Strong Financial Kids

In working with families for many years in various financial planning stages, it is clear that, as the idiom suggests, the apple doesn’t fall far from the tree. Financially fit adults tend to produce financially strong children. I am not referring to an inheritance, but rather to the good financial behaviors tought to their offspring. I strongly believe it is the parent’s responsibility to guide the child and help them develop a good financial sense from an early age. By no means am I schooled in the psychology of parenting, but the following thoughts and suggestions on raising a financially fit child comes from my prospective, observations, and past experiences.

In a 2016 study by T.Rowe Price1 on kids and money, 21% of parents did not offer an allowance to their children, while 19% gave an allowance with no-strings-attached, and 60% offered an allowance to their children after earning it. Rather than giving the child a no-strings-attached allowance, incentivize the child by paying them a “wage” to do extra things around the house. By associating work with reward, the child will not grow up with a sense of entitlement. A hungry dog hunts harder.

In their book “The Millionaire Next Door”2, authors Thomas J Stanley Ph.D. and William D. Danko Ph.D. concluded that parents who give substantial economic gifts of kindness were actually harming the child’s financial well-being. In their study the authors found that “The more dollars adult children receive, the fewer they accumulate, while those who are given fewer dollars accumulate more”. Their research concludes that this “Economic Outpatient Care” financially weakens the child and that child typically lacks initiative as an adult. The lesson learned from Dr. Stanley and Dr. Danko’s research suggests that parents should not give their children fish, but rather teach them to fish.

As parents, we can teach our children there are three distinct things you can do with money: spend it, save it, or give it away. One is not more supreme than the other, but a healthy balance of each is the best. The amount and relationship between these three are a good way to start teaching about budgeting. Work with the child to determine how much should be spent, how much should be saved, and how much should be given away. This is a good time to work with the child to understand the difference between “needs” and “wants”. They are being constantly barraged with messages to consume and spend. This is also a good opportunity to teach the child that decisions today impact your well-being tomorrow.

In the 2016 T.Rowe Price study on kids and money, one-third of parents responded that they have “borrowed” money from their kids piggybank and not paid them back! Fourty-one percent of respondents say they have discussed with their children the value of long-term savings. If your children are not getting a positive and clear message about money from you, who will they learn financial lessons from? Encourage and teach by example.

By teaching your children how to manage and be smart with their money, you are helping them prepare for a financially fit adulthood. Children are sponges that absorb more than one can imagine. Encouraging good financial behavior early in the child’s life and leading with example will help ensure that the child will make good financial decisions later in life and develop into a financial mature adult.

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*1 – T.Rowe Price 8th Annual Parents, Kids and Money Survey*

*2 – Stanley, Thomas J., and William D. Danko (1996). The Millionaire Next Door: The Surprising Secrets of America’s Wealth. Atlanta Georgia: Longstreet Press.*