“Teach your children well” Crosby, Stills, Nash and Young

Disclaimer:
I, Chris Davis, alone take responsibility for the ideas and thoughts provided. They should not reflect on Davidson Wealth Management of Wells Fargo Advisors or Wells Fargo Advisors. What is written is provided to help. Most of the ideas are not original and you may have seen them elsewhere. Some will not work in your situation, but are provided to stimulate thought and discussion. I welcome your ideas. Please tell me what has worked or not worked for you.

My motives are pure. I want to do my part in helping us do a better job managing our money and passing responsible principles and habits to a younger generation. Personal finance can, without exercise, become a lost art. We all can benefit from a fiscal fitness instructor.

I may be mistaken in my belief that I am uniquely qualified by almost 30 years of professional conversations with literally thousands of savers, spenders and investors regarding the subject of money. I think I can spot counterfeit opinions on the subject of money and personal finance. Much of what I have learned is from people who have questioned my ideas. Please call me out if you are not reading or hearing the Real McCoy.

Thank you for caring enough to read and think about how your money should be used and invested.

Our schools teach our children how to develop skills to make money, but we do not teach them how to manage their finances. I believe that we are damaging our children and stealing from their future by not teaching them the proper principles of financial stewardship and living them out in our own lives. The following are some ideas and principles that I believe will help. Please forgive me if this sounds “preachy”. It is time to tell the truth. I hope you are receptive.

Preteens

- Start with an allowance that is earned, not given. From the earliest ages, start them with a savings account and match every dollar that they save from their allowance with an additional dollar. It grows faster and encourages the process.

- Pay for good grades. There is nothing more fundamental about our economic system than merit pay. Capitalism pays for excellence, productivity, achievement and something called “value added”. Grades are often more evidence of hard work than genius. Obviously, adapt to their God given ability, but reward them for excellence and especially creative thinking at an early age. Continue through college.

A few years back I audited a discussion course at a local prestigious college on the subject of capitalism. It became clear to me that the students did not equate their acceptance at this premier institution with capitalistic principles. While they could agree not everyone deserved or had earned the right to attend this particular school, they had difficulty seeing why their future incomes and standard of living would continue to reflect their achievements beyond college. This bothers me.
• It is also not too early to ask your children to recommend charities that need help. What a great conversation to have with your children! You are actually listening to them talk about something important. Together, either through giving money or time, you can engage in an activity that is not self indulgent. Imagine what you will learn from this young person.

If you go to a place of worship, make sure that you put money in the collection plate. Mentoring is more effective than words. We all know the expression; more is "Caught" then "Taught". Let your children see you give money. Why is this important? In his book, Who Really Cares: The Surprising Truth About Compasionate Conservatism Who Gives, Who Doesn’t, and Why It Matters. Arthur C Brooks reminds us that people who give, experience a belief of abundance and experience better financial lives. I personally believe that I let my children down by believing that the checks I wrote in private, that they never saw, taught them the proper spirit of giving.

• Allow your young adults and pre-teens to address envelopes of the bills that you are paying. Let them see what the heating bill is, for example. Many people pay bills online for convenience, but you can still find ways to share the information. Make them a part of the financial household. I think they will be surprised to see how much you pay just to keep them around.

Teenagers

• At some later part of the teenage years, they can have a credit card, but they must be responsible and be engaged in the accounting of what gets spent on that card every month as well as the payment of the card. They must see that the card is paid off every month, because it gives you a chance to share with them the fine print that teaches them about the high cost of interest rates. This would be a good time to teach them "the rule of 72".

• “The Rule of 72” is the simplest way I have ever read on how to explain the impact of compound interest. Divide 72 by an interest rate to obtain the number of years it takes money to double earning that rate. Same in reverse. This is the danger of debt. If you pay interest, you can see how it can work against you. For example, 6% interest divided into 72 = 12 years. Ask any young person who has learned addition and division to work out the following math problem. Starting at age 15, $1,000 grows to what number in 48 years (age 63) at 6%? The answer is $16,000. Using 12% return, the money doubles every 6 years. Using this rate of return, you can illustrate that $1,000 grows to $256,000 by age 63!

• “The Rule of 72” helps teach the principle of deferring gratification. Most things are better if they are yearned for just a little longer. Many people have allowed themselves the delusional belief that we must HAVE IT NOW. We actually believe the Madison Avenue lies that whatever problem we have can be fixed in a 60 second commercial or 5 minute infomercial. Living for today is a basic lie we are living and teaching our children. Let your children witness your deferrals. Without the guilt trip, you can teach what it is like to do without just a little longer. Experience together not having the “best of the best”.

• Diversify, diversify, diversify! In their teenage years, your children can open a brokerage account, hopefully from their own “deferrals”, saving their allowance. They can then begin to research various investment vehicles.
Family vacations: Engage them in the decision of where they go and give them choices that may allow them to pay some small amount from their savings if they want to trade up. Church camps/retreats and mission trips offer a sense of purpose.

Clothes budget; a must for any teenager. Please don’t tell me you buy them what they want or even haggle with them. Instead, let’s teach them the sense of self worth that comes from learning to live within their means. Take them to Goodwill; they’ll learn thriftiness and charity at the same time. Together you can deliver clothes and shop.

Encourage and support them to pursue after school jobs and summer jobs regardless of how menial. In his book *Hard Work*, Roy Williams (the basketball coach at the University of NC at Chapel Hill) talked about his first job the summer before second grade where he worked in a motel with his aunt helping her change sheets. His job was to take off the pillow cases – for 25 cents a day.

What are you teaching your kids about work? About business? Business can be an honorable career. Michael Medved, in his book, *The 5 Biggest Lies about Corporate America*, reminds us that society- the people teaching your children when you are not- through movies, art, and education is very negative about business. According to Medved, Abe Lincoln was a corporate attorney! “Taxation without representation” referred to the taxes paid by the merchants (aka businessmen) who were our founding fathers. George Washington was a very successful businessman whose business was agriculture. It is time to start learning the truth about economics and business. If you do not teach your children the truth, I am not sure who will.

It is okay to talk about money at the dinner table, in fact, I encourage it. Just do not fight about it! Perhaps it is time to start having family dinners, too. My father used to talk about subjects that included love, happiness and money. Who is happy in our community? Is that equated to wealth? You can concede that money can buy fun and comfort. It can solve some basic problems. Tell the truth. Also, tell them the bigger truths about love, happiness, commitment, ethics, and integrity.

I do not believe money is something to be ashamed of or worshipped, but it is a tool that should be used by your family. People with different philosophies about money marry more often than not. For example, generally a saver will marry a spender. Therefore, it makes sense that there can be a natural friction between parents. Friction is normal. This should give parents a chance to talk about their philosophies and bring things out in the open for their kids. Tell your children about your earliest financial memories. This will provide insight for them into your own baggage and unlock some of the mysteries of why some financial issues are more contentious than others. Engage them in how the money is spent. You might find that your teenagers might be willing to help paint the house, do house cleaning, mow the yard etc, if they have some say in how they family spends the money they help save.

Keep your car clean and running, and brag about the number of miles you have built up, not your new GPS, satellite radio, or cruise control. Teach your children that cars are depreciating assets, not status symbols, or trinkets of middle class yearnings, but tools to be used to promote a better more productive life. Deep down you know this is a truth you want to teach to your kids. Be courageous!
• About their first car. What a message opportunity! The money smart parent will thoughtfully start teaching this lesson when their son or daughter was 6 years old and matched their savings, all the while telling them that they were going to need that money for a car in just 10 years!

If you missed that boat of helping your 16 year old save for their first “ride”, here is another chance to make good. Buy a wreck. Better yet make it an old pick up truck purchased from a farmer. The farmer will teach them a lesson about care and thriftiness. Your son or daughter will, in all likelihood, proceed to wreck it anyway. Experience makes safe drivers. Bent fenders contribute to that experience. Consider getting your daughter a truck, too. It will make her cool and she will be safe.

If you missed these opportunities there are still more. Tell your children that you will pay for the insurance until the first wreck and then you will expect them to pay the difference or all of it. The hard part will be making them actually pay it if it happens. They may have to give up being on an athletic team for a season while they work to pay for their unfortunate experience.

• Have a family “savings envelope” where they contribute to the envelope for Christmas presents or other special times. Consider matching. A friend of mine in his 50’s still uses the “envelope method” of savings taught to him. He and his wife use numerous envelopes. They “foolishly” do not earn interest, but always seem to have what they need and are never surprised by being short. I think this is really cool.

• Saving, using envelopes or not, teaches your children to defer gratification; a very simple principle that is powerful and has lifelong effects.

• On Christmas day, go see a relative, friend or neighbor who is worse off than you. One of my former ministers used to teach that it is better to host and entertain those who cannot pay you back. Invite the less fortunate into your home at Christmas and Thanksgiving. This teaches the financial principles of gratitude and responsibility. Yes, I believe these can be financial principles too.

For readers, there are a number of books that can help with financial literacy and motivation. Here are a few of my favorites that have helped me over the years:

1. *The Richest Man in Babylon* by George S. Clason
   For any youngster. Read it to them in their earliest ages. It teaches the lessons of saving and giving away first. Paying yourself first concept is based on the premise that one day your physical body and mind lose their economic worth. Financial assets serve to replace human assets.

2. *Rich Dad, Poor Dad* by Robert T Kiyosaki
   A great book for 16 years old up to 66. It teaches the lesson (among many) of the cost of owning income consuming assets versus income producing assets. Just to be clear, a car and your personal residence are income-consuming assets. Investment real estate and stocks and bonds are income producing investments. What do you own more of?

3. *How to Buy Stocks* by Lewis Engels
   I prefer the 1980s edition of this book if you can get it, but it teaches the basics of what a stock is, what a bond is, and how capitalism works.
4. *The Millionaire Next Door* by Thomas J. Stanley
Anecdotally easy to read from any age 16 up, this book teaches the basic lesson that the people who really have money are the people that don't look like they have money. It also discusses all of the mistakes that the parents make trying to teach their children, and how sometime helping their children often ends up hurting their children. It's a timeless read.

5. *Die Broke* by Stephen Pollan
This book was written in the early 80s and influenced me as well. The primary lesson is to suggest that you live like a pauper until your children are 12 to 13 years old. Until then, they will not remember nor appreciate magnificent vacations, nor do they care what they wear. When they reach junior high school the little fashion mongrels start to pay attention. Also when they reach their teenage years, if you've saved appropriately, you can take them on more meaningful vacations that include the arts and history, geography, science, etc.

In summary, financial literacy and the principles of teaching your children to live responsibly obviously start with you. I appreciate, that by the end of your day, you are frankly often too spent to fight the battles of educating your children about money. You are too tired; you give out and give in.

I have spent my most of my career trying to help people achieve their goals and to live financially responsible. I would be delighted to meet any evening or Saturday morning in the Davidson area with any family that would like to engage in a discussion about money.

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