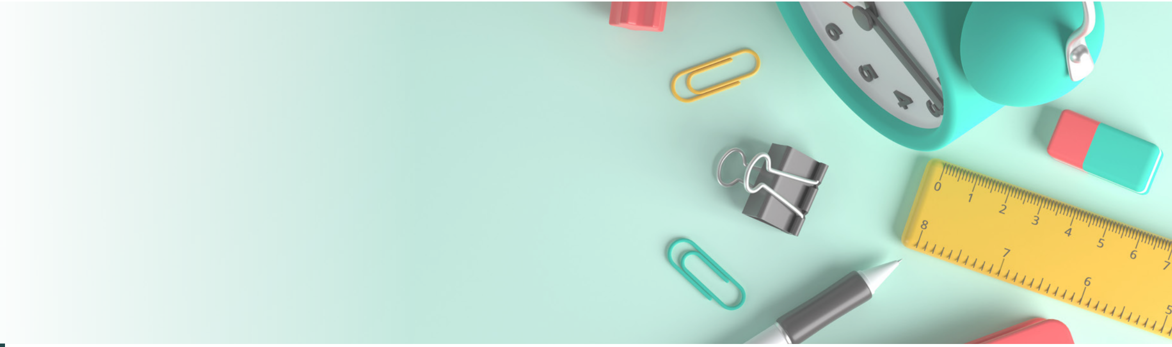
KayneInsights

March 2024



By providing money and investing basics from a young age, parents can give children the gift of financial independence.

Financial Literacy for Kids—Instilling Good Habits

There are many life lessons parents provide children. One of the most important may be teaching kids about money and investing.

Ways to Teach Kids About Money

Financial education for kids doesn't have to be complicated. In fact, it is better to keep it simple and start early. You can help young children understand the value of money with a piggy bank in that they can add money to it and observe its growth over time. Allow them to purchase something with their savings so they understand how money is used and how much money was needed to make a purchase.

Give Your Kids An Allowance

As children get older, consider paying an allowance for household chores and good grades. This provides a source of money for which they will need to budget to buy items they want. You can also set up saving and checking accounts to deposit allowance money. This way kids can monitor their saving and spending and learn good budget discipline. Here the most important lesson you want kids to grasp is that you can't spend more than you have, but when you do, that creates debt.

Demonstrate the Concept of Debt to Your Kids

Demonstrate the concept of debt to children by advancing them small loans for items they can't afford but may desire. For example, kids may want a $20 item but only have $5. Loan them $15 and require repayment of $1 a week until the $15 loan is paid off. Missing any of the $1 payments will cost them 50 cents for each missed payment. This teaches kids how debt is used to pay for items and that it is based on a promise to repay on a specific time table, as well as the role that interest plays.

Develop Strong Credit Card Habits

Once kids have a solid understanding of saving, spending, and budgeting, you can introduce a credit card or a secured credit card. Help them develop prudent credit card habits that include understanding that making larger purchases or too many frivolous purchases may get them behind on their payments, which can lead to paying a lot more than the actual value of the items due to interest accruing. Kids should understand that carrying debt of any kind can be a burden on saving and investing.

Introduce Basic Investing Principles

We believe investing at a young age can be a great advantage. Time is one of the most influential factors on an investment portfolio. So, teaching your children that a small amount of money can grow to a substantial sum over time is arguably one of the most powerful investing principles you can impart. Helping them understand the power of compounding (returns you earn are reinvested to earn additional returns) can be an important tool. Many kids likely have a natural curiosity about the stock market given the attention meme stocks and investments like crypto receive on social media. One immediate takeaway should be to underscore there are no get-rich-quick schemes to long-term investing. Investments can increase in value over time and starting early may allow them to benefit from the power of compounding. We suggest working with them to purchase a stock or to buy shares of a mutual fund and review the investment returns with them annually. This can create a strong incentive to show them how their initial investment may grow over time.

The Importance of Financial Literacy for Kids

Often young adults don't have much exposure to investing until they begin a professional job. Suddenly, many decisions come into play, such as how much of their pay to contribute to a company retirement plan and what investments should be selected. Ideally, a conversation about risk and reward prior to making these decisions is helpful. Typically, the more risk you take, the greater the reward may be, and vice versa. However, risk can also involve loss and it's important to communicate with your children that riskier investments can create losses, and how a stock performs in the past does not guarantee how it will perform in the future. Furthermore, kids need to be aware that markets go up and down over long periods of time, but patience can play a crucial role during periods of volatility because investors who remain in the market longer may benefit more than those who don't, and they should always try to keep this in mind when thinking about their long-term financial goals.

Also, the concept of diversification or "not putting all your eggs in one basket," is another important wealth management tool. Helping young adults understand that investing money across a variety of investments may help reduce their risk and potentially improve their returns over time should be encouraged vs. putting all their savings in one investment or the riskiest investment. There is a lot of vocabulary associated with investing that can be learned over time, so understanding the basics can set kids on a successful course for years to come.

Financial Education for Kids Doesn't Come from School

While financial habits are not necessarily inherited, kids often learn how to handle money by watching adults. These experiences can be good or bad and set a pattern for life. Teaching your kids about money and investing over many years can ensure they will have the necessary skills to make responsible decisions and achieve financial independence.

Kayne Anderson Rudnick is an investment firm specializing in high-quality investment and wealth management strategies. The firm has an over 30-year history serving a diverse client base that includes high-net-worth individuals, corporations, endowments, foundations, public entities, taft-hartley clients, and mutual funds. Kayne Anderson Rudnick is known for its commitment to high-quality investment strategies and business practices. For more information, please visit www.kayne.com.