Who wants to raise a millionaire?

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With 37 lb of extra weight and two weeks until my due date, I'm about to launch into the most intimidating role of my life: parenthood. Like most expectant parents, I'm both excited and overwhelmed by the responsibility. As a *MoneySense* editor and writer, I've worked on countless articles offering financial advice. But, for the first time in my life, I've begun to wonder: can a parent actually set a child on the course to become wealthy?

If Carolyn O'Connor offers any clue, then the answer is yes. The single mom, who lives just outside St. Catharines, Ont., says the key was giving her son the opportunity to learn and grow by making his own mistakes.

"From an early age I knew Christopher needed to figure things out for himself," she says. Instead of pointing out his mistakes, she helped her son think through his decisions, while imparting her own strong sense of ethics. It seems to be working. By age 15, Christopher had built his own online business. Two years later he become the youngest Canadian to complete the Investment Funds Institute of Canada's accreditation and was offered a full-time job in the mutual fund industry, but he turned it down to pursue his education at Brock University.

"I learned from two people: my mom and my uncle," says Christopher, who will enter his final year at Brock in September. "My mom taught me the importance of family and community. She is my moral barometer. My uncle helped me explore my own ideas—he listened to me and wasn't concerned with my age, just my ideas."

Milun Tesovic's parents had higher obstacles to overcome: they fled war-torn Bosnia for Vancouver in 1995, when Milun was just 10 years old. "When we came to Canada, we didn't have money, but I never grew up feeling stressed about it," he says. "We weren't spoiled, and we knew the value of a dollar." Tesovic says the family lived within their means and always nurtured their children's passions. "My parents found ways to integrate us into Canadian culture and to help us experience life." They enlisted the help of an outstanding ESL teacher, for example, and made sure their children knew how to use the local library.

Fortunately, Tesovic's parents also made sure he had a computer. When Milun was 16, he created several online businesses, including MetroLyrics.com, a website devoted to song lyrics. In late 2011, at age 26, he sold the site to CBS Radio for an undisclosed (but dizzying) sum—Tesovic says it was the largest price paid for an online business since the dot-com bust a decade ago. He maintains those important childhood lessons played a major role in his financial success. "I still keep in touch with the ESL teacher and the librarian who helped me and other immigrants."

Jorge Ramos knows all about how to raise financially savvy kids like Christopher and Milun. Ramos started his career as an entrepreneur before spending 10 years as a financial adviser. Then five years ago he heard about a program in California called Millionaire Camp, where kids aged 10 to 13 were taught the concepts of saving, spending and debt, and he brought the idea to Markham, Ont. The week-long camp lays a foundation that will help people develop a "get-rich-slow method," says Ramos. "We cover real-life issues, such as budgeting for vacations or saving for a car. We want them to learn, in a fun way, that money isn't bad, but it does have limits."

Along the way Ramos has learned what does and doesn't work when it comes to raising financially literate kids. "The best way to teach is by example." Ramos suggests parents ask themselves: What do I want my children to learn? "Then ask yourself if you do that. If not, start. It's as simple, and as effective, as that."

As for the ineffective methods, many parents assume that teaching their children to trade in the stock market will turn them into smart investors, but that's not the case. Lewis Mandell, a SUNY-Buffalo professor and a leading scholar in financial education, says that this kind of activity is more like a game: kids may be engaged, but they're not actually aware of the risks. If students do well at stock-picking exercises it's almost surely because of dumb luck, yet their "success" may encourage them to think that investing is a form of gambling, rather than a prudent way to grow the money they've saved.

Start them young

One piece of advice that every parent and expert seems to echo is the need to start early. Very early.

There's a reason why high-school financial literacy programs have such a poor record, says Mandell. His research has found that kids are particularly receptive to financial education between the ages of eight and 12, and that window has already started to close when kids hit Grade 9. Indeed, before children even enter school they're exposed to thousands of subtle and not-so-subtle money lessons, so Mandell would like to see age-appropriate financial education beginning as early as kindergarten.

Neale Godfrey, a former banker and author of *Money Doesn't Grow on Trees*, isn't surprised by Mandell's findings. When she quit her job in the 1980s to create the

Children's Financial Network she was shocked at how little children were being taught about money.

"Regardless of how ill-prepared we may feel about money," she says, "we're not doing our kids any favours by passing on our financial ignorance." Nor can we hide behind the desire to protect our child's innocence. "This means having difficult conversations with our kids on tough topics like sex, drugs—and finances." Godfrey suggests starting these dialogues as soon as kids figure out they need money to buy things they want—usually by age three.

Give them an allowance

Perhaps the most common way of teaching kids about money is to give them an allowance. But again, there's a right way and a wrong way to do this, say the experts. Mandell says there's a danger that a regular allowance can make kids complacent. "In a child's mind, knowing they'll get money every week, no matter what they do, removes the incentive to save." Parents also worry that tying an allowance to household chores makes kids expect to be paid even for tasks they should be doing on their own.

Godfrey suggests making a distinction between "citizen chores" and "payday chores." The child doesn't get paid for completing citizen chores, such as putting away her toys or making his bed.

"These chores teach them about being a responsible member of a household, and eventually a responsible member of a community and the world." Instead the child's allowance is tied to payday chores, such as setting the table, dusting or vacuuming. "Stick a chart up on the wall and write down each payday chore they complete," says Godfrey. Then, at the end of the week, the child receives a financial reward on payday.

Godfrey suggests paying children $1 for every year of their age, so a five-year-old would get $5 weekly. She suggests giving your child opportunities to make small but meaningful purchases, such as items of clothing, rather than encouraging them to spend their allowance on frivolous treats. This helps them learn about concepts like trade-offs and buyer's remorse.

Help them learn to budget

As your child grows, Godfrey suggests increasing not only the allowance amount, but also the length of time between paydays. A five-year-old may get a payday every week, but as that child reaches 10, they should get paid every two weeks, and by high school only once a month. "Budgeting is a habit, so start them early," she says. To make the lesson sink in, don't bail them out when they run out of cash before the next payday.

To help your child understand budgeting and saving, Godfrey suggests using the jar system. Take four jars: one each for quick cash (instant gratification), medium-term savings, long-term savings, and charity. "I start kids out by asking them to donate 10% to the charity jar, and then split the remaining 90% evenly between the other three jars." But you can change that mix to suit your children's goals. If they're saving for a new iPad, for example, they might add extra to the medium-term jar.

Give your child a lot of flexibility here. "You can dictate what they're not allowed to buy, such as candy or automatic weapons," says Godfrey, "but beyond that, stay out of their buying decisions." Unfortunately, this is often hard for parents. "We've all bought stupid stuff, and we want to save our kids from learning this lesson the hard way. Don't."

Ask tough questions about education

If you want your child to be financially successful in today's business world, a university degree is essential, right? Not so fast. Education is not always a good investment, says Laurence Kotlikoff, professor of economics at Boston University and a U.S. Presidential candidate.

"We forget that education, like financial planning, is a business," he says. Private schools and universities have a vested interest in promoting the idea that more education—and more expensive education—will help your child get ahead. But according to Kotlikoff's research, there is no advantage to professional or higher degrees when you examine life-cycle earning and consumption patterns.

A GP, he says, has a tiny advantage over a plumber when you factor in the spending and saving life cycle of each profession. "Yes, doctors make more, but they also leave school and enter the work force later, and are saddled with a lot more debt," explains Kotlikoff. For example, in 2008 the average salary of an established general practitioner in Ontario was $173,925. An experienced plumber, on the other hand, earns an average of $71,000 (not including overtime). But the doctor has fewer earning years, will spend a lot more on tuition, student-loan interest, and income tax. When you consider all of these factors, says Kotlikoff, the plumber will end up with a disposable income of $33,200 per year, annualized in inflation-adjusted dollars, over her adult life. The doctor will end up with $33,700.

To help your high-school-age kids plan their career goals, have a realistic conversation about taking on debt to pursue higher education. This conversation should include examples of degrees that do and don't pay off. For instance, Kotlikoff's research found that petroleum engineering, pharmacy, and math/computer majors earned average salaries that started at $98,000. Theology, early childhood education and psychology majors, on the other hand, typically earned less than $38,000 per year.

Let's be clear: this is not about discouraging your child's passion. It's simply about helping them develop realistic expectations. Kotlikoff's advice: "Kids should pursue academics or higher learning because they love it, not because they want to earn a higher salary."

Encourage entrepreneurship

In 1996, Thomas Stanley and William Danko published *The Millionaire Next Door*, the result of a decade of research into the characteristics of wealthy families. Among other findings, they found that "self-employed people are four times more likely to be millionaires than those who work for others." But they also issued a warning: "Most business owners are not millionaires and will never come close to becoming wealthy."

What's the important lesson for your child? That recognizing the relationship between risk and reward is essential to the pursuit of wealth. "I'd rather be the dumbest guy in the room than the smartest," says Milun Tesovic. That's because this young, successful entrepreneur knows the value of identifying your strengths and weaknesses, and then surrounding yourself with people who complement your skills. "My parents knew that 95% of small businesses fail—and that's only within the first year. So, I played to my strengths and recruited people who could fill in the gaps."

There are some simple ways to start your child on the road to entrepreneurship. For instance, if you own a business, consider putting your kid on the payroll. Not only will she learn real business skills, but both of you will enjoy some tax benefits. Your child can earn approximately $10,000 a year tax-free, and splitting income among family members can reduce the overall amount of tax you pay. The key is to employ your child in a job that teaches them genuine skills.

If you don't own a business, then encourage your child's entrepreneurial skills. "Work ethic is essential to developing a self-reliant child," says Paul Gleeson, a financial planner with Vancouver-based Nicola Wealth. When Gleeson was 12, he wanted to earn money to buy a Star Wars X-wing fighter, so his father encouraged him to start a landscaping business. "He taught me to solicit business and develop a price list that took into consideration expenses, such as gas used in the lawn mower. As soon as I had enough money, I bought the fighter and I cherished it. I wanted that toy to last forever because I'd actually earned the money to buy it."

Loan, don't give

The authors of *The Millionaire Next Door* had another insight to share. They found that underachievers often had parents who subsidized their lifestyle by giving them frequent gifts of money and helping them with major purchases.

This is a hard one for many parents. The typical Canadian household makes about the same income today as it did in 1980, once you adjust for inflation. But home prices have far outpaced wage growth. For example, an average income earner looking to buy an average Canadian home 30 years ago would have had to save every penny they earned for 1.9 years to completely pay off that house. But if your child earned an average income today and wanted to buy the same home, they'd have to save for 4.4 years. With that in mind, I can't imagine not lending a hand to my child with the big purchases: a car, their education, a house.

But that help shouldn't come in the form of a gift, explains Karin Mizgala, CEO of MoneyCoaches Canada, a network of fee-only financial planners. The idea of the "parental bank" bailing kids out can create a sense of entitlement and expectation. "This can be very dangerous to a child's financial and overall maturity," says Mizgala.

A better option is to provide limits to your aid. You might offer to pay the tuition for a bachelor's degree, but any other educational pursuit—such as a master's degree or moving away from home to go to school—is a cost your child must cover. Or you might provide a loan. "Write a formal agreement," says Mizgala. "That way your expectations are clear, and your child doesn't feel beholden to you as they continue to develop their own sense of independence."

The aim is not to deny your children help they need, but to hold them accountable. In the end, that's the desire for every parent: to raise responsible, independent children. And if they happen to become millionaires along the way—well, that's a bonus.

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