

# A Valuable Gift for Life

## financial fitness

By Erik Ford.



As we approach another holiday gift-giving season, we are rushed to find that perfect gift for friends and family. For young children, it is frequently the hot gift for the year that will, unfortunately, be forgotten in many cases by next year. What if you could give a gift that lasts a lifetime? Teaching our children the importance of saving and investing can put them on a path toward financial health and security as adults in our ever more complex

financial world. Although, I advise against wrapping this gift and putting it under the tree.

Depending on their age, children today have watched the adults in their life live through one or more financial crises, leaving them fearful of financial decisions. Those of us who have lived through many years of economic ups and downs have a fuller perspective on things that may be

more difficult for a younger person to appreciate. The math is simple, the earlier one starts saving and investing, the higher the probability of reaching goals. These are skills not usually taught in schools and fall on parents or other adults in their lives to pass on. Over our lifetimes, our financial system has increasingly put the responsibility of providing for retirement on each of us. Understanding some of the basics and having an interest early can put a young person on solid footing.

So, what are some of the important lessons? We are not talking about a graduate-level finance syllabus, but there are topics that can be introduced in everyday life. The first and maybe most important may be saving for later versus immediate consumption. That is a hard one even for many of us adults. Understanding that putting off some immediate wants allows savings to accumulate for the future. This is not to recommend total self-deprivation, but the ability to resist impulses and allow funds to accumulate is a good lesson to learn early. Even a small child may find it fun to watch change accumulate in a jar or piggy bank (hey, I still do!). Before anyone can “invest,” one has to save.

Beyond the first step of saving, the concept of growth is a bit more difficult. When we were kids, you could see interest earned in a savings account. In today’s interest rate environment, you need a microscope to see interest accumulate. Compound interest (or earnings) is powerful and too frequently not fully understood or appreciated. A study from the George Washington School of Business concluded that as many as 66% of adult Americans do not understand compounding, but anyone who does will appreciate the value of saving early and consistently, even in small amounts.

Related to compounding is the concept of time value. Simply put, a dollar a year from now is not worth as much as a dollar today. This follows on from the growth through earnings lesson because the dollar today can be saved/invested and earn something over the course of the year. A straightforward concept, but an important one. It is really the keystone of finance and an understanding of this concept will open the eyes to many more complex topics.

Understanding the basics of business is also a valuable lesson that does not have to be complicated. This is a discussion that can be about everyday experiences. A trip to the grocery store can be the basis for a discussion on how the store makes money. Perhaps a trip to an amusement park or a fast food restaurant can start a conversation. Just a discussion on how that soft drink ended up in their hand can be edifying. It can start out simple and over time become more involved. Appreciating ownership and the risks of business can eventually lead to an understanding of stocks and what they represent as ownership and the risks that come with ownership. Next comes diversification, and before you know it, you have completed that finance syllabus (just kidding!).

My point is that very valuable life lessons regarding money, saving, and investing can be passed along with simple, real-life examples and experiences.

For the very young, the story of *The Little Red Hen* is a good place to start. The story encompasses many of the concepts above and can be built upon over time and associated with other businesses that the child may see and experience. Talking about the parents’ jobs or a relative’s business can be a valuable learning experience. Whatever the method, the importance of learning these lessons early and having context as they begin their working lives is a gift you will be happy to have passed along.

Have a great holiday, stay healthy, and support our local businesses.

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