Asha presents inspirational tips to help you and your loved one create financial independence with:

'How to Nurture Your Kids Towards Financial Success'

Inspirational financial education and guidance to help you plan and create the life you want to live!

How to nurture your kids towards financial success.

I'm going to show you a great way to give your kids the best possible start towards a solid and prosperous financial future by instilling the right habits and disciplines.

Of course, all parents naturally want the best for their kids, it's only human nature to want your kids to become high achievers and financially successful. The sad fact is, our schooling system doesn't teach our kids even the basics about money management.

Unfortunately, we are now living in a credit dominated society which means your kids are growing up into a society where a credit culture is acceptable and normal (they don't know any different).

There is nothing wrong with credit if handled well, but as we know all too well, the rapidly growing '**have it today, worry about paying for it tomorrow'** culture, can be a very expensive way to live!

Why Danger?

We all tend to think that today's kids get it easy (and they generally do!) but there is actually a lot of mental pressure on them today, especially as they go through their teens. They're expected to study hard and get good grades, meanwhile their hormones are going crazy and they are constantly being bombarded with clever manipulative advertising telling them what they should have & how they should look.

But worst of all, kids are under enormous pressure from their peers just to 'fit in'. This means they've got to have the latest clothes, trainers, games etc, just to be accepted with the 'in crowd'.

Add all this together and you have a child who becomes a very good salesperson and manipulator to get you to buy all of these things (the joy of parenthood!).

The problem occurs when the child gets accustomed to getting everything they want (most parents are guilty to a degree because you love them and naturally want them to be happy) but this causes 2 big problems:

- **They have no appreciation of the value of money**
- **They are very likely to continue this trend of wanting and having everything after they flee the nest (bring on the credit!)**

Kids need a role model

It's highly likely that your kids will grow up and very closely model your attitudes, beliefs and spending habits with regards to money because that's what they are familiar with. This may come as good news or bad news, only you know the truth ☺.

You can see evidence of this everywhere. You will very often see families where generations after generation are welfare recipients and conversely, you see wealthy families where all subsequent generations become wealthy with seemingly very little effort. The common name for this is social conditioning.

So.... if your actions and the way you value and manage money right now as a parent is going to have a very large impact on your kid's future…

…I'm sure you'll agree, it would make perfect sense to nurture them with the appropriate information so good money management skills and the right habits become second nature to give them a solid grounding for their future?

Keeping it simple is the key

Kids will find the subject of money very boring if they hear phrases such as Compound Interest, Investment & Dividend etc, as these are completely meaningless to them. The key is to teach them concepts that are logical and inspiring to them.

To help kids to understand the concept of saving and investing we need to educate and inspire them at the same time, to increase the chances of them wanting to do it. Remember the Money Tree concept from section 4? This is a great way to introduce it.

To recap… this is a discussion between a financial adviser and a classroom full of young children aged between 6 and 10, the adviser is attempting to explain compounding interest:

Adviser: ***"How many of you have ever planted a seed?"***
Children: (All hands went up.)

Adviser: ***"What did you grow?"***
Children: *"Carrots, sunflowers, lettuces, peas, flowers etc."*

Adviser: ***"What happens if you don't plant a seed?"***
Children: *"You don't get anything."* (Kids are smart! They looked at him like he was an idiot for even asking such a stupid question.)

Adviser: ***"If your parents had planted a pine tree when you were born, how tall would it be now?"***
Children: (Much discussion) *"6 – 10 ft."*

Adviser: ***"If your grandparents had planted a pine tree when your mum and dad were born, how tall would it be now?"***
Children: (More discussion) *"40 – 50 ft."*

Adviser: ***"How tall would the pine tree be now if it was planted when your grandparents were born?"***
Children: (More discussion) *"100 ft."*

Adviser: ***"Now, what happens if you don't plant a tree at all?"***
Children: (In unison…) *"YOU GET NOTHING!!!"*

Adviser: "What would you have if you planted a tree every year?
Children: "A FOREST!"

The Adviser then explained that he helps people grow money. One little girl piped up, *"Oh, you grow money trees."* *("Yes, I help people grow money trees.")*

Adviser: "What happens if you 'plant' money every year?"
Children "You'll be rich."

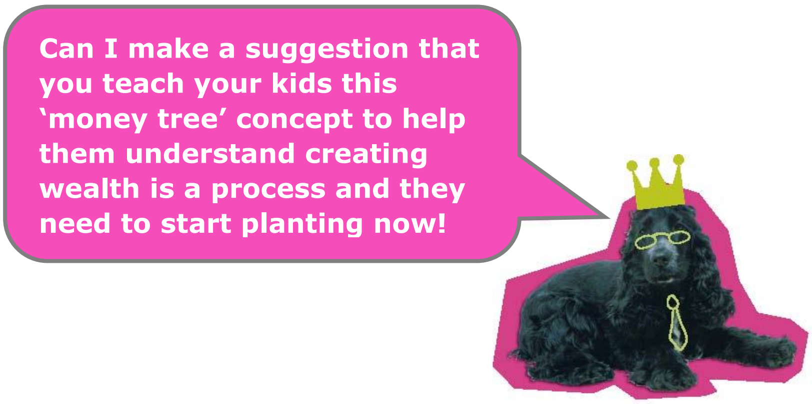
Adviser: "What happens if you don't 'plant' money?"
Children "You'll be poor."

10 simple questions that explain the process of wealth creation and the children got it right off the bat.

If you don't plant any money, you are likely to be poor in the future. If you plant just a little money every year, you will be rich as you will have a forest of money trees to take care of you and your family.

It's common sense when you view it in simplistic terms, yet so many people kid themselves they'll get round to doing it one day!

Please note*, the wording is not intended to encourage greed, the word rich is used for motivational and inspirational purposes as it strikes a powerful and exciting chord in most kids minds.*



Another way of explaining the concept of interest

Telling your kid to put their savings into an account to gain the interest is fairly meaningless. But if you explain that if they lend their money to the bank/building society, the bank/building society will pay them for borrowing it which means they will have even more money without doing anything – this is far more exciting and inspiring to them!

Teaching them a core financial skill – starts with 2 Piggybanks!

This simple exercise could potentially be worth Millions to your child's financial future!

In fact, it can have such an impact it should be mandatory in every single school and it all boils down to just one thing ~ **Habit**.

Before we get to the exercise, you first need to understand a little bit about habits:

Q. Do you ever wake up in the morning and sit on the side of the bed and think to yourself, shall I get dressed today?

A. Of course you don't, you do it automatically without having to think as you have formed the habit through constant repetition.

We are all creatures of habit whether we like it or not. Here's an explanation/analogy to explain how a habit forms in your brain:

Imagine every time you carry out an action you weave a small thread (your brain is automatically making connections across certain neural pathways in relation to the action), the first thread is very fragile and can very easily be broken, the second thread is just as fragile but interwoven with the first thread produces a greater combined strength.

As each subsequent thread is woven each time this specific action is carried out, the combined overall strength of these fragile threads is increasing and before you know it, over a period of time these single fragile threads have combined together and have now formed to make a 'rope'. If you now try and break the habit, you will meet with a lot of resistance, as you have no longer just got little threads to break but the whole rope.

If you repeat an action long enough the brain will naturally and unconsciously want to keep doing it, we refer to it as habit.

Habits can either be conducive or destructive towards our well-being, depending on what they are, the following simple exercise takes the power of habit and combines it with the power of compounding to produce huge financial potential for very little (automatic) effort once the habit is formed!!!

2 Piggybank Exercise

Step 1. Buy (or get) 2 piggybanks for each child you have.

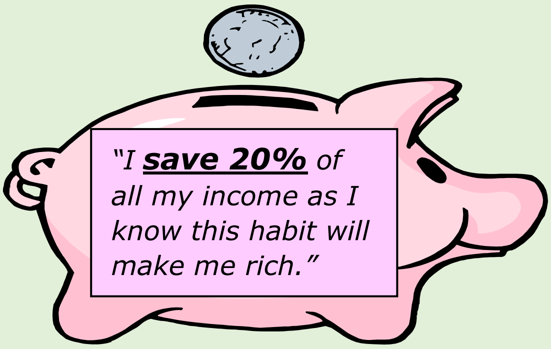
Step 2. Label one of them **Saving** & the other **Spending.**

Step 3. Decide the percentage split, as your kids are to split 100% of money received between the 2 piggybanks (It is suggested 10% savings as the absolute minimum)

Step 4. Label each Piggybank (example below) with the chosen percentage, e.g. **20%** (savings), **80%** (Spending).

Step 5. Under Saving write ***"I save (20%) of all my income as I know this habit will make me rich"***

Step 6. Under Spending write ***"I am free to spend (80%) of my income however I like."***



This exercise is purely about **habit**, you want your kids to have the habit absolutely ingrained so they will automatically put a certain percentage of their income to work for them throughout their lives. You can worry about where to invest it later.

Piggybank Exercise Notes

***Note 1**: Just £1 a day will turn into a £1,000,000 over 56 years compounding at an average of 10%. Remember this exercise is to deeply instil the habit so your kids will automatically do it when they start earning themselves. In the early years it is far more important to just do it and focus on the long term potential (not just focus on the total accumulated).*

***Note 2:** we always recommend a percentage of income to inflation proof it so the amount saved/invested increases in line with future pay increases/promotions and keeps it well ahead of inflation (as £1,000,000 wouldn't have much spending power in 56 years' time).*

***Note 3:** the percentage saved is purely for further investment (planting money trees) to create future prosperity, it is not to be used for short term purchases, e.g. new bike, new clothes. If kids want to save for something specific, they need to use the spending piggybank to do this.*

***Note 4:** If your kids are teenagers, they may think it's a bit childish to have 2 piggybanks, so let them set up 2 savings accounts instead. It doesn't really matter what format they do it in as long as they embrace the concept and start the habit of saving a portion of all they receive.*

Creating the Million…

Once we've created the habit of taking a percentage of all income received, we need to put it to work for us and grow it. The following table shows what a **£1,000 a year** will return at different rates and terms:

	Rate of Return (%)					
After (years)	**5%**	**8%**	**10%**	**12%**	**15%**	**20%**
0	£1,000	£1,000	£1,000	£1,000	£1,000	£1,000
5	£5,802	£6,336	£6,716	£7,115	£7,754	£8,929
10	£13,207	£15,645	£17,531	£19,655	£23,350	£31,150
15	£22,657	£29,324	£34,950	£41,753	£54,717	£86,442
20	£34,719	£49,423	£63,003	£80,699	£117,810	£224,023
25	£50,114	£78,954	£108,182	£149,334	£244,712	£566,377
30	£69,761	£122,346	£180,944	£270,293	£499,959	£1,418,257
35	£94,836	£186,102	£298,127	£483,463	£1,013,353	£3,538,007
40	£126,840	£279,781	£486,852	£859,142	£2,045,954	£8,812,629

Let's put this in perspective, £1,000 per year is £20 per week roughly speaking, or based on 10% of income, it represents 10% of a £10,000 annual income.

The point I'm making is that with a national average wage in the region of £25,000 even somebody on £10,000 could easily retire a millionaire if they continually invest 10% throughout their working lifetime and get a decent return.

Look at the square highlighted in orange it shows a total accumulated investment fund of £486,852 based on an average return of 10%.

Now look at the square highlighted in red it shows a total accumulated investment fund of £859,142 based on an average return of 12%.

Just imagine if your child was earning £30,000 or more and put away a minimum of 10% or 20% for investment?

There's no trick to it, it's purely discipline until the habit is formed, and then the habit takes over.

Useful Points….

1. In the earlier years and teenage years, it's not too important how much they accumulate, its installing the discipline and habit that counts so when they do get to earn regularly, its second nature.

2. For a lot of us adults, putting away a minimum of 10% each month will take a lot of effort and discipline at first as we may have to undo years of old habits and conditioning. Fortunately, your kids won't have this problem as the majority of the money they receive is 'bonus' money, i.e. money they can do what they want with, as they don't have regular expenses.

3. Explain the benefit about becoming rich to inspire them. You will need to monitor them to make sure they do this properly which could take a long time (until it's a deeply ingrained habit). It is suggested you open an interest paying account if they don't already have one and pay in the savings proceeds on a regular basis. In addition to this, get them to keep a simple record of all money they receive along the following lines (a notebook will do):

Date	**Amount**	**Description**	**20%**	**80%**
4 Aug	£2.50	Pocket Money	50p	£2.00
11 Aug	£2.50	Pocket Money	50p	£2.00
13 Aug	£5.00	Gift from Gran	£1.00	£4.00
18 Aug	£2.50	Pocket Money	50p	£2.00
22 Aug	£3.00	For washing Dad's car	60p	£2.40
25 Aug	£2.50	Pocket Money	50p	£2.00
Total	**£18.00**		**£3.60**	**£14.40**

4. This exercise also teaches them accountability, they can see how much comes in, they will probably be shocked at how much it actually is, if you can get them to go one step further and account for every single penny, they spend they will be ahead of more than 97% of the adult population and will see how much they waste, increasing the chances of them saving even more.

5. **Consider this…**the rules on **stakeholder pensions** allow children of any age to now have one, it has to be in a parent's name until the age of 18 and then it can be transferred back to the child. Bearing in mind the tax benefits of a pension over a long period of time, a stakeholder pension offers huge long term potential benefits and is an excellent way to get money working for your kids and is something you should seriously consider.

An Idea

The entitlement to child benefit also arises with a new born baby, now of course, with a new born baby there will be a lot of extra expense.

But, if you could manage on the pre-birth income and not need the child benefit, you could channel this money straight into a stakeholder pension or savings/investment account for your new born child and give them a great financial start in life, **just a thought**!

Here's another exercise for your kids...

Teaching them financial responsibility

The fastest way for your kids to learn about money is for them to take on some responsibility whilst under your supervision.

Try this:

- Go through all your regular spending and work out on average, how much you spend on your kids each month, this doesn't include necessities such as food or clothes for school etc, but things like new clothes, new trainers, computer games, toys, sweets, treats, cinema, Pizza Hut etc.
- Let's say it comes to £150 a month.
- Now at the beginning of each month give your child the £150 and tell them it's their money and they are in complete control of their spending. Tell them you will buy the food and pay for school dinners as normal but that's it, everything else they want has to come out of their £150 budget, anything left at the end of the month is theirs to keep.
- This will seem like a lot of money to them at first!
- **They will very quickly start to realise the true value of money!** Everybody is good at spending somebody else's money, but when it's your own it's a different matter. At first, they may go a little crazy as it seems like a lot of money, but then they will start to realise how quickly it goes.
- The likelihood is they will begin to start spending wisely, compare prices and decide they don't really need the latest computer game, or the £30 trainers will suffice, instead of the £75 pair. They will also learn about sacrifice, if there is a must have item, it may mean sacrificing the usual treats to get it.
- **Be tough with them**, don't go soft and top it up because they've spent it all, let them go without and learn the hard way, these will be very valuable lessons for their future. Let them make mistakes, it's better to make a mistake now and learn the lesson than make a big mistake later in life when you're not around to help and advice.

Finally, give lots of encouragement and take every opportunity to discuss things with them offering advice and tips where you can. Your kids will learn some very valuable lessons.

Try Benchmarking

This is an alternative if you are buying for kids who must have the latest trainers, mobile, clothes label etc. Set a benchmark price that you will contribute, e.g. high price training shoes, you set and pay a benchmark of say £30.00, and if they choose anything over that price they must pay the difference from their own means.

Strangely enough, parents who have adopted this approach have found that their children more often than not, choose something less expensive than their original request. Once again, they will readily spend your money for their benefit, but will think twice if it's their own money, try it!

Incentive to help them get momentum

Kids love rewards so why not help to boost their new saving/investment pot by offering to match whatever they save? Their motivation will go through the roof!

15 Tips to Nurture your kids Financial Intelligence

1. Explain the use of money. Begin as early as age three. Show how things are bought and sold at the supermarket, toy store, etc. Children need to see the real world use of money.

2. Give children a weekly allowance. Most parents have children earn their allowance through good behaviour, responsibility and household jobs. If you attach money to chores, be sure you don't get manipulated. Don't take away allowance as punishment.

3. Increase allowances as children grow. Increasing responsibilities should result in increased allowance. Also, it is a good incentive to give extra allowance for extra work.

4. Introduce expenses. As allowance increases, the scope of expenses should widen. For example, teenagers should earn more allowance, but they should then have to use their allowance for dating and entertainment. Teens who insist on buying clothes with designer labels should pay the extra cost.

5. Teach home budgeting. Explain how a finite amount of money needs to be distributed for food, clothing, mortgage or rent, utilities, car expenses, etc. Include older children in family financial planning. Don't overprotect your children from this.

6. Teach wise consumerism. Have your children compare the same product in different size packaging to determine the best value. When children grow older, explain how and why you choose certain products. Compare prices at different restaurants.

7. Start a savings account. Most children can comprehend the need for savings by age ten. Remember that children are naturally impulsive. In this age of advertising bombardment, children have a tendency to be impulsive spenders. Encourage your child to save a certain percentage of their allowance.

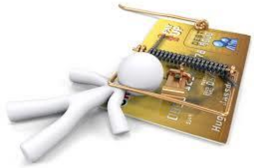
8. Start a current account. Some sixteen-year-olds are ready for a current account and a limited credit card. You want them to learn how to manage these tools while you are still around to keep things from getting out of control.

9. Set financial goals. Discuss plans for paying for university or college. Have them calculate tuition costs, living expenses, etc.

10. Encourage them to earn their own money. The best way for children to learn about money is to get their own job as soon as they are old enough. Help them find a job that is safe, has reasonable hours and includes friendly people.

11. Help them learn the differences between needs, wants, and wishes. This will prepare them for making good spending decisions in the future.

12. Introduce the value of saving versus spending. Explain and demonstrate the concept of earning interest income on savings. Consider paying interest on money children save at home; children can help calculate the interest and see how fast money accumulates through the power of compound interest. An excellent incentive is to offer to match whatever they save.



13. Teach the dangers of borrowing and paying interest. If you charge interest on small loans you make to them, they will learn quickly how expensive it is to rent someone else's money for a specified period of time. For instance, paying for a £499 TV over 18 months at £31.85 a month at 18.8 percent interest means the buyer really pays about £575.

***14. Make sure any credit cards aren't misused*.** Credit cards have a message: "spend!" Some students report using the cards for cash advances and also to meet every day needs, instead of emergency use only (as originally planned). Many of those same students find themselves having to cut back on classes to fit in part-time jobs just to pay for their credit card purchases.

15. Teach them to set financial goals. Young or old, people rarely reach goals they haven't set. Nearly every toy or other item children ask their parents to buy them can become the object of a goal-setting session. Such goal setting helps children learn to plan and become responsible for themselves.

Children need to learn the value of money, how to earn it and how to manage it. But don't overdo it. **Spending money on something impractical once in a while (e.g. spa treatment for the dog) is always fun ☺.**

Further financial education

Can I recommend you encourage them to read the other Sections if they're inspired to want to learn more about getting ahead financially. The main 2 I would recommend are:

- Section 3 **"Why you Should Focus on Building Pipelines"**
- Section 4 **"How to Plant and Grow Money Trees"**

Understanding there are only 2 ways to earn money and passive income 'pipelines' is the key!

Section 15 Summary

Keep it simple and develop good habits
Kids need to be inspired to save money long term so it's important to keep it simple and make it fun by using concepts such as growing money trees. The objective is purely to get them in the habit of saving and investing a portion of all money received.

2 Piggybank Exercise
Get your kids doing this as soon as possible in some format whether it's 2 piggybanks or 2 bank accounts and get them to account for it all.

Give them responsibility
The fastest way for your kids to learn about money is for them to take on some real responsibility whilst under your supervision. Perhaps give them a month's entertainment allowance to control (based on the principle: once it's spent, that's it until next month) so they can experience the real world and learn how to budget.

Final Thought:

Start planting all this knowledge in your kid's minds today along with the right encouragement and inspiration and hopefully they'll be eternally grateful one day. Perhaps, they'll be taking care of you too one day, in lots of luxury I hope ☺.

Wishing you all the best,

Asha x

Final Word:

"You don't have to know how you're going to get there, but you do need to know where you want to go."