# Exclusive Outlook

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## Show And Tell: How Our Children Learn About Money

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Several autumns ago, a friend joined her son's pre-school class to visit a pumpkin patch. The children played among the giant pumpkins, took a hayride around the farm, teased the scarecrows and generally laughed themselves silly. On the way home, they admired the rich blue sky and rugged mountains in the distance, and the young boy proclaimed to his mother, in his best kids-say-the-darnedest-things tone, "Mom, this is the best life I've ever had."

She glowed, briefly, then wondered: will he feel the same way at age 20? Or 30? Or 50?

The answer may depend to a large degree on what he learns about money as a child. Certainly, money cannot buy happiness, but in our society financial independence means freedom from a wide range of anxieties that prevent happiness. For example, more marriages are destroyed by money worries than by any other single cause.

### They Do As You Do, Whatever You Say

How can we best prepare our children to achieve financial independence as adults?

The two most important things you as a parent must understand about your children's financial education are 1) it is YOUR responsibility, and 2) as James Baldwin observed, "Children have never been very good at listening to their elders, but they have never failed to imitate them."

You cannot delegate or abdicate responsibility for teaching your children about money. You may expect them to learn mathematics, civics, composition and other basic skills in school, but school will not teach children how to think about money. Perhaps the subject is too controversial or too complicated for the political and bureaucratic structures of our schools. Frankly we don't know why the subject is not part of grade school curriculum, but we assure you it is not. This work, then, will fall to you.

Unfortunately, as Mr. Baldwin points out, and as every parent eventually learns, our children do as we do, not as we say. Why do we say "unfortunately?" Most Americans do not maintain a written budget, do not save enough, do not invest consistently, do not aggressively avoid debt, do not live frugally and did not start saving/investing early enough. How then, can their children learn these important habits? They cannot, but yours can as long as you maintain a budget, save, invest, avoid debt, spend wisely and SHOW them the way while they are young.

### Blown Budgets Beget Debt

A budget need not be complicated, but should clearly show where money comes from, where some must go and where we choose for the rest to go. In a best-case scenario budget, we pay ourselves first with savings or investment deposits, pay our mortgage, grocery, utility, insurance, and other necessary bills, and spend no more than what is left over.

A written budget defines the daily discipline required for the achievement of financial independence. The budget isn't difficult; living within the budget is. When we fail, we incur debt, and when we incur debt, we lose some control over our own lives. In reviewing a budget with a child, it's important to portray debt as a real bogeyman, to be legitimately feared and avoided.

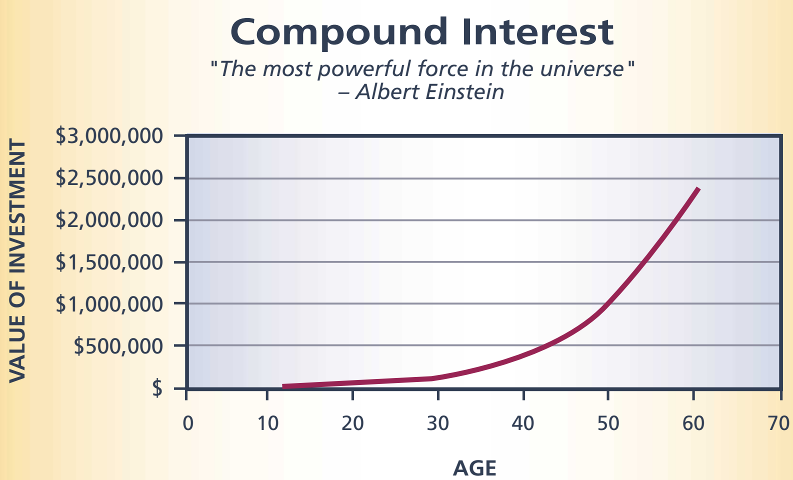
### Spending Habits

One day we asked a very fit colleague how he could stay so trim when we had seen him, that very morning, eating Krispy Kreme doughnuts.  He calmly explained that his weight was determined by what he ate consistently, not what he ate occasionally. A lifetime of good habits can withstand a periodic extravagance, caloric or financial.

Experience teaches that wealthy people tend to be frugal people. Some get rich through inheritance, inventions, lucky investments or winning the lottery, but the vast majority of wealthy people become so by working hard and not spending their money thoughtlessly. They make small choices daily that add up to beautiful homes, swimming pools and the leisure time to enjoy these things.

Do you make coffee every morning or buy a designer cupful? Do you make lunch or dine out every day? Your children notice these behaviors, but not the effect on your budget. A group of managers at a company we know lunched together every day, averaging $12 per person. One of them realized this added up to almost $3,000 per year. He chose instead to auto-pay $2,000 into his 401k and brown-bag his lunches (Another famous brown-bagger: Warren Buffett, a role model if we've ever seen one). This fellow proudly shows his pre-teen son, via online statements, how lunch money will pay for the boy's college education.

From a child's earliest experiences with his or her own money, the child's choices will be influenced by your spending habits, and the philosophy those habits represent.




Based on the S&P 500's average return of 11%, if a 12 year old child began investing $120 per month until the age of 42, the investment would grow to $336,542. Stopping contributions at the age of 42, and letting time and interest do all of the work, the investment would grow to more than $2.4 million by the age of 60.

## The Philosophical Foundation of Wealth

The book Rich Dad, Poor Dad, by Robert T. Kiyosaki, can be summed up this way: poor and middle class children learn to work for money, while rich children learn to make money work for them. A child who develops an early appreciation for, well, appreciation, enters adulthood knowing that passive income is the secret to an early and a comfortable retirement.

No matter how talented and energetic a person may be, he or she can only work so many hours a week. Money, on the other hand, can work round the clock, day after day, year after year. To drive this point home, some parents match any amount a child invests or deposits in a savings account (much as an employer matches a 401(k) contribution). By high school, these children have personally benefited from the effects of consistent saving and compound interest, and this becomes a hard habit to break.

The child's friends might leave high school with an impressive, albeit dated, compact disc collection, but our child leaves with a nest egg and a different way of thinking about money.

## The Child's Financial Advantage

Our readers are not strangers to the concept of compound interest. An understanding of interest is important for children because children have the greatest financial advantage of all time.

If a twelve-year-old music lover buys one compact disc per week at a price of $15 per disc, he/she will spend approximately $60 per month or $720 per year on music. In ten years, $7200. Offer that child a better deal. Invest that $60 per month in an S&P Index fund and match it.

After ten years of contributions, the child about to graduate from college, has $26,040, based on the S&P's average return of 11% per year. Continue to invest $120 a month for another twenty years, and the amount grows to $346,542 by the age of 42. Stopping contributions at the age of 42, and letting time and interest do all of the work, the amount would grow to more than $2.4 million by the age of 60. This is why it is critical for children (not to mention the rest of us) to understand money, and to witness good financial habits in the home; they have the most to gain.

## Wealth As A State of Mind

In the film My Dinner With Andre, one character observes that as a child he was an aristocrat: he rode in the backs of cars and thought only about art and music. As an adult, he thinks only about money. Specifically, he worries about money.

If we do not want our children to grow up to worry about money, we must teach them to master it. Even with the emergence of fine programs like The Money Camp (see accompanying article), the primary responsibility is ours. By modeling wealth building behaviors: budgeting, frugal spending, debt avoidance and consistent saving/investing, we prove to our children every day that money is a tool, not a toy. A means, not an end. ▲

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# The Money Camp

Although parents and teachers should bear the primary responsibility for teaching kids about money, most often this is not the case. Parents are often ill equipped to teach this subject and less than 10% of high school students graduate with any type of personal money management education. But not to worry, help is available. Innovative programs like The Money Camp now bring professional teaching skills to a subject that has long been ignored.

## THE MONEY CAMP

The Money Camp, a Santa Barbara based nonprofit organization, is working to empower both children and adults to create financial independence for themselves. The first Money Camp for Kids was held in August of 2002 with 39 kids. This summer four Money Camps were offered on the Central Coast of California, and were attended by over 115 kids. In addition, Money Camps have been held for a local home school program and the Marin City Children's Program in Marin, CA.

The program uses an innovative, experiential day camp format to provide middle and high school age kids with the financial tools they need to choose and create financial independence.

Through fun-filled games, activities, group exercises and field trips, kids learn 'how money works'. In addition, the Money Camp teaches important aspects about life in general, most importantly the concept of personal responsibility to one's self and one's community. The ultimate goal of the camp is to create future generations of fiscally responsible adults who truly are happy, healthy, wealthy, and hopefully, wise!

### THE FOLLOWING ARE SOME OF THE MANY TOPICS KIDS LEARN AT MONEY CAMP:

- **How our beliefs and attitudes influence how we make and manage money.**
- **That money is simply a form of energy and is used to create the lives we want.**
- **How money circulates (basic economics).**
- **How money is managed (wants vs. needs, budgets, managing risk).**
- **How to make/earn money (as employee, self-employed, business owner and investor).**
- **How to make money grow (saving & investing) and the primary methods of creating financial independence: stock market, real estate, owning a business.**
- **How philanthropy works to create good in all of our lives.**

Although The Money Camp introduces the participants to financial "mechanics" such as budgets, checks, personal financial statements, etc., the Money Camp program emphasizes the principals behind earning/making money, managing money and saving/investing money such as pay yourself first, save early-save often, put your money to work for you, money buys goods and services, not happiness, and that money is a form of energy, that, if properly harnessed, can create any life they want to create.

Money Camp runs Monday through Friday and cost between $129 and $150 per child. Scholarships and sibling discounts are available. The Money Camp also offers programs for home schools, after-school programs, adults and corporations.

For more information about The Money Camp, please call 805-957-1024 or visit www.themoneycamp.com.

## OUR PHILOSOPHY

*Our primary objective is to preserve and increase our clients' wealth. We focus on the best opportunities in the stock market, and limit our investments to a small number of carefully selected companies. We proudly invest our personal assets in the same securities we choose for our clients. Every investment decision is based on our own research, and our due diligence includes a visit to most companies we invest in. We are honored by our clients' trust and spare no effort to reward that trust with outstanding results.*

## REPORT CARD—PERFORMANCE OF STOCKS HIGHLIGHTED

| Profiled | Stock | Recommend? | Stock Gain or Loss | Stock Gain or Loss vs. S&P 500 | Opinion Changed? |
|---|---|---|---|---|---|
| 3/31/01 | Johnson & Johnson | Yes | 16.59% | 31.78% | |
| 5/31/01 | Ford | No | -55.61% | -33.96% | |
| 6/30/01 | Northrop Grumman | Yes | 14.11% | 47.35% | *02/13/03 |
| 7/31/01 | Guitar Center | No | 107.22% | 125.98% | |
| 8/31/01 | Crescent REIT | Yes | -23.52% | -25.71% | *12/07/01 |
| 9/30/01 | General Electric | No | -24.68% | -19.21% | |
| 10/31/01 | Wrigley | Yes | 6.99% | 14.14% | |
| 1/31/02 | Kellogg | No | 9.14% | 22.07% | |
| 5/31/02 | Magnum Hunter | Yes | 7.51% | 15.30% | |
| 10/31/02 | Tootsie Roll | Yes | -4.06% | -13.24% | *08/06/03 |
| 1/31/03 | Microsoft | Yes | 3.83% | -9.17% | *06/02/03 |
| Stocks Recommended | | | 3.06% | 8.64% | |

Performance as of 8/13/03. Data was obtained from publicly available sources that we believe are reliable; adjusted for splits and does not include any dividends.

*Performance was calculated based on the date recommended through the date opinion changed.

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