Ten Financial Lessons for Children

Parenting kids successfully in the wealthy family is a perennially favorite topic, and what follows is an excerpt from my soon-to-be-released new book. Every chapter of this book focuses on a different kind of relationship and how we can improve each one. You may recognize the following list as "Ten Financial Tips to Impart to Your Child," which I have used for years, but this is the new, improved version. Use these ten financial lessons to teach your children financial literacy. Not only will you be teaching them valuable information, you'll also be building a bond between you and your children. They'll know they can trust you to provide them with positive learning experiences, and you'll know they'll be ready to inherit when the time comes. These lessons are best imparted in age-appropriate steps. I'll provide general age guidelines, but every child is different. Use your judgment. Keep in mind, too, that all these lessons are applicable as children grow older. Even if your children are teenagers or young adults, it's never too late to build financial literacy.

1. Save (beginning at age 5–7). Why should wealthy children have to learn how to save when they (you) can afford to buy so much? Thomas J. Stanley and William D. Danko's book *The Millionaire Next Door* emphasizes that it is important to save money because it is an attitude that will support the behaviors that support effective stewardship. If I allow my children to grow up as spendthrifts, in thirty or forty years, there will be no family fortune. However, if I impart to them the importance of saving and investing, their assets are more likely to grow.

2. Keep a Ledger (age 6–7). Provide your children with an old-fashioned ledger book to record all the money (allowance, earnings, gifts) that comes into and goes out of their lives. You'll need to set this up and assist them at first. The process of writing every amount down and seeing how much money is left after taking some out teaches the value of a dollar. This can progress to more sophisticated steps, such as a checking account or even a credit card—to be paid in full every month. All of these practices will help your children develop good habits and learn to handle a budget well. By this age most children are handling some money coming in—whether from an allowance or just birthday cash. Work with them to designate some of that money for giving, some for saving, and some for spending.

3. Earn Money (age 7–8). Working can be a great experience, and sometimes, scary stuff can happen. Your nine-year-old daughter might be doing yard work for a neighbor who asks her to do something she doesn't know how to do, and she might feel afraid to tell him, lest she lose the job. Making it through such challenges is one of the key ways young family members will mature. Most of us look back on our own early jobs and view such experiences as valuable, so I encourage you to require young people in your family to work. You can insist that your children earn half of the cost of a big-ticket item they want as a way to begin learning how good it feels to set a goal and achieve it.

4. Learn High-Road Values (age 8–10). If you're modeling high-road values, children will begin to learn them from infancy. Age eight to ten is a good time to start having discussions about them, though. There are many opportunities to be creative in using your wealth to teach your values: working hard, offering your children cash rewards for accomplishments you value, and planning achievement-oriented travel and philanthropy.

5. Develop Community Service (age 8–10). There are many ways to cultivate community service in your children's lives. You can raise money for causes that you care about, sign up with your children to work in a soup kitchen, volunteer to help clean up a park, work together building a house for Habitat for Humanity, or many other worthy choices. There is tremendous value in doing community service. Together, as a family. It will help your children gain perspective on what is truly important in life. If you believe that happiness comes from within, and if you recognize that the mainstream in our culture promotes happiness coming from without, the clash is obvious. It is up to you to take the initiative to help your children develop a healthy perspective.

6. No Debt (age 10–12). This is perhaps the most important lesson, and it would be wise to teach it to your children as early as you think they can understand it. Debt can be a big problem in wealthy families, especially if children have not become responsible with how they handle money. I recommend that wealthy clients carry no credit card debt, no mortgage, no car payments, and base lifestyle choices on what they can afford in the present. I agree with investment manager Jeff Auxier's advice: never borrow against depreciating assets. Never borrow for consumption. And if you believe you must borrow, only borrow for a well-thought-out business purpose or assets that are building intrinsic value. You would be doing your children a huge favor by modeling this behavior and teaching them to do the same. You can explain to them that if you are living on the money that you actually have, then your lifestyle is true and you are living within your means.

7. Become a Choosy Consumer (age 10–12). Teach your kids to be smart shoppers. When you go shopping, you can find one of those short-sleeved polo shirts at a large-volume store for twenty dollars. Or you can find the same shirt in the same color, possibly made in the same factory, but with a little emblem on the front, at a high-end store for eighty dollars. The point isn't to tell them that they can't buy the one with the emblem but to help them understand that they are paying a premium for the emblem. Ask your teens if they think it's worth the extra cost. Ask them what they could buy with the extra sixty dollars. Exemplify and cultivate a grateful spirit. Help your children appreciate that along with privilege comes responsibility to make wise financial decisions.

8. Invest (age 10–12). You can start to teach your children about investing at about age ten, though it may make sense to wait to invest in public offerings until age sixteen or so. Before a child begins investing in public offerings, provide business experience and reading in investment texts. Invest in your child's business or allow your child to invest in yours. Study your common investment together and share the profit. Then encourage investing in stocks and bonds on a regular basis and use the dollar cost averaging method.

9. Be Authentic (age 13 and up). Exemplify your values and be yourself. If you like to wear your Burberry blouse when you serve at the soup kitchen with your family, wear it! Just put it in context for your kids as in, "I really enjoy wearing this top, and I really enjoy serving in the soup kitchen. What's important here is helping others and making sure they have a good experience with us." Be real. This is a great lesson for teenagers, most of whom are busy trying to figure out who they are. When teens notice you being confident in who you are in the world, especially when your actions fall outside the mainstream, it's a powerful model for these young people.

10. Be a Leader (age 13–15). Last but not least, teach your children that very few, if any, of their friends will handle money in the ways this chapter suggests. Leaders are people who withstand peer pressure to stay true to their values. When this authenticity shines through, others take notice and often follow their example. Learning these steps of financial literacy will set your family members apart from their peers. Most other young people will not learn to manage their financial lives in these responsible ways. So when their peers are submitting credit card applications for "free money," yours will understand the folly of this course of action. For them, the process of studying and practicing financial literacy and responsibility will minimize temptations and entitlement.

When you and your family practice these ten financial rules, your children become competent and confident in their financial affairs.