WHAT DO YOUR CHILDREN KNOW ABOUT BUILDING WEALTH?
What would you like to have known at 18, 25, or 35?

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When you were 20 or 25, what was your level of financial literacy? What did you think of when the nightly news mentioned Wall Street or the Federal Reserve? Did you even care about those things at that time?

Few young adults fully understand how wealth can be built. That's a shame. Decades from now, many will wish they had started planning to amass wealth earlier in life. How can you encourage your children to start that process?

Help them start before they turn 18. If your child is a minor, there are still several ways she or he can get a head start on growing wealth. Besides the basic move of opening a savings account, it is possible for your child to open a Roth IRA. The I.R.S. sets no minimum age limit for IRA contributions; if your son or daughter has earned income from a job and filed taxes, he or she can open a Roth or traditional IRA with your assistance and contribute to it. Your child may also buy a government bond with your help, or buy equity shares or make a direct stock purchase via a guardian account or custodial account.[1,2,3]

Encourage them to set life and financial goals. Why not? It is not far-fetched if your teen wants to become a millionaire; given inflation over time, we may need to be millionaires down the road. Even if your son or daughter simply sets a life goal – for example, to start a business someday or to graduate from a prestigious university - he or she will start to think about what that will take financially.

Wean them off plastic. As your children become young adults, the great lesson is a simple one – spend less than what you make. If they have to go into big debt, it better be for education's sake and not for comparatively frivolous reasons. Remind them that it is possible to pay off debt and plan to build wealth at the same time.

Look back over your life for a moment. What shaped you more – the material things you bought when you were 18 or 21, or the experiences you had when you were 18 or 21? It is wiser for your son or daughter to spend money on an experience that may "pay off" in life skills and character development, rather than on a material item that will inevitably depreciate.

Convey that is not what you own, but what you do that counts. Hopefully, your son or daughter will start investing early – and sensibly. Some young investors like the thrill of day trading - of looking for the next hot stock that will be the talk of Wall Street. It is better for your son or daughter to learn principles of diversification from the start (and not retrospectively). Getting rich slowly is not a bad idea. Investing seriously means staying invested through market cycles.

Remind them of the power of compounding. If your child opens an IRA or 401(k) before age 30, that does so much in terms of retirement savings potential. Yet few young adults focus on these retirement savings tools. The tax information service CCH took a poll in 2007 and found that just 4% of employees aged 25 and younger were maxing out retirement plans. That same year, Charles Schwab conducted a survey and learned that only 40% of adults aged 26-40 were contributing to an IRA.[4]

Looking back, what did you wish you had known? Today is as good as any day to let your son or daughter know about some investment and asset-building principles. At first glance, it may seem boring to them – but making money sure isn't. The more they know now, the more years they have on their side to grow wealth.

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