



**WEDBUSH**

WEDBUSH INVESTMENT  
IN STUDENT EDUCATION

# How Do I Teach My Kids About Money?

A Guide for  
Parents



**Did You Know?** A U.S. Bank survey notes that 91% of people learned money management from their parents, and 55% say their **parents are their most trusted source** for financial information.

– USA Today\*



\* <http://www.usatoday.com/money/>

## ▶ ELEMENTARY SCHOOL STUDENTS

### Allowance

In order to teach your children about money management, they need to first practice with their own money. One way to do this is by giving your son or daughter an allowance in order to help them learn about financial fundamentals.

Explain that money must be earned and that it should be spent wisely. The earlier you start discussing money management with your children, the more opportunities they will have to learn from their own financial successes and mistakes.



- Offering your children allowance every week will teach them the fundamentals of money management, as well as, the basic principles of spending and saving.
- Another option may be to reward your children with money for completing household chores, which will teach your children about work ethic and the importance of earning money through hard work.
- Regardless of the method, a set day of the week should be established for your children's allowance. Children tend to thrive on routines, which can help in planning when and how your children will spend his/her money.

# HOW DO I TEACH MY KIDS ABOUT MONEY?

One of the most important life lessons we teach our kids is to develop good money habits. Regardless of their age, they need to start learning how to manage money early on. However, many parents find it challenging to talk about or assume that children will learn about financial instruments through school. Some states do not require financial education as a part of their curriculum. In this brochure, you will find information on how to educate your children and help prepare them to make smart financial decisions.

- Using piggy banks or savings jars may make saving money more enjoyable for your children. Certain piggy banks allow children to allocate their allowance to spending, saving, or sharing, by inserting separate slots for each.
- Help your children create a budget for a desired purchase and guide them on how to set aside a portion of their allowance.
- When your children successfully save up and make a bigger purchase for that special item, be sure to congratulate them and highlight the discipline they showed by saving their money over time.



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## Spending vs. Saving

It is important that you discuss how your children will put their money to good use. A good place to start is to teach them the value of items and how much things cost. Children are often surprised to learn how expensive things can be, relative to what they have earned.

Teaching children the difference between needs and wants is very important. Having an allowance will teach them how to buy what they can afford. Encourage your children to save by explaining that, by saving, they will have more money later on to buy bigger items, like a new bicycle or a video game console.



## How much allowance do you give?

Start off with a certain amount when you give allowance to your children. Then increase as they grow in age.



My daughter really wants \$200 to buy a tablet, but I already give her an allowance of \$15 a week. What should I do?

1. Help your daughter make a budget that plans for the purchase of the tablet. Explain that, by setting aside \$10 a week, she can save enough money to buy the tablet in 20 weeks.
2. If she explains that she wants it immediately, you can give her an I.O.U. for the \$200 and have her pay a set amount of her allowance each week until she has paid you back.
3. You can offer to pay for a portion of the tablet, such as \$100, once your daughter has saved the remaining \$100, in order to make the process quicker.

Although you have a number of options, the most important factor is to talk to your children and help them understand that, in order to purchase the more expensive item, they must make wise money decisions and save.



# HOW DO I TEACH MY KIDS ABOUT MONEY?

## Wants vs. Needs

As your children become more independent, they will have more opportunities to spend their money. Make sure your children understand the difference between necessary purchases and fun purchases.

**Needs:** things we need to survive  
(i.e. food and shelter)

**Wants:** things that we would like to have  
(i.e. video games and toys)

If your children are given an allowance, explain how much money they should spend on needs and wants, and how much they should save. Also, encouraging them to create a budget will help limit impulse spending.

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## Talk to Me

Keep your kids informed about your own financial strategies and where you keep your money. Since they look up to you as their financial role model, kids will want to learn from you about financial responsibility. Share with them the lessons that you yourself learned about money management.



**WISE  
ADVICE**

- Teach them how to budget and save.
- Educate them about managing a checking account.
- Clarify as to why they should keep money in their checking and savings accounts, and how they can earn interest.
- Explain the advantages of keeping your money in accounts that earn interest, rather than hiding money in a drawer and losing value.
- If you currently own stocks or bonds, discuss these investments with your children.



**WISE  
SHOPPING**

**How would  
you spend  
\$100?**

Involve your children with your day-to-day shopping activities and teach them the methods of saving through discounts and coupons. Advise your children to compare prices from multiple sources before making an important purchase. By visiting different stores or online resources, your children can make an informed choice and save money.



1 pair of designer jeans &  
1 designer top



3 pairs of non-designer jeans &  
3 tops from non-designers



**BE  
WISE**

My son wants a \$5,000 used car, but I want him to earn it. What should I do?

- Encourage your son to get a job to help pay for the car. You don't have to make him pay the entire \$5,000 by himself, but if he can make a significant contribution, it will provide a boost to his self-confidence and help him develop a strong work ethic.
- Consider paying for a portion of the car and then giving him a loan for the remaining amount. You can set your own payment schedule and even charge him interest on the loan.

## Credit Cards

Giving your teen a credit card can be a scary thought, but the sooner they understand the concept, the better prepared they will be in using it wisely.

### Basic Facts Before Receiving a Credit Card

- Explain that credit cards are borrowed funds that they will need to pay back to the credit card companies.
- Let your children know that most cards have a grace period in which he/she can pay the bill without being charged fees. Educate your children about the grace periods given to pay back the amount charged without paying late fees.
- Discuss the APR of the card, and stress the importance of making timely payments. APR = Annual Percentage Rate (a numeric representation of your interest rate).
- Encourage your children not to spend beyond their means, and emphasize that purchases will end up costing much more if they are not paid on time. Not only do late payments waste money, but they can negatively impact your children's credit history.
- Explain what a credit rating is, how it is determined, and what it will impact.

# HOW DO I TEACH MY KIDS ABOUT MONEY?

## Saving for College

When you set aside money for your children's college education, you are investing in their future. College graduates earn, on average, twice as much as those who only have a high school education.

There are several options available to save, including:

- **529 Plans**  
Investment accounts that allow you to set aside money for your children's education and let it grow tax-free.
- **Coverdell Education Savings Accounts (ESA)**  
Just like an IRA but for education. You can make a contribution of up to \$2,000 a year with post-tax dollars.
- **Prepaid Tuition Plans**  
Investment accounts that allow you to pay for your children's future college tuition, or a portion of it, at today's prices.
- **Custodial Accounts**  
Savings accounts in your children's name that you control until he or she reaches legal adulthood.
- **Traditional Roth Individual Retirement Accounts (IRA)**  
Investment accounts that allow you to save money for retirement or college while avoiding significant taxes.

In your children's final years of high school, encourage him or her to apply for financial aid and scholarships. Although filling out these applications can be time consuming, it can often be a very productive investment of time.

You can research these resources online or talk to a financial advisor to start saving today. For more information, contact a Wedbush Advisor, or visit [www.wedbush.com](http://www.wedbush.com).

## Calculating what you owe on your Credit Cards

Use the formula below to determine how much interest you need to pay on your outstanding credit card balance. Depending on the card, banks calculate using a daily or monthly period rate.

$$\text{APR} \div \boxed{365}$$

$$= \text{DPR}$$

Daily Periodic Rate

$$(\text{DPR} \times \text{Days in billing period}) \times \text{Balance subject to interest rate}$$

$$= \%$$

Interest charged

Some accounts have different APRs, so these calculations can be applied to each one.



## ▶ ABOUT WEDBUSH SECURITIES

Founded in 1955, Wedbush Securities is a leading investment firm that provides brokerage, clearing, investment banking, equity research, public finance, fixed income, sales and trading, and asset management to individual, institutional, and issuing clients. Headquartered in Los Angeles, with nearly 100 offices, the firm focuses on dedicated service, client financial safety, continuity, and advanced technology. Wedbush Securities is the largest subsidiary of holding company WEDBUSH, Inc., which also includes affiliated firms Wedbush Asset Management, Wedbush Capital Partners, Wedbush Opportunity Partners, and Lime Brokerage LLC.

## ▶ ABOUT WISE

Wedbush Investment in Student Education (“WISE”) is designed to educate and inform students of all ages about financial fundamentals. The need to understand and exercise good financial responsibility early on has become increasingly important in today’s complicated financial markets. Through educational activities and corporate partnerships with relevant non-profit organizations, the primary focus of WISE is to teach students the financial basics of how to budget, save, and invest their resources. With these valuable money management skills, students will have the financial knowledge needed for a successful future.

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