

# DO YOU TALK TO YOUR CHILDREN ABOUT MONEY?



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Money issues should be discussed and made real. It is really important for children to understand the value of things and that trade-offs are required.

As a dad of three wonderful children (dads are allowed to be biased) and an investment professional, a regular conundrum I face is how best to teach them about money and investing.

Much research has shown how our attitude and approach to money are shaped by our parent's attitude to money. Just think of your own experience. Whether or not your parents spoke freely about money; whether they were part of the war generation hoarders (where all discretionary spending is considered excessive); whether they were entrepreneurial or if they were constantly over-spending and running into financial problems, would have had a significant effect on you.


Advances in technology and the ease of moving money or airtime digitally, coupled with society's increasing wealth and instant gratification mentality as opposed to the previous generation's weekly cash, piggy bank and savings deposit book regime, has made our job as parents even less tangible and more challenging.

With this enormous responsibility, how do we best teach our children good money management skills? What can we do to begin to help lay down the knowledge and create habits that foster future financial success? Here are three practical suggestions:

### **Make it real**

Money issues should be discussed and made real. It is really important for children to understand the value of things and that trade-offs are required. Starting an allowance is a useful tool - be sure to set clear rules for what it is expected to cover and what behaviour is required to "earn" the allowance.

Then comes what is probably the most difficult part. Both parents then need to have the discipline to stick to



the agreement - including when the child runs out of money. As hard as this lesson can be, realising that money is finite and that one needs to budget and make choices is an extremely valuable lesson to learn early in life when the stakes are low.

### **Exercise delayed gratification and learn the benefits of compounding**

Just as households need to budget and save for large capital expenditure such as cars and holidays, children should be encouraged to start saving for larger items rather than waste their money on impulse spending (how many fidget-spinners or World Cup stickers do you really need?).

Research at Stanford University in the US, the much referenced "marshmallow test", showed that the ability to display patience and delay gratification at a young age correlated strongly with better life outcomes.

Of course, delayed gratification, self-control and patience are essential components to deliver compounding – and developing a true understanding of the benefits of compounding is one of the most powerful financial insights you can provide for your children.

### **Be a good example**

Our children consciously and unconsciously mimic our behaviour – whether we want them to or not! So, from a financial behaviour point of view, living within our means, saving regularly and making sure we are educated about

financial matters is imperative. As children get older, introducing key investment concepts such as asset classes, inflation, risk and reward, time horizons, compounding, diversification and the importance of costs add additional layers to their understanding.

Encourage them to ask how businesses and the economy work, to start small ventures and be inquisitive and confident about money.

A sensible, practical way is to open an investment in a tax-free unit trust and contribute a regular debit order (from as little as R500 per month) on their behalf. Children love to see their investment growing, especially when they start realising that in the future they may have a meaningful lump sum for their university education or deposit for a house or car... ignoring the fact that by then we will all probably just hail a self-driving uber!

As with all investing, teaching children about being responsible with money sounds simple but is not always easy to implement. But it is no doubt worth the effort as giving your children solid financial skills and nurturing good habits are amongst the most valuable gifts a parent can offer.

Good luck!

*Nic Andrew*

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