



BRIEFING »

Lessons of Value

Teaching Children the Financial Facts of Life

In Charles Dickens' classic novel *Great Expectations*, a secret benefactor provides the orphan Pip with a large fortune intended to allow him to focus on his education. Pip, unschooled in the ways of money, spends irresponsibly in the pursuit of pleasure and luxury—until the painful legacy of his accumulated debts finally catches up with him.

While Pip eventually recovers from his spendthrift ways, his modern counterparts are often not so lucky. Ignorant of the economic facts of life, many young people stumble into serious financial mistakes—excessive debt, inadequate savings, poorly diversified investment strategies—that can take years, even decades, to put right. In many cases, a few lessons in the financial basics could have helped them avoid errors.

Unfortunately, financial ignorance isn't just the stuff of 19th century fiction—it's an increasingly common modern-day reality. For example, a 2002 national survey of thousands of 12th graders, conducted by Jumpstart Coalition for Personal Financial Literacy, found that 68.1% flunked a basic financial literacy test. And only 21% of students between the ages of 16 and 22 reported taking a personal finance course at school, according to a 2001 survey—*Parents, Youth and Money*—by the American Savings Education Council

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By default, parents are usually the primary source of a financial education. However, the studies cited suggest many young people may receive allowances—or even a sizable inheritance—without a sound base of knowledge in saving, budgeting, investing and financial planning.

To help the children in your life develop a responsible attitude about money, it might help to consider these points:

BE A ROLE MODEL

There is a significant relationship between the way children view money and your own spending habits. Instead of viewing money and personal finance as a forbidden topic, discuss your own financial goals and plans. The level and amount of information shared is up to you but bring the younger generation into at least a portion of your plans.

An estimated 47% of youth report that their parents rarely or never discussed household budgeting with them, according to the 1999 Parents, Youth and Money Survey. How you deal with money issues—from the monthly bills to planning the family vacation of a lifetime—are important and long-lasting lessons about money management and the value of money.

ENCOURAGE SAVINGS AND INVESTMENTS

One of the simplest ways to encourage a responsible attitude about money is to encourage children to save. This could include designating a portion of a child's allowance to a savings account, or making gifts of cash directly to an account in their name. Discuss account statements together, and stress the concept of “paying yourself first” with dedicated, regular deposits.

For younger children, set modest attainable savings goals. For older children, encourage the development of a long-term savings plan for the purchase of a large-ticket item like a computer or car. Consider an occasional “matching grant” to encourage regular deposits and help keep goals visible.

Take the time to explain basic investment types such as cash instruments, stocks and bonds. Make investing interesting by engaging in conversation about companies that provide popular children's products such as toys or clothing.

DEVELOP A SENSE OF FINANCIAL EMPOWERMENT

Developing responsible spending habits means encouraging well thought out choices. Guide and advise rather than dictate how money should be saved and spent. Keep goals visible with pictures or create charts that plot the growth of funds needed.

Take children on window shopping trips to compare prices and products and adopt the mind set that every trip to a store is an exercise leading to a potential purchase. To limit impulse buying, consider instituting a rule that prices and products are compared at a minimum of three locations.

GIVE UNTO OTHERS

Involve children in your financial decisions regarding philanthropy. Discuss the merits of gift applications you may have received and weigh the advantages and limits of each. Explain the tax advantages of charitable giving but, at the same time, stress the altruistic goals of giving.

Even a contribution to a canned food drive or the creation of a holiday basket for a needy family can grow into a family-wide event. By helping children contribute time or money to a charitable cause, you can teach them that money is important in ways other than personal consumption.

PERSONAL FINANCE GUIDELINES

The Institute of Consumer Financial Education is dedicated to helping consumers of all ages improve their spending, increase savings and use credit wisely. The Institute has developed the following personal finance guidelines:

- Manage your expenses so they don't exceed your income.
- Spend money thinking of your future as well as your present.
- Begin saving early to take advantage of compound interest.
- Avoid collecting credit cards and using them for borrowing.
- Always honor your debts and other financial obligations.
- Project your income and expenses for the next 12 months and track variances.
- Focus on the relationship between the risk and projected return of investments.
- Maintain organized records for tax and general financial planning purposes.
- Have a plan and a purpose for your investing.

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- Obtain a financial education to be in a better position to make intelligent financial decisions.

Developing a sound knowledge of basic financial practices can often go a long way to helping the children in your life achieve life-long financial security. Fortunately, Morgan Stanley Smith Barney can has a variety of tools that can help parents encourage their children to develop strong savings, investment and charitable goals. For more information, just contact your Morgan Stanley Smith Barney Financial Advisor.

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