?Kids say the darndest things,? - Tammy Wynette

It?s fun to teach the future generations about money and investing. Well, most of the time it is. Those under thirteen tend to be an overly-excited group known to blurt out whatever is on their minds often at the surprise of adults in the room. I always make sure to have plenty of treats for everyone at the end. Since it was later in the day, the fourth grade class that made the journey to the office recently was especially ravenous, however I wasn?t going to change the routine-we learn at the beginning, ravage the cakes at the end. This•batch of cupcakes was especially fresh and frosty. But it didn?t matter: I wasn?t going to deviate from the plan I?ve used for years. Out of the mouth of babes ? lessons and behaviors we?ve clearly forgotten. •As adults we are relentlessly bombarded with the noise of daily living and sometimes we just don?t see things clearly based on our own biases. Children are overwhelmed with stimulus too, however they don?t have as entrenched a filter and they?re willing to see things as they are and happy to share an opinion. There are wise words coming from the mouths of babes if you only listen. 1).**Ðo homework first•**? Many of the kids believe that before you make an important purchase, you do your homework. Now, their homework may not be as sophisticated as yours, however investors tend to forget, especially when the markets are more erratic, that emotions can overwhelm the desire to dig into facts. We take action first out of fear or panic and deal with the repercussions later. The kids always seem surprised how many adults will buy and sell investments based exclusively on what they see or hear on television and radio. Mind you, these young students think it?s perfectly ok to purchase a breakfast cereal based on media, however acquiring an investment or ?something that can go down,? (their words not mine) requires more time and effort. During market extremes it?s timely to take your portfolio?s pulse (and yours) to determine whether you?re comfortable with your asset allocation plan-the division of assets into stocks, fixed income, cash and other investments. If your portfolio is gyrating more than the market up or down and you?re uncomfortable, homework is required to narrow down the investments causing the turmoil. From there, it?s time to decide (based on the homework not heartburn), to take one of three roads as you evaluate financial holdings: Stay the course, buy more, or sell the investments causing distress. Again, base these decisions on your tolerance for risk and then maintain that risk profile through good and bad cycles. 2).**Buy low•**? I know this sounds flippant or simplistic-for the mature crowd, buying low is easier said than done. They children believe they should try their best after research, to buy low into investments or at least they hope to accomplish this on a consistent basis. We teach the kids patience when they want a new video game, it?s time we teach ourselves some patience and let asset prices come to us. I know. Good luck with this one, right? **3).Buy what you understand•**? Another easy one, (in theory anyway). The kids feel strongly about buying what they know or understand. Occasionally, we make a portfolio allocation too complicated by purchasing investments we don?t fully grasp. There are a plethora of vehicles on the marketplace that are based on currency movement, bet against the markets or particular industries, and promise appetizing returns when the market is directionless. What is the impact to the overall portfolio? If the addition appears overly complicated and you can?t explain it to a listening party, you may be better off passing on it. A complicated strategy is not necessarily a better one. Your investment plan needs to be realistic, actionable and comfortable based on your personalized goals and aspirations. 4).**A Sell Discipline? What?s that?•**? Children seem to embrace the idea of selling investments and moving on. For some of us grownups, this can be a challenge. We tend to be resistant to rebalancing or we allow one investment to swallow up a major portion of the portfolio, resulting in more risk. If you don?t have a discipline around buying and selling assets to restore your portfolio to an original target allocation, then ultimately you?re not controlling risk. Rebalancing requires a contrarian nature whereby you?re shaving down what?s done the best and adding dollars to those asset classes currently out of favor. A concentrated position means that a stock, industry or sector makes up a disproportionate share of your total portfolio, usually 20% or more. The end results is more volatility in the portfolio as the key driver of returns, good or bad, depends on the performance of a large holding. Investors are sometimes reluctant to trim concentrated positions due to the tax implications of a large capital gain or an anchoring to a past price to minimize a loss. It?s important to maintain perspective on the risk as first priority. Start talking with your child about investing sooner rather than later. Many parents find it awkward to discuss stock investing with young children because some parents don?t feel confident about their ability to do research. But what I?ve discovered is that the discussion with young children helps less-confident parents become better stock investors. The conversation also raises the bar for parents and children who are willing to learn. Speaking of investing? After the excitement of unwrapping gifts and the newness of the latest gadgets wear off (should take a couple of days), step back a moment to discuss the companies behind all that holiday joy. The investment adventure begins with four steps: **Build excitement**. Creating passion around the process of investing is important. Begin by talking with your child about brand loyalties, which start at an early age. When I was young, I remember driving my parents crazy with my demands for the latest Hot Wheels car or G.I. Joe action figure. And I would eat only Kellogg?s Frosted Flakes, not the store brand. My brand loyalty fever only grew hotter during the holidays. What products are your children passionate about? Create short-term activities to build interest and set a deadline for completion. For example, have your child keep a journal of the products and services he or she likes or uses. Then track the price of those items online or at local stores. Remind your child that the family is excited to hear about the research and plan a family meeting to talk about it. One family created a big event around the journals. The children selected their own notebooks and personalized them with money-related stickers. The kids paid for the supplies out of their own allowances, which created a stronger connection to the project. **Plan a family discussion**. After your child shares her research journal at a family gathering, expand the discussion to include the products and services your family purchases or uses each week. From soap to shoes, batteries to bandages, everything is open for investigation and nothing is off-limits as your child builds a research list. **Watch what you say**. I?ll never forget when my uncle, who worked at the New York Stock Exchange, explained how I had the ability to own part of a large company. I was hooked: How could a poor kid from Brooklyn own a piece of McDonald?s? The language used around stock investing is important to help your child gain a healthy perspective and a sense of pride in her selection and in the investment experience. The phrase ?buying a stock? is confusing when compared with ?ownership in a company,? which is what you?re trying to help your child embrace. The concept of ?stock? is difficult for a young child to comprehend, so it?s best to keep the language simple. If you use words to connect ownership to investing, this helps create a long-term investor mindset. You don?t want your child to focus only on stock-price movement; it?s best to provide perspective, which helps her build discipline by focusing on the long-term value of a business. **Talk about sales.•** It?s a good idea to introduce one simple concept before you begin specific stock-research homework. I?ve found kids relate well to the concept of sales. Whether you?re talking about Girl Scouts cookie sales or school-related fund drives, children have the uncanny ability to understand that sales lead to personal reward. It?s the same for businesses. Generally, the more goods or services sold, the more favorable it is to the stock price. You don?t need to work through these initial four steps alone. Partner with a financial advisor to help guide the discussion or use books, apps and other resources to jump-start the process. ?Growing Money: A Complete Investing Guide for Kids,? by Gail Karlitz and Debbie Honig is an easy-to-understand book for children ages 8-12. You don?t need to wait for verbal cues from your child to begin talking about investing. You can start a dialogue earlier than you think. **Wait patiently for cupcakes at the end•**? Investing takes patience and a willingness to be disciplined. There must be goals established and when those goals are met, the sweet reward is certain to follow. It?s tough for the kids to focus on the lesson at hand with treats waiting; the children eventually learn that shortcuts to the baked goods don?t exist especially through my lessons! It?s similar with investing. We too, as adults, want our dessert first or seek to get rich quick based on shortcuts. Ostensibly, when the market are not cooperating, back-to-basic strategies like saving more, decreasing debt or extending the time needed to reach a financial goal are usually the best. What will you learn from the children today? Keep an open mind. You may be surprised.