

Kids and Money
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***FOUR STEPS TO HELP KIDS BETTER UNDERSTANDING
WHAT MONEY IS AND WHAT IT CAN DO FOR YOU!***

STEP 1

WHAT THE WORDS MEAN

What is Investing?

Investing means buying something with the goal that you can sell it later for more money than you paid for it. People invest so they can have more money later than they have today without having to work for it. Actually, they make the money and where they invested it work for it! Then they can buy things that are too expensive for them to buy now, such as a car, education, a house, or a vacation. And it helps people be ready for anything later. It's a lot like saving money.

What is an Asset?

An asset can be anything you own. Your bike, car, house, money or investments are all assets. But, things that you own can only be assets if they are paid for. If money (payments) are owed on them, if the money to buy them was borrowed, or if it was placed on a credit card, then they are the OPPOSITE of an asset ~~ they are a Liability.

What is a Stock?

Stock is what a company sells to people to get extra money to run the company and get more business. If you buy a stock of the Walt Disney Co. you own a piece of the Walt Disney Co. When you sell your stock, you try to sell when it is worth more than what you paid for it. There is an old (but true) saying in the stock market world ~~ "Buy low, sell high!" This means buy a stock at a lower price but sell it at a higher price.

What is a Bond?

A bond is a loan. People borrow money for very expensive things like cars and houses. Companies and governments borrow money to pay for expensive things like new roads and buildings. One of the ways they do this is by selling bonds. If you buy a bond, the company pays you back plus extra money for being able to borrow from you for a few years. That extra money is called interest.

What is a Mutual Fund?

Instead of buying one stock or one bond, you can invest in a whole group of stocks, bonds, or a mixture of both by buying a mutual fund. There are hundreds of different mutual funds to choose from. Each fund has a different combination of stocks and bonds in its group.

What is Market Risk?

Whenever you see the word “risk,” you know there’s a chance that something could go wrong. In the market, the thing that could go wrong is that the stock you have is worth less when you sell it than when you bought it. That’s how you can lose money instead of making money in the stock market.

There is more risk in buying some stock than in others. If a company is very new and growing very fast, there’s a chance the company’s stock will become valuable because it becomes a successful company. There is also the chance that the company will close because something goes wrong. Buying stock of older companies like General Motors or Walt Disney Co. is not as risky because they have been in business for many years and will probably stay in business for many more years. And companies like these seldom go “out” of business. They are more likely to be purchased by another company (or to purchase another company) which could also affect the stock value favorably.

What is a Bull Market and a Bear Market?

The prices of stocks in the stock market change everyday and throughout the day. When a lot of people want to buy the stock of the same company, the price will go up. When a lot of people want to sell the same stock, the price will go down. When there are long periods of time (usually months) when people want to buy more and more stock of lots of different companies and all the prices are going up, the market is called a bull market. You can think of a charging bull that throws the red cape up with its horns. A bear market is like a hibernating bear going to sleep. When many people are selling their stock and the prices of many stocks are going down for a long period of time, we have a bear market.

What is Diversification?

The word diversify means “to give variety to something.” When you buy a variety of stocks and bonds (instead of putting all your money in one company’s stock) you are diversifying. Buying a mutual fund is diversifying, because each fund buys a big variety of stocks and bonds. Diversification is a good thing to do, because if you use all your money to buy one stock and the price

goes down when you want to sell it, you lose money. If you buy a variety of stocks and some go up and some go down, your chances of having more money than when you started are better than with just one stock.

How can I find out if the price of my stock is higher or lower than when I bought it?

Mutual funds, stocks and bonds can be found online or in the newspaper in the business section. Each of these investments is listed by their special initials, which you can get from the person who sells you the investment. With a mutual fund, you will receive a statement in the mail, which will give you the current price as of the day of the statement.

What is a Bank Account?

A bank is a place where you can keep your savings. A savings account at the bank is like a piggy bank, except that you get extra money from the bank called interest. The more money you save and the longer it's in the bank, the more interest the bank puts into your account.

Checking accounts are for buying things with checks instead of cash. You put your cash in the bank checking account and when you go to the store to buy something, you write a check for the amount you have to pay. The store takes your check to the bank, and they are given your cash from your account. You have a special checkbook to keep track of the checks you write so you know how much is left in your account. You can only write checks for the amount of cash you put in the bank.

What is a Money Market?

A money market account is a combination of a savings account, a checking account, and a mutual fund. It is not as risky as other types of mutual funds, and it pays a little more interest than a savings account at the bank, and you can get checks to use to buy things. Usually you need at least \$1,000 to open a money market account.

II. HOW MUCH DO I HAVE TO INVEST?

Making a Budget:

You have to find out how much money you get each month, and how much of it you spend. First, make a list of all the things you spend money on each week and each month. Put them in the order of most important first and what you could do without, last. (Priorities: 1-5 with 1 being a strong need, and 5 being unnecessary, but nice to have.)

<i>Where I spend my money</i>	<i>Amount</i>	<i>Priority 1-5</i>
Week 1:		
Week 2:		
Week 3:		
Week4:		
TOTAL		

III. HOW MUCH SHOULD I SAVE?

How much money do you make each week or month?
Subtract the total from your budget above.

\$
- \$ _____

The remainder is what you have left to put in savings

\$

If the final number in this calculation is negative, you are spending more than you are earning and will not be able to save.

There are a couple things to do to help in this situation. One thing is to spend less of your money. Look at the items rated 4 and 5 in your priority column, and make an effort to stop spending on those items or ask for them for birthday or holiday gifts. This will make the total a smaller number.

The second thing is to make more money. If your allowance is your only source of cash, ask your parents if there is anything else you could do to earn some extra money. Perhaps walking a neighbor's dog, mowing lawns, or helping your parents in their business would give you added income.

When that final number is positive, you now have money to save. It's time to open your own savings account.

IV. WHAT IS A GOAL? WHAT ARE YOUR GOALS?

A goal is nothing more than a wish list with a plan! Make a list of your top three wishes and how much you think each will cost.

1. _____ \$ _____
2. _____ \$ _____
3. _____ \$ _____

V. WHY HAVE A GOAL?

You can wish all you want, but if you don't have a plan, the chances of having it come true are very small. Remember, **a goal is a wish with a plan.**

If you have a better understanding of the words used about money, and you have made your budget and written your goals, you've made a great start to making your dreams come true. With my help and the help of your parents, we can put together a plan to do just that. Good luck, and let's have fun!

About Elaine Kiernan:

Elaine R. Kiernan is a CERTIFIED FINANCIAL PLANNER™ (CFP®), Certified Divorce Financial Analyst (CDFA), and Certified Divorce Specialist (CDS).

She is President of Financial Resource Associates (www.FRAssociates.com), a Registered Principal/Branch Manager of Geneos Wealth Management, Inc. and holds memberships in the Financial Planning Associates (FPA), the Institute of Divorce Financial Analysts (IDFA), and the International Association of Collaborative Professionals (IACP). Her firm, Financial Resource Associates, Inc. is a Registered Investment Advisory firm and she will reach her 25th year in practice in 2007. She is licensed by the California Department of Corporations, and the NASD.

Elaine and her firm specialize in all aspects of financial planning, divorce services, small business services, same-sex issues, insurance, and retirement.

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