

MONEY MATTERS: Teach them young and avoid hard lessons later

BY WARREN INGRAM, APRIL 07 2013, 10:22

AVOID THE DEBT TRAP: Learning how to manage one's finances should start early and is one of the best things any parent can teach a child

CHILDREN who grow up understanding money will have a real advantage in life - and the sooner parents start teaching their offspring about this vital part of modern living the better.

Our values in terms of money are formed at an early age, so it is important for the lessons of good money habits to start from the moment children can speak.

It will be almost impossible for them to change these habits when they are parents themselves.

These are the principal points you need to drum home:

What you need vs what you want

We need to help children understand that their financial resources will always be limited. Often, parents try to give their children everything they want, especially sought-after items such as smartphones.

Use your children's demands for these items as an opportunity for a money lesson. If they want a smartphone, help them to work out how to earn and save enough money to get one, rather than simply buying one for them. This should include doing extra chores at home to earn additional money, which establishes the principle that extra work leads to more money.

You could also help them to open a savings account in which their money can earn interest until they have sufficient funds to buy the phone they want.

You might even teach children how to start a small business to earn money to buy the things they want. The lessons involved in this sort of project are numerous - marketing, negotiating prices, scheduling workloads and determining what resources are required.

Budgeting basics

Don't shield children from the real cost of food, clothing and luxuries, because they will need to understand these costs when they live on their own. You could start to involve them in your budgeting decisions by, for example, telling them what the family spends every month and how this relates to the family income.

Teaching your children how to budget is nearly as important as teaching them to read. It should be second nature by the time they leave school.

But try to impart knowledge about money without burdening your children with guilt.

When times are tough, use the situation as an opportunity to explain how the family will adapt and, more importantly, how to develop a plan to work yourselves out of your situation.

Investing for the future

By the time your child is in high school, you should be discussing how their savings should be invested. Few young adults know anything about investing. They might have heard of concepts such as unit trusts and shares, but they have limited understanding of what these are.

Take the time to explain these concepts to your children and start investing some of their money in a unit trust or exchange-traded fund, such as Satrix, to teach them real-life lessons about investing.

Teach them to fear debt

One of the most important lessons about money will be how they manage - and preferably avoid - debt. Try to raise children who have a fear of credit cards and loans.

The one factor that most often leads to financial success is the ability to save and avoid debt. Few people manage to do this, which is why so few people are able to retire comfortably.

Consistent discipline

Your children need to learn that financial success is achieved by consistently spending less than they earn. Achieving a balance between instant gratification and long-term discipline is critical. If your children have this discipline by the time they leave home, you will have given them a head start in life.

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