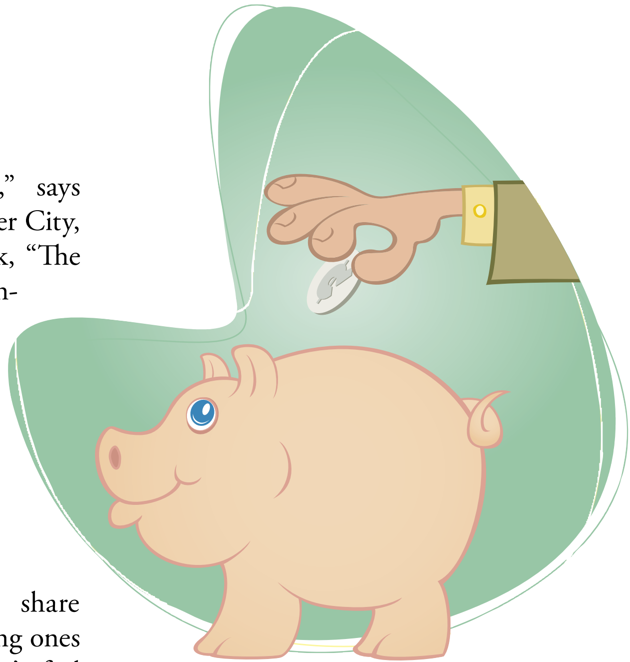
Next-Generation Millionaires:

Teaching Your Kids About Investing

By Otesa Middleton Miles



Fran Harris' first money lesson came at age 3, when she learned how to exchange money for items she wanted by handing the cashier dollar bills.

It wasn't long before Harris discovered she could make that money grow by investing. Her mother taught her that she could either save her coins in her own piggy bank or deposit funds in an account at a bank to earn interest. Although she didn't quite understand compounding interest at the time, she knew when she took her money to the big bank — it grew.

Harris, who started her own business at age 9—selling snow cones in the hot Dallas summer to pay for her own choir robe—still remembers and appreciates those early money lessons.

"That summer I made $1,500 and spent $110 on the choir robe—you remember when you pay for your own stuff," says Harris, author of "In the Black: African-American Parent's Guide to Raising Financially Responsible Children" (Fireside, 1998).

By the time she was 10, Harris says, she'd learned about earning, spending, budgeting, forecasting and even investing.

"We should start teaching children about financial literacy as soon as they can communicate," says Harris, who is based in Culver City, Calif., and whose latest book, "The Intentional Millionaire: Winning the Wealth Game With Spirit" (Aardvark, 2006), focuses on coaching readers to be wealthy. These early lessons, she emphasizes, paid off many times over.

A,B,C…Money!

Many parents hesitate to share money advice with their young ones because they themselves don't feel confident in their own financial savvy. Last year's Ameriprise Financial New Retirement Mindscape study found that 52 percent of the 2,000 people polled wanted help educating their children about money. That's more than wanted help with Social Security, pensions and even health care benefits.

And the lessons must start at home, because only about one-fourth of U.S. children learn about saving and investing in school, according to this year's Nest Egg Score Survey, by A.G. Edwards and Harris Interactive. The same survey found that 56 percent of parents haven't taken the time to start giving those crucial financial lessons.

Getting started early, gives children many, many years to reap the benefits of compounding interest. And it gives parents opportunities to reinforce good money habits. With today's high consumer debt and low financial literacy, early financial education will help children avoid credit card debt and encourage them to invest young.

"Unfortunately, some parents have one conversation about money with their kids, or they don't talk about it all, or they talk about how much money they don't have," Harris says. These conversations make children uncomfortable about financial matters, she says.

Adults who don't trust their own grasp of spending, saving and investing may avoid broaching the subject out of insecurity. "Parents

Fran Harris

don't like to look like they don't know stuff," said Harris, a member of the Houston Comets first WNBA championship team and now a motivational speaker.

But lack of knowledge is no reason to keep children in the dark. Instead, learn about money as a family, Harris suggests.

"This is a good opportunity for parents to bring someone in to talk about money," she says. "As a family, we can all learn together." Children can join discussions with a financial planner, accompany parents to the bank or brokerage to learn about investment options, be present during the home-loan process and listen as financial tips are read aloud.

"Just because you don't know is no reason for your kids not to know," Harris says.

Children can and should be included in conversations about purchases, bill payment, late fees, interest rates, grace periods, financing, saving, taxes, donating and spending. "Kids should be in on all of those kinds of conversations — to hear what's being said, even if they don't understand," says Harris.

As children get older and understand more clearly how money is earned and spent, it's a good time to introduce investing. When they start asking for specific toys, clothes, foods or entertainment, Harris recommends talking to them about buying a stake in those companies.

"It's not just a financial conversation, it's a consumer conversation,' she says. "Let's look at its stock. Is it a public company? What is a public company? Let's put your summer earnings into companies you want to support."

Next lesson: the stock market. Preteens can comprehend basic economic information and, on that basis, begin to learn what affects the markets and how investors can benefit. Harris recommends reading financial news and subscribing to money-focused magazines.

Mellody Hobson, president of Chicago's Ariel Capital Management LLC, is a tremendously successful financial professional – yet she wishes she'd had these investment lessons as a youth.

"I didn't have that benefit," Hobson says. "Everything I learned about the stock market, I learned in my adult life."

Hobson's company is making certain those lessons are taught to students at Ariel Community Academy, the Chicago public charter school the company operates. Started in 1996, the school initiated teaching financial know-how by donating to the first-grade class $20,000 in real money to invest and nurture until eighth-grade graduation. In the class's early years, Ariel and Nuveen Investments Inc. invest and manage the money. As the children get older, they take more responsibility for managing the portfolio. When they reach seventh grade, a Junior Board of Directors composed of class members makes the investment decisions. When the class graduates, half of the profits go to school improvements, while the other half goes to the graduates as cash or a matched contribution toward a 529 college savings plan. The original $20,000 recycles to the incoming first-grade class to start a new group's investment education.

Ariel uses actual cash with the students because it helps them better grasp the impact of their money decisions. "The concern about a paper portfolio," Hobson says, "is it doesn't give you skin in the game."

The Ariel Community Academy program is "extraordinary," Hobson says. "Habits imprinted in a child now will shape a lifetime of a child's financial security, as well as that of future generations," she adds.

Adding Meaning, Adding Value

At an early age children should know the value of a dollar. Youngsters enamored with Barbie dolls or GI Joes can learn about the companies that make the toys, Hobson says. Not only that – the kids can buy a portion of Mattel and Hasbro. Teens who set their sights on Sony Playstations or Apple iPods can do the same. Speaking their language and studying stocks of companies whose products are popular with their age group makes the money talk more interesting to kids and teens, Hobson notes.

Giving children stocks as gifts is a good way to introduce them to investments. Parents can also start a family 401k plan, in which parents match every dollar a child invests. “It diminishes the risk and raises the stakes for them,” Hobson says.

At the same time, however, let kids have some money to spend. “It is very important for kids to be able to feel some gratification from their investments,” Hobson says. “Let them spend their dividend check. This keeps the child’s interest.”

Another lesson of increasing value is that of compounding interest, which some call “the ‘eighth wonder of the world’,” says Hobson. “It’s the difference between having your money work for you over time, and not just you working for your money.”

At the Ariel Community Academy, the concept of compounding interest is taught simply enough. First graders are shown how an apple can multiply to two apples, then three apples, if invested. This way children can see, in tangible terms, how their money or apples can work, without any additional labor, to earn more apples.

Sheila McKean, manager of community partnering at the Federal Reserve Bank of Chicago, hosts a Money Smart Week in October. Similar initiatives are offered in Michigan and Indiana. The program reaches out to people who don’t currently use banks and includes youth classes.

Working from fundamentals, McKean says, offers the best and most lasting education. For example, “there is a difference between saving and investing—some people think it’s the same thing,” she says.

Yet it’s also important not to overwhelm. “We don’t want to burden young people so much so that they get stressed out,” McKean says. Keep it light, yet educational.”

The main point is to start early. “If young people are taught how to be better decision makers earlier in life,” McKean says, “they will reap the benefits longer, rather than waiting and learning through the school of hard knocks.” ❖

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