June 2019 Newsletter

10 tips for teaching kids about money

By Charles Sherry, MSc

Kids learn the basics in school—reading, writing and arithmetic. But schools avoid almost any instruction about money. If they do offer a class, it may be an elective in high school, long after habits have been formed.

I believe it's important to start talking about finances early, when kids are young. You can begin to share your values and help them shape their views on money in a culture that places a premium on "things," not savings.

While we can't shelter our children, we can teach them. It's why I've created a guide of practical tips that I believe will help put your kids on the right path.

1. Teaching delayed gratification. This is the hard part. Some of us are better than others, but few have truly mastered the art of patience.

   Look at it another way for kids. Anticipation can be half the fun! It's the journey. Think about it: your kids awaiting the arrival of Santa, or the excitement that precedes going to an amusement park or on an upcoming family trip.

   If they want to buy a pricey item, help them save for it. You can lend support by setting up various methods for savings. We remember the piggy bank. Money goes in, but never really comes out. Instead, set up three jars. One for savings, one for giving, and one for spending.

2. Incorporate giving it away. I believe the giving jar is as important, if not more important, than the savings jar.

   Do your children have a cause that resonates in their heart? Do they want to give to their church? Is there a local food bank or animal shelter your daughter or son can assist with donations?

   Learning to let go and help those who are in need will create a stronger sense of altruism and selflessness that, if taught early, will blossom in them as adults.

   When it comes to charity, let their treasure follow their heart.

3. Kids need money. Theory without practice won't work. Kids need a hands-on lesson. You may start with an allowance (some refer to it as a commission)—you may pay kids for various chores, or both. That's a parenting preference, and there are advantages to both.

   What is an appropriate allowance? According to a study by RoosterMoney published by [[https://www.thebalance.com/what-is-the-average-allowance-for-kids-4177812 The Balance]], the weekly allowance earned by a 4-year-old averages $3.76. At 8 years of age, an allowance averages $7.27 per week. At 12, the allowance is $9.85 and $12.26 at 14.

   The study offers reasonable guidelines, but you may adjust at your discretion.

   What about birthday gifts, Christmas gifts, etc.? Set goals with your children, but I lean heavily toward the savings bucket. Those annual gifts will add up over the years. Your kids could graduate high school with a tidy sum of cash if they have the discipline to save.

4. Teach by example. I remember a time I paid for my purchase at the gasoline pump, got back into my car, and drove away.

   My young daughter accused me of stealing!

   She understood the idea that "what's not ours isn't ours," but she didn't grasp the concept of "plastic money."

   I explained how I paid without going into the store, discussed the concept of a credit card, and emphasized these purchases are always paid in full at the end of each month. Today, I still impart the benefits and dangers of credit cards.

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Use various examples from your life when you teach your kids about the importance of money.

Was this a lifetime lesson for her? I certainly remember my parents paying their credit card balances off each month.

In addition, consider using lists when shopping. Your children will see that it helps avoid impulse buys. And, as kids grow older and the discussions are age appropriate, explain why you try to avoid impulse purchases.

Use various examples from your life when you teach your kids about the importance of money and savings.

5. Encourage summer and after-school jobs. Trading time for cash via a job helps kids learn the invaluable lesson of hard work. It also supplements savings and provides spending money.

   Cutting the grass or the neighbor's grass, shoveling the snow or the neighbor's snow, yard work, a lemonade stand, babysitting, helping in the family business, working retail, household chores, or acting as a lifeguard are options.

   Besides the extra cash, they will learn a strong sense of pride and responsibility that will carry over into adulthood.

6. Open a savings account. Not that long ago, a savings account earned a respectable interest rate. That's not the case today. Still, a saving account helps kids learn.

   A 5-year-old may not need a savings account, but adulthood isn't far away for a teen or pre-teen. As young adults they will have a checking account, debit card, and eventually a credit card. Baby steps in the right direction will ease the transition.

   As they grow older, discuss the benefits of investing with your kids. Outside of a college savings account, you may open an account in their name and teach them about investing. You could start it with seed money and have them contribute on a regular basis. More importantly, help them buy into a savings goal. That way, they will take ownership.

   If you're unsure about how to start the process, I'm sure your financial advisor would be happy to point you in the right direction.

7. There's an app for that. Today, there are mobile apps that can help kids. Bankaroo, iAllowance, and PiggyBot are just a few. Feel free to look online for one you feel is most appropriate for your child.

8. Guide them with goal setting. Are they trying to save for something? Help them come up with a plan and incentivize with matching funds. Companies do this with 401ks, why can't parents?

   Discuss the importance of needs versus wants. A teenager may need a bicycle. But do they need one with all the bells and whistles? Or, are there reasonably priced bikes that won't bust the savings account?

9. Money isn't everything. Yes, it's important. It gives us choices. But by itself, money can't buy happiness.

10. Let them make mistakes. [https://www.marketwatch.com/story/want-your-kids-to-be-better-with-money-let-them-practice-with-it-2018-12-03 Ashley LeBaron], a graduate student at the University of Arizona, said, "Let them make mistakes so you can help them learn from them, and help them develop habits before they're on their own, when the consequences are a lot bigger and they're dealing with larger amounts of money."

    Not surprisingly, her research showed those who had practical experience with money while kids learned how to work hard, how to better manage money, and how to spend it wisely.

    That may be the most important desired outcome.

Navigating global headlines

Last month I said, "Investors remain optimistic that U.S. and Chinese trade negotiators will come to terms on an ever-elusive trade agreement." Unfortunately, "ever-elusive" continues to be the operative word.

On May 5, President Trump surprised investors by tweeting that tariffs on some Chinese imports would rise from 10%-25%. Why? According to several news reports, China had backed away from previously agreed-upon terms.

Not surprisingly, China retaliated and there has been no shortage of incendiary rhetoric between the two economic powers.

At month's end, Trump surprised everyone by levying new tariffs on Mexico. His stated plan is that all goods will be subject to a 5% duty, rising to 25% in October unless Mexico gets a handle on the surge in migrants coming into the U.S.

The announcement of a new barrier between Mexico, which is the 2nd largest U.S. trading partner behind Canada (U.S. BEA), was nothing short of a bombshell that further exacerbated economic uncertainty.

Still, selling has been relatively subdued, with the broad-based S&P 500 Index down less than 7% from the April 30 high. Placed in a historical context, the average maximum annual peak-to-trough drop in the S&P 500 Index from 1980–2018 has been nearly 14% (LPL Research, St. Louis Federal Reserve).

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Today, investors are unsure how to model and price in economic activity going forward; hence, the short-term reaction is to move away from stocks and into the safety of Treasury bonds.

The situation is fluid right now. Best case Chinese scenario: an enforceable deal that helps level the playing field and protects U.S. technology and intellectual property. More likely, negotiations will drag on for months, and investors will be forced to adjust to a new normal. It's not optimal, but it is reality.

Additionally, the threat of tariffs on Mexico is sub-optimal from an investing and economic perspective.

What to do

Control what you can control.

You can't control the stock market, you can't control headlines, and timing the market isn't a realistic tool. But, you can control the portfolio.

Your plan should consider your time horizon, risk tolerance, and financial goals. There is always risk when investing, but we tailor our recommendations with your financial goals in mind.

As I've said before, the plan is also designed to remove the emotional component. You know, the one that encourages the average investor to sell near the bottom out of fear and encourages greedy buying when stocks are soaring.

If you're feeling unsure these days or have questions, speak with your financial advisor. That's what they're there for.

Key Index Returns

	YTD %	YTD %	3-year* %
Dow Jones Industrial Average	-6.7	6.4	11.6
NASDAQ Composite	-7.9	12.3	14.6
S&P 500 Index	-6.6	9.8	9.5
Russell 2000 Index	-7.9	8.7	8.3
MSCI World ex-USA**	-5.3	6.3	3.0
MSCI Emerging Markets**	-7.5	3.3	7.3
Bloomberg Barclays US Aggregate Bond TR	1.8	4.8	2.5

Source: Wall Street Journal, MSCI.com, Morningstar, MarketWatch
MTD: returns: April 30, 2019—May 31, 2019
YTD returns: December 31, 2018—May 31, 2019
** Annualized*
*** in US dollars*

Let me emphasize again that it is my job to assist you! If you have any questions or would like to discuss any matters, please feel free to give me or any of my team members a call.

As always, I'm honored and humbled that you have given me the opportunity to serve as your financial advisor.