Make your children investors while they’re young

As an investor, you’re likely to have learned any number of valuable lessons over the years. Some came from observation, some from experience. Why not share some of your life lessons with your children, helping them become knowledgeable investors at an early age?

Here are four ideas with which you can begin their training.

1. Reveal the magic of compounding.

Has it dawned on your children that employment isn’t the only way to fill their wallet or purse? Investments produce income as well. And when that income is reinvested, the *income* earns income. In short, it’s the power of compounding, something that Albert Einstein is reputed to have called “the greatest mathematical discovery of all time.” Because time is a critical element in wielding its magic, and you’re dealing with youth, you can introduce the concept of investing for the long term dramatically, as shown in the following story, courtesy of www.greekshares.com.

In ancient Greece an Athenian merchant with sound investment sense was entrusted by a friend with a large sum of money. He was directed to put the money in a trust and invest it for 2,000 years.

But the merchant kept all the money for himself, save for a single drachma (a coin that was equivalent to about 19 cents). That drachma was invested in bonds paying 3% annually, issued by the Athenian government.

It is said that even with the merchant’s thievery, the descendants of the merchant would have had quite a sum to pay over to the descendants of the friend. After 2,000 years that single drachma would have grown to exceed the value of all of the other assets on Earth!

2. Explain the importance of paying themselves first.

Stress the significance of figuring out what they can set aside for saving and investing rather than waiting to see what’s left over after expenses and luxuries. By establishing this pattern of saving regularly as youngsters, the habit may well become ingrained. There’s a great deal of money to be saved, says Paul W. Lermitte in *Making Allowances: A Dollars-and-Sense*

Guide to Teaching Kids About Money. He reports that on any given day, North American children between the ages of five and 18 have tens of billions of dollars at their disposal.

3. Keep the discussions lively and simple.

A good starting point for investment education is the Internet. Today's kids, sad though it may be, aren't all that interested in libraries and bookstores. But using the Internet is second nature to them. Make it a point to spend some time "surfing the net" with your children, and look at some of the sites devoted to educating young investors about the principles of investing. There are many creative places to visit that offer games and simulations that will teach without seeming like lectures.

4. Concrete is better than hypothetical.

Investing will become exciting to your children if they can see their investments at work. They can track their shares on the Internet and get a bit of feeling for their risk tolerance. (Ask them to describe how they feel when their shares go up or down and how they would react if they had put a great deal of money in the company.) Owning dividend-producing shares of a company means regular checks in the mail. To stimulate their interest, have them pick the stocks of companies with brand names that they recognize. For instance, they might buy shares in the brand labels that they wear, the fast food that they eat or the forms of entertainment that they especially enjoy.

Money sense won't be learned in the classroom nor can parents expect that saving and investing automatically will become part of their children's lives without parental guidance. We hope that these starting points help you with your discussions.