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## Teaching Money Smarts Needs to Start Early

For many parents, one of the greatest gifts they believe they can give their children is financial security. Unfortunately, without also giving their children money smarts, there's no such thing as financial security. Even among America's wealthiest families, by the second generation 70% have lost their wealth and by the third generation, only 10% of the families are still among the wealthy.

Teaching money smarts in the classroom has been tried and failed. Stock market games do a poor job of teaching the need for savings. The debate over the value of allowances versus earning money is yet to be resolved. A new generation of digital games are now available to teach financial literacy, but in the end, it seems experience (including learning from real mistakes) is what counts. And the earlier that experience begins, the more effective it is.



1. Give money a real, physical presence.  
Use a clear jar for a savings bank and make a big deal out of seeing money accumulate inside. Consider paying allowances or chore compensation in coins rather than bills. Later, the jar may transition to a personal lock box but there is still a reality to money.
2. Let them know that stuff costs money.  
When a child opts to spend money on a desired object, help them count it out of the jar, take it to the store and hand it over to the cashier. If you purchase an item that the child is to pay for, return home and count the money out of their money jar. Children are some of the best hoarders in the world. Take advantage of their desire for "MINE!" to encourage saving.
3. Set a good example.  
Impulse buying, overspending, failing to save money yourself, arguing about finances, spending on luxuries to keep up with the neighbors, are all lessons that children learn very readily. You can't teach a value that you don't practice yourself.
4. Help your children set aside money for important goals.  
If there is something your child really wants, help determine what it will cost and how much and how long they will need to save to purchase the desired object. And then give them ways to supplement their earnings if appropriate to achieve their goal through work. The catch is that it needs to be the child's goal, not yours. Saving for college is a pretty vague goal for an elementary school child but takes on a lot more reality in high school.
5. Encourage charitable giving.  
There is a very important lesson in charitable giving. It tells the child that they are more fortunate than others and that they have the power to make someone else's life better. In a society that often seems to place value more on what you have than who you are, teaching charity can create greater satisfaction with one's life.

6. By the time children are in high school they should have their own checking account.  
Learning to be financially responsible requires giving children responsibility for their money and helping them learn how banks and other financial institutions work.
7. When they are old enough, teach them the cost of debt, particularly credit card debt.  
Credit cards are great for instant gratification. But if balances are not paid off each month, instant gratification is a fast track to poverty. A \$1,500 purchase on which borrower pays 18% interest and a 3% monthly minimum payment will take 7.2 years and \$997 in interest to pay off. The real cost of that \$1,500 purchase becomes \$2,497. As long as the credit card holder has an outstanding balance, all new purchases are also incurring that 18% annual interest expense from the day of purchase, compounding the cost of using a credit card.
8. Pass on the power of the BUDGET.  
The hardest lesson to teach is also the most important and that is to live within their means. Help your child put together budgets for special ventures, for getting a pet, going to college, etc. Budgets balance anticipated income and expenses and set boundaries. And boundaries can be both a way of mastering self-discipline and a source of innovation.



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