Maybe there is the latest toy that they want, instead of buying it for them, let them learn that if they were to put away money for the purchase they would be able to accumulate enough to buy it on their own with their pool of savings. Setting goals not only motivates them to work towards attaining something that they would like but will also help them to make more responsible spending decisions.

Setting up a reward system

Another way to motivate your children to save is by matching a percentage of the amount that they choose to save from their allowance. For example, let them know that you will assist them in saving by contributing half of what they put aside into savings. So, if they choose to put away ten dollars of their allowance into savings, match the amount by giving them an additional five dollars to add to their savings.

Investing

Once the basic concepts of saving are understood, the next step is to teach your children about investing. Of course, children mature at different ages and as such, while you would not teach a ten year old about investing, you can certainly introduce the basics of stock ownership to your children in their teenage years. Explain to them the difference between saving and investing. Basically, with saving there is a guarantee to get back the amount of money that you have put away plus interest. With investing, however, there is no guarantee to get back the initial outlay. While the topic of investing and the stock market is more of a complex nature than saving, take

the time to also carefully explain some of the various concepts associated with investing such as risk, returns, and how to conduct research. Risk is the chance of losing some or all of the money that you invest. Return is the gain or loss made on a stock or security within a specific period of time. Further clarify that low levels of risk are associated with lower potential returns and high levels of risk are associated with higher potential returns.

When you feel comfortable, give your children a couple hundred dollars and guide them through how to conduct research on a company using the internet and other available resources. After completing the research, ask them which company they would like to buy and you can include their stock selection in your next trade on their behalf. Of course, if the money is unavailable, you can always create mock portfolios and just track the stocks for fun using stock simulator tools that can be found on the internet. When the statements from the brokerage account arrive, again go through the account balances with your children and show them how to compare the returns against those from their savings account.

The intention here is not for your children to build a sound portfolio but rather to equip them with the basic ideas about investing and to understand the consequences of making their own financial decisions. In a few years, after the children mature, they will be able to comfortably purchase their own stocks having laid a solid foundation. Additionally, by going through this process over a period of a couple years, your children will be able to learn how to not only track a stock's performance but also gain an understanding that a stock goes through up-and-down cycles and that patience is key.

Demonstrating through positive reinforcement

Remember that kids are very impressionable and tend to mimic, sometimes unconsciously, the behaviours and habits of their parents. It is thus important that parents model the behaviour that they themselves are trying to teach their children to further enforce the lessons. Two important ways in which children learn are through repetition and observation.

Conclusion

We live in a world where extravagant spending, saving less and accumulating more debt seems to be the norm. What's the use of having a car if you don't know how to drive it? Similarly, by giving your children cash, through allowances, but not teaching them the basic principles of money management would be futile. These basic steps will not only equip your kids with the knowledge to better control their finances but also give them direction on how to handle it. With these few words of advice, I hope that you will make the time to introduce these tips in teaching your children sound financial management principles.

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