

Nine Steps to Raising Money-Smart Kids

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There are many ways to teach your children good money sense. You can tell them stories about how you used to earn, save and spend money all those years ago. You can emphasize how important it is to be careful and wise with their money. However, the bottom line is that experience is the best teacher. The key is to have your children learn by doing.



Here are some ways you can encourage your children to save and manage money. You will be instilling in them financial responsibility that they can carry with them through adulthood.

1. Get them interested in money early

When your children are young, teach them how to tell different coins apart. Then give them a piggy bank they can use to store their change. A piggy bank is a tangible place to keep their money safe.

Using a clear piggy bank will allow your child to hear, feel and see the money accumulating. They will come to realize that a little bit in the bank buys a small treat but a full bank enables them to purchase something special.

When your children are a little older, try playing games to help them understand the difference between needs and wants. When riding past billboards or watching television, ask them to identify whether each product advertised is a need or a want.

2. Make saving a habit

To get children off on the right foot, consider making a house rule to save 10% or more of their income, whether the source of that income is earnings from a neighborhood lemonade stand, their weekly allowance or a part-time job.

If implemented when your child is beginning to learn about money, your plan should not run into much resistance. However, if you do not set some sort of guidelines, the chances are slim that your child will take the initiative to save on their own. This will teach them healthy saving habits.

StrateFi Wealth Management

StrateFiWealth.com

Office: (949) 345-8181

Fax: (949) 345-8180

info@stratefiwealth.com

18881 Von Karman Ave
Suite 410
Irvine, CA 92612

3650 Mayberry Dr
#101-7
Reno, NV 89509

KEY POINTS

Children learn by doing. Give them as many opportunities as possible to

- save money
- spend money
- earn money

Guiding children through real-life transactions will help them gain an understanding of the value of money and the importance of managing their funds carefully. Encourage children to earn money outside of their allowances and teach them about prices.

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3. Open a savings account in their name

A bank savings account can show children how their money can accumulate. It can introduce them to the concept of compounding interest. Start by giving your children a compound interest table (available at most banks) to let them anticipate how their money may grow.

Be sure to plan regular visits to the bank. Having your child see you make regular trips to the bank can help shape their saving behavior.

4. Encourage goal setting

Have your children write down their want lists, along with a deadline for obtaining the items on their lists. For example, your child may want a video game by the end of the summer or a bike by next year. Visualizing may give them the added motivation they need to save.

You also might contribute a matching amount every time they reach a certain dollar amount in savings by themselves. Such a proposition sounds just as appealing to a child as it would to you if your boss told you the company would kick in a dollar for every dollar you saved over \$10,000.

5. Give regular allowances

Allowances give children experience with real-life money matters, letting them practice how to save regularly, plan their spending and be self-reliant. You should determine the amount of allowance you think fits their age and scope of responsibilities.

Some parents feel they do not have to pay allowances because they hand out money when their children need it. Children who receive money from their parents as needed may have less incentive to save than children who receive allowances.

While deciding when to start allowances and how much to offer your children, consider the following guidelines:

- Encourage them to save at least some of their allowance and advise them to spend the rest wisely.
- Do not take away allowances as punishment.
- Carefully consider increase requests twice a year.
- Too much money in a child's hands can breed careless spending habits.

6. Help plan a budget

Encourage your children to write down what they buy during the week and how much each item costs. Then write down their weekly incomes. If the two amounts do not match up, they will have to prioritize their needs and wants.

7. Encourage money-earning ventures

To help your children earn money beyond their weekly allowances, suggest that they find creative ways to make it. Encourage them to do special household chores or to seek jobs in the neighborhood such as raking, mowing, pet sitting or shoveling snow.

Many people in your neighborhood – particularly elderly residents – would love to have a person regularly doing things for them that they no longer can, such as taking out the garbage or raking leaves. This is a perfect opportunity for your child to both earn some money and do something for someone in need.

8. Show them the effects of inflation

It's important to teach your children about inflation and how prices rise over the years. Things cost more today than they did in the past and will cost more in the future. The US Bureau of Labor Statistics (bls.gov) and the National Statistical Institutes (ec.europa.eu/eurostat) publishes statistics tracking everyday purchases such as bananas and gasoline. This information can help demonstrate the effects of inflation.

There are ways to try to keep ahead of rising prices, such as investing. While investing may not hold interest for them at this point in their lives, it is important that they know such financial opportunities exist.

9. Give them a head start

The money habits your children learn from you will help prepare them for adulthood. Whenever you open an account for a child or a grandchild, introduce them to the financial professional. This will give them the opportunity to visit their office, learn the language and ask questions.

Knowledge is power. The more we can educate children from an early age, the better they will be with finances. Talk to them about money and how much things cost, and bring them to meet your financial professional when you open an account in their name.

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