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How to get your kids interested in the sharemarket

It can be fun and games, and a great investment that lasts a lifetime.

Financial literacy is a popular topic among policy makers and educationists, and it also ranks highly as a skill that parents want to give their children.

Whether it's the ability to create a profitable strategy, construct a great portfolio or simply build wealth over the long term using simple products, the getting of financial wisdom can set a child up for life.

Much like teaching a person to fish rather than simply providing a meal, it can also be a much wiser investment for a parent or grandparent than investing on the child's behalf.

There are several building blocks to financial literacy, each of which will support a child in developing their financial independence over time. The foundations are built with learning to save and how to "handle money" (spending), a more complex skill that offers correspondingly greater potential rewards.

Children and young people have the incredible power of compounding working to their advantage, so the benefits of introducing them to these skills at a young age are significant. The challenge for parents is to engage and interest them in topics that may seem unexciting or complex when compared with the latest gadget, social media platform or just hanging out with their friends. So where to start?

Become a financial role model for your children

One of the most powerful lessons a parent can learn is that children are highly observant and will do as you do, not as you say. They will observe your habits with money from their earliest years, learning very quickly whether you are likely to give in on an impulse toy purchase, fret over a bill, and if money woes lead to fights with your partner.

On a more positive note, if you project confidence with money and talk positively about saving and investing, they are also likely to adopt a similar enthusiasm.

I was fortunate enough to have parents who were prudent with money when I was young, and times were relatively lean. Their approach to saving stayed with me and later their methodical approach as they accrued funds to invest gave me confidence to invest my own funds beyond simple cash and term deposits.

Even observing my father with a copy of the Australian Financial Review and Money magazine illustrated the importance of engaging with and educating yourself about money.

In addition to role modelling positive financial behaviour, you can role model positive financial behaviour by engaging your children with your investment decisions. Sharing your entire financial situation is probably going a bit far, but you can share some insights about the asset classes you have chosen and why, what you have bought and sold in the past, and what you look for in future investments.

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A friend whose parents and relatives are all avowed property investors had an astonishing understanding of the property market in different suburbs, prospective rents and growth rates from her teens. She bought her first apartment while still at university.

Induce enthusiasm through storytelling

Merely role modelling and even sharing your own personal choices may be insufficient to induce enthusiasm for investing in a distracted or apathetic teen. The great advantage of investing is that it can create great stories, and most people, even (or especially) children, wish to have some form of material comfort, which investing is likely to make more possible than simply saving alone.

Explain to your children the role of different assets, why they exist and how they increase in value over time; give real examples of that value and how it might apply to their situation. I recall learning in primary school that acres of land near my home cost a single pound at the time of Federation and imagining my riches were I able to go back in time and buy up the suburb.

Share available learning resources

The incredible advantage for a young person looking to learn about investing today is that there is a wealth of information at their fingertips. Much of this is now presented in engaging formats (videos, podcasts, infographics and more), online or through social media channels such as Facebook and Twitter, which are now the preferred channels and format for young people who have lived their whole lives online.

In fact, the volume of information available could present a risk, rather than a benefit for budding investors. Learning to separate fact from fiction, and valid information from a sales pitch, is a critical skill.

Therefore, one of the greatest advantages a parent can convey is to point their child in the direction of credible sources of information and encourage critical thinking and analysis. This has the added benefit of being of value well beyond the world of investing.

Credible sources of introductory information include the ASIC's Money Smart website and the ASX. For news, insights and ideas, news outlets such as the Australian Financial Review, investing newsletters such as Cuffelinks, Intelligent Investor and Wise-owl, and online broker and professional fund manager websites can all offer a great variety of articles and other content.

In addition to plenty of interesting ideas, these sources will help your child understand that there are many voices with many different opinions, some of which are more valuable than others.

For the more traditional approach to learning, there are also many great books which, given their evergreen nature, can give a greater appreciation of longer-term themes and skills for investing. These can be as simple as introductory texts by television finance experts, or as complex as the original Intelligent Investor tome, which set Warren Buffett on his path to success. A sophisticated teenager or university student may appreciate the time-worn success of these tomes over the daily deluge of news online.

Point them in the right direction for tools and support

In addition to the wealth of high (and low) quality information at their disposal, young people also have brilliant online tools and resources to help them learn and engage with investing. Online brokers and other finance websites offer a variety of watchlists and other engaging tools that allow anyone to practise investing before putting real dollars at risk.

It is said the best teacher is experience, and this can give the lessons of experience without the pain of financial loss.

One popular approach is gamification, such as the ASX Schools Sharemarket Game – giving high school students the chance to compete and play games with investing as a learning approach can be highly engaging and effective.

This may not be the right approach for all young people – I personally don't enjoy the idea of competing or playing games with money, even when it's imaginary – but others will love it and it's a great introduction.

Being good with money should be part of a series of core life skills that parents bestow as part of their commitment to their children. Just as you would take time to create your own investment strategy, it's important to think about how to educate the next generation about finance.

Just imagine your child's potential if they have learned how to save, spend and invest wisely from a young age. Their ability to make confident financial decisions and generate wealth through the magic of compounding will ensure they are well-placed for a very bright financial future.

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