FREE EBOOK

The Secret to Raising Money-Wise Kids

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How to model the attitudes and behaviours that will set your children up for financial success

Your self worth isn't determined by your net worth. Money doesn't define success or give life meaning. It would be crazy to think that rich people deserve to be rich. We know most of them got that way taking advantage of other people. They're greedy.

If you were nodding your head at all or some of the above, those were probably your parents' attitudes to money. A parent's attitude to money writes a "money script" their child is likely to live their whole life by.

Just as importantly, everything in the first paragraph represents an unhealthy attitude to money. I'm not saying that as a financial planner. I'm saying that as a student of the psychological research into attitudes and wealth. The research is done and the answers are in on this one.

Tips and insights

This guide gives you lots of tips on how to raise money-wise children. However, before we explain these, it's important to be clear on the different kinds of money scripts parents write for their children.

Why it's easier to lose weight than to save money

Everyone knows that losing weight is (largely) about eating less and doing more. So why do we have an epidemic of obesity?

For starters, because food is more than fuel. Carbs are consolation after a bad day. Sugar is celebration. Let's have cake! Champagne! Excess is how we show hospitality (or prosperity). And the fridge is where we head even when we're not hungry — we're just putting off doing something else.

The root mantra of financial wellbeing isn't any more complicated. Spend less. Save more.

So why don't more people save more and spend less? Because there's a critical layer of programming between you and your wallet. And much of it was coded for you by your parents.

You probably expect your trainer or your nutritionist to ask you how you feel about food and exercise. You probably don't expect your financial planner to ask how your mum made you feel about money.

It's easier to lose weight today — now that trainers and dieticians consider psychology as well as chemistry and biology in writing programs and diets you'll stick to.

It's still hard to get good help on saving money because financial advisors don't always see that money attitudes are as important to budgeting as food attitudes are to dieting.

How you're writing your child's money script

Your kids are surrounded by money talk and attitudes. If Donald Trump invaded Canada tomorrow morning, property prices and interest rates would probably still lead the nightly news in Australia.

Our kids could grow up so conditioned to believe that money is important that they never stop to ask why that is. What does money really mean to them? More self-respect? Freedom? Love?

What does money really mean to you?

Whether you've asked yourself that question or not, your children already know your answer. Subconsciously, they've picked up on your relationship to money. And your relationship to money is becoming their relationship to money.

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Spot your parents

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In 1992, Thomas Tang, a professor of economic psychology, identified six major beliefs about money. Which of these statements below would you say most closely approximates your parents' views about money?

- Money is good
- Money is evil
- Money represents achievement
- Money is a sign of respect
- Budgeting is important
- Money is power

Quick test: Are your own views the same?

Four views of money

Further research identifies four ways of looking at money. Where would you put your parents in this list?

1. Money avoiders

> "Rich people are greedy. No one deserves a lot of money, especially not me."

Money avoiders see money as "bad" or as something they don't deserve. As a result, money frightens them. If they look like they might get money, they'll sabotage themselves to stop it happening. They might not even be willing to spend seemingly reasonable amounts on themselves because they "don't deserve it".

Money avoiders are often terribly generous, which would be nice if they weren't (unconsciously) trying to get rid of the money that makes them anxious.

2. Money worshippers

> "Things would get better if I just had more money."

Money worshippers believe that having more money would solve all their problems. They also equate money and power.

Money worshippers are chasing an illusion; there's no evidence that money buys happiness. No less than Nobel Prize-winning psychologist Daniel Kahneman has found there's no boost in happiness once households hit about $100,000 a year.

3. Money as status

> "Poor people are lazy and don't deserve money."

When you see money as a measure of status, you link your self worth to your net worth. If your parents saw money as status, money gave their life meaning.

When money is how you keep score, it spurs you to acquire it, which can be healthy. If you take that too far, it can make you materialistic, unhappy and unhealthy.

4. Money vigilance

> "Money should be saved not spent."

If your parents were money vigilant, they were frugal. They saved. They didn't like talking about money with other people, and they thought it was extravagant to spend on themselves.

To an extent, this is healthy, too. However, parents who are overly money vigilant can teach their children that money is a source of shame. One place this can show up negatively is in their children's marriages. Children who associate money with shame often lie to their spouses about what they've paid for things or refuse to discuss finances with their partner altogether.

Counter-intuitive surprises about parents and money

The research draws some counter-intuitive conclusions.

- There's no evidence that your parents' views about money had anything to do with their income level. Wealthy people, it turns out, are just as likely to think rich people are greedy.
- Money avoiders and money worshippers might seem like polar opposites. However, they're both less likely to be high earners. With money avoiders it's because they're, you know, avoiding money. With money worshippers, it's like other forms of worship: the worshipper is waiting for good things to fall from the sky.

Where did you put your parents in the four groups? Where would you put yourself? And if none of those groups sounds like where you'd like your child to be, what's the answer?

Financial Spectrum

What would Goldilocks do?

As a parent, you're looking to raise a Goldilocks child — not too money avoidant, not too money worshipful either. You also want your child to agree that money measures success. (You don't want them to believe that money is the be all and end all, but you do want them to think that money gives life a bit of meaning. It puts a little petrol in the tank when they're in a situation where they could acquire money.)

Children who do well financially as adults have parents who helped them see that:

- Money doesn't make you happier
- Money isn't power
- Money doesn't buy freedom

On the face of it, these might not look like the beliefs of go-getters, but they are. Combined with a belief that net worth and self worth are connected, these are the opinions of someone who is interested in money but not anxious about it. Put more formally in the research data, these beliefs consistently correlate with higher incomes.

So how do you model this healthy attitude to money to pass onto your children?

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What sort of money role model are you?

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If you've recognised your parents in the above and seen how your views mirror theirs, you don't need researchers to tell you that you're busily passing on the same views to your own children.

You wouldn't be reading this if you didn't want to be a positive money role model for your child. Breaking out of the mould your parents put you into might be hard, but at least the research gives you a blueprint of (how to be) the parent of a money-wise child.

1. Nurturing and communicative

Advertising makes us want to buy things. Children who grow up in nurturing homes find it easier to resist, especially if their parents were communicators who talked to them about money generally and advertising specifically.

2. Not too flexible. Not too rigid.

This is the Goldilocks path again. Too easy-going about money and your child might be the same. Too rigid and you might raise a self-denying child who is too vigilant about money.

3. Appropriate

If your parents overshared about money — "I don't know how we're going to afford the rent." — you're more likely to have an unhealthy relationship with money. Kids who know too much too soon can become anxious about money.

You don't need to lie to your children, but to prevent them growing up anxious about money, you do need to:

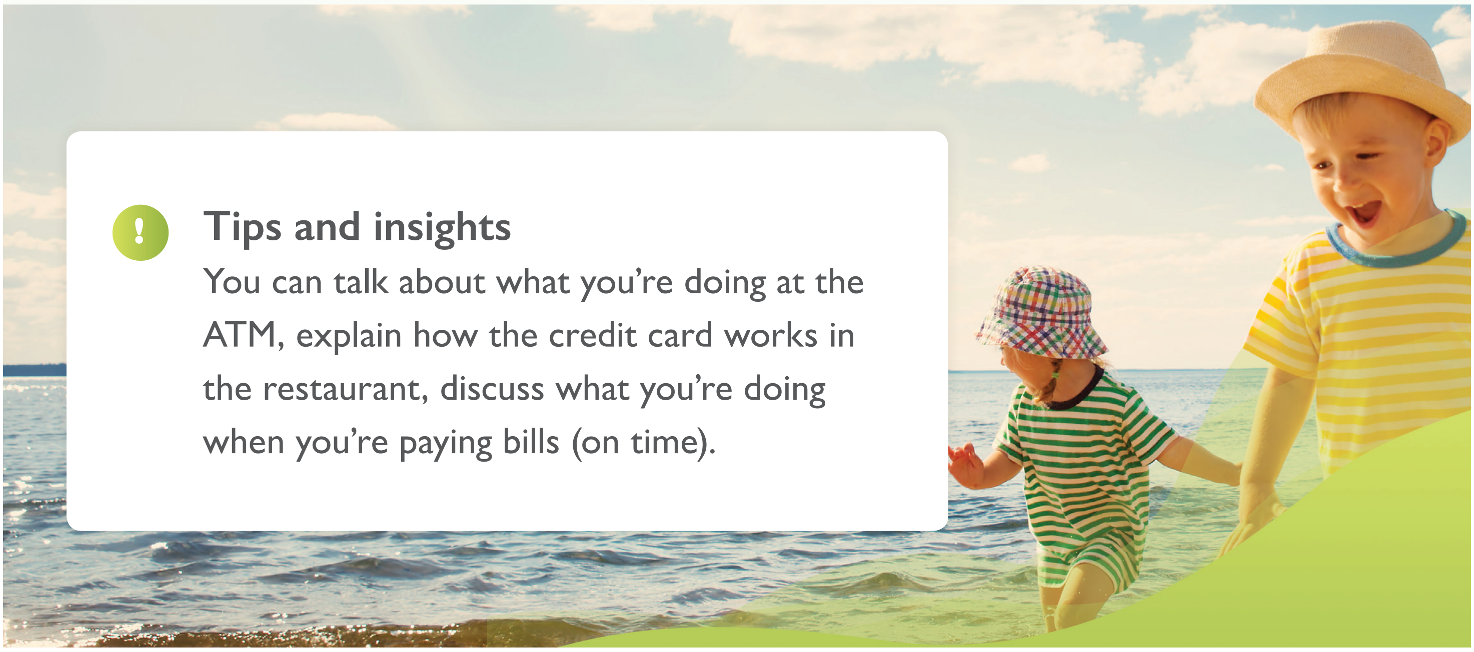
1. Present things in a matter-of-fact way
2. Overlay the facts with assurances that you're on top of things

4. Managing perceptions

It's not always what you say, it's how you act. If you have high credit card debt or struggle to control the family budget, you're modelling that form of money management. (And if you argue about money in front of the kids, you're writing one of the worst money scripts.)

So, you don't want to overshare, but you do want to teach. In this, the world is your classroom. You can talk about what you're doing at the ATM, explain how the credit card works in the restaurant, discuss what you're doing when you're paying bills (on time).

Overtly using coupons or talking to your child while you shop for the best deals online are chances to teach thrift.



Tips and insights

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5. Make an allowance

Pocket money is a powerful source of lessons, as long as it's not just free money. The experts recommend a generous allowance but with strings:

1. Attach responsibility but don't sanction with money. You might expect your child to do household tasks, for instance, in return for the cash. Then you teach the connection between effort and financial reward. But don't sanction with money if they don't do the work; take away the iPad or something else. (You don't want to attach a negative concept like punishment to money.)
2. Split the cash — pay out in small denominations that can be split between five pots:
    1. **Instant gratification** — a splurge pot, if you will; money that your child can take out shopping with you.
    2. **Short-term savings** — putting aside some money every week for something that will take up to a few months to buy.
    3. **Long-term savings** — saving for something big but not too far over the horizon to be meaningless. (Your 10-year-old probably won't understand saving for their first home.)
    4. **Charity** — 10% goes to someone who needs it more. This teaches altruism and keeps your child out of the money status trap — "Poor people don't deserve money".
    5. **Tax** — Yes, tax. Another 10-15% deduction to be spend on a family benefit, like movie or pizza night. Tax is painful but it's inevitable and it's for the common good; two great lessons to learn early.

6. Never surrender

We've all been in the shop when our child WANTS something. You say no. They ask again. You say no again. They make a scene. What you do next is make or break.

You don't need a team of researchers to draw you a line between instant gratification as a child and debts as an adult. (Although if you do want more, there's a mountain of research papers that draw exactly that line.)

7. Never retreat

Once you've made a rule, don't equivocate. If you've said there will be no advances on pocket money or savings, that's the rule. You can bend the rule but there has to be a consequence like interest or extra homework.

8. Expect the unexpected

Windfalls are wonderful things, but you want to teach your child to manage them properly. You'll teach good money management by having a framework in place before the windfall arrives — e.g. when you come into a bit of money, you can spend half at once but you have to save the other half.

If you don't have the rules in place before Granny and Grandad slip the kids

$100, you'll look mean when you try to take some of it away.

9. Know your child's style

If your child is a visual learner, the standard piggy bank with a slot on the top is not a great choice. A child who learns visually needs to see their money accumulating. Use a jar or, if you're crafty, make a money thermometer that rises in increments.

WRAPPING UP

Last, but not least

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The researchers agree on one more thing: people who know more about finances are more likely to be high-income earners.

Researchers measure financial knowledge in "units" — or amounts of knowledge. They've consistently found that every additional unit of financial knowledge equates to a 31.3% greater chance of being a high-income earner.

In short, every little bit of extra financial knowledge someone has translates into a significantly greater chance of financial success.

Educating your children about finances and how to approach money will set them on the best path. And it's never too late to start — whether that's educating your children or yourself.

Your parents were likely just following the script that was written for them, and you've probably been doing the same. Now that you know more, you can write a better money script for your children, but you can also rewrite the money script you've been following.

And if you need any help, I'd be very happy to talk to you.

Brenton Tong

Managing Director
Financial Spectrum

About Brenton

When it came to acquiring a lifestyle underpinned by financial security, Brenton decided to ignore what he'd grown up in Sydney hearing, "People like us can't do things like that." He's made a career out of proving that such a lifestyle is possible for all kinds of clients who couldn't see a way to the life they deserved, however hard they worked.

Brenton's own financial education started early when he took to talking through the concepts in the Australian Financial Review with a friendly commerce teacher. Today, listening and talking through concepts is exactly what Brenton does for his clients and in the media — including the Financial Review.

A financial planner since 1999, Brenton believes strongly in separating advice from commissions. This is why he has made it a cornerstone of Financial Spectrum that the firm rejects commissions.

Brenton holds a Bachelor of Commerce with a major in Accounting and Law, as well as an Advanced Diploma of Financial Planning. He is completing his Masters of Business Administration and is enrolled in the Fellow Chartered Financial Practitioner programme (FChFP). Brenton is a Senior Associate

Member of FINSIA, a Practitioner Member of the Association of Financial Advisers and a member of the Association of Independent Financial Professionals. In addition, Brenton is an accredited trainer for financial planners and writes part of the Continuing Professional Development syllabus for Kaplan.

Brenton Tong,
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Financial Spectrum

We'd love to hear from you with any questions or feedback.
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