

Total Cents Podcast Lesson 6

Expose Them to Investing

Topic Overview

With investing, parents want to jump right into teaching kids to buy stocks, but that's not the best place to start. We have to get them to walk before they can run. This idea of "Pick a Winner" before they have a basic foundation of core financial principles is like teaching a youth basketball player to dunk before they have learned to dribble. Dunking is cool, but there is no dunking until they can dribble the ball to the basket to make that dunk. This lesson details prudent investment principles to teach your child.



Before you start have handy:

- Questions you'll ask
- Pictures
- Timeline Buckets
- Pyramid of Investment Options
- Periodic Table of Investment Returns
- For those who are daring
 - Their 529 Plan
 - Your 401k or other retirement plan

Your Intro Discussion With Them:

Let's do a quick recap of our last conversation on "compound interest." Remember that's "interest on your interest."

Do you remember we were talking about The Rule of 72 in our last discussion? How does that rule work? (divide 72 by your expected rate of return and your money doubles in that amount of years)

It must have occurred to you that if you could find a way to get a higher rate of return, your money would double faster. Think about it. If it takes 72 years for your money to double at 1%, it would be much better if you got 10% and it doubled in 7.2 years right? If you invest properly, you can get those higher rates of return.

Step 1

Go BIG Picture- WHY SHOULD THEY CARE

What is the difference between SAVING and INVESTING?

- *SAVING*- the act of putting money aside
- *INVESTING*- where you put the money...to get a higher return

How do you get a higher rate of return?

- don't discuss asset classes just yet...hold that for later in the discussion
- "High risk- high return. Low risk- low return."

Step 2

Drive the point: Risk and Time

What are the factors that you have to consider before we take on any risk?

- **Risk tolerance**
- You'll want to answer the question—what type of investor am I?
 - » Aggressive- you can handle the ups and downs of the market. "Go big or go home!"

Time horizon: Introduce the concept of different buckets

- \$ Now- near future (movies, eating out, liquid/safe).
- \$ Later - isn't needed right now, plans not so far future. (kids=3yr)
- \$ Much Later - "Much later" (Kids→ "much later" is buying a home.)

Play Doctor:

If you were a **MEDICAL DOCTOR**, would you ever give a prescription without asking the patient questions to make a diagnosis? What might you ask?

- Time Horizon, Risk, Tax brackets

2 Different Patient Scenarios:

Let's talk through 2 different scenarios:

- A teenager has \$18,000 that they need to use for college next year.
 - » would naturally lead to taking lower risks.
- A 7th grader received a \$1,000 gift and plans on using this money to buy their first car in 12th grade,
 - » a little more aggressive with their investments.

Step 3

Gently Introduce Asset Classes - Where do I put the money?

Take out the Investment Pyramid Picture (wait to show)

Have you ever heard of any types of investments that people use to "make money on their money?"

- Let them guess
- Answers they might give
- Local Bank, Bonds, Stocks, Real Estate, Crypto Currency/Gold

Let's look at your answer on **The Investment Pyramid**

- Lower risks and lower returns are at the bottom. (Stable)
- Cash, CD's, and money market accounts.
- Higher risks with higher returns at the top
- Stocks, and while stocks historically give us healthy returns over the long run, that comes with a tremendous amount of volatility and risk during the short run.

Show them **The Periodic Table of Investment Returns**

- Follow one box throughout the years (stock asset class)
- Show another (cash asset class)

Conversation Wrap Up

There is a famous saying in investing which goes, "Never make a killing. Never get killed." That means that by diversifying your investment choices to different types of investments, like the The Periodic Table of Investment Returns, you'll never have all your eggs in one basket.