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 from our websites resources including:*
  - *Timeline Buckets*
  - *Pyramid of Investment Options*
  - *Periodic Table of Investment Returns*
- *For those who are daring*
  - *Their 529 Plan*
  - *Your 401k*

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? (Just 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

What is the difference between SAVING and INVESTING?

Saving:
Saving is the act of putting money aside.

Investing:
Investing is the act of putting money in an investment account with the intention of getting a higher return.

How do you get a higher rate of return?

- *Don't discuss asset classes just yet. Hold that thought for later in the discussion.*
- *Keep in mind the mantra: "High risk, high return. Low risk, low return."*

Step 2

Drive the point home: Risk and Time

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

Risk Tolerance:
To determine what risks you should take, you want to establish what kind of investor you are. An aggressive investor, for example, will lean toward the logic of, "Go big or go home!" This individual would be able to handle the ups and downs of a volatile market. A conservative investor is afraid of loss and would rather not see dips in accounts.

What is a time horizon?

A time horizon refers to a future date range where you expect to have increased expenses.

- *$ Now - near future expenses (ex. movies, eating out).*
- *$ Later - expenses for the not-so-far future (ex. kids, car).*
- *$ Much Later - expenses planned for the next few years (ex. buying a home).*

To encourage financial success in your household, make sure everyone has a grasp of time horizons, risk, and tax brackets.

Let's look at two different scenarios:

Let's talk through 2 different scenarios:

- *A teen has $18k they plan to use while they're away at college next year. This individual would take lower risks and restrict their spending on necessities.*
- *A 7th grader receives a gift of $1k that they plan to use on their first car when they turn 16. They're going to want to see more immediate returns on their investment and might be more aggressive.*

Step 3

Learn Where to Keep Your Money

Take out the Investment Pyramid Picture and wait to share it with your children. First, ask them if they've 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 that goes, "Never make a killing. Never get killed." That means that by diversifying your investment choices to different types of investments, as suggested in The Periodic Table of Investment Returns, you'll never have all your eggs in one basket.

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