How young is too young to teach kids about investing?

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Not every young person can be like Rachel Fox, and not just because she's an actor and a musician in an indie band. She's also a day trader, so adept at investing that she offers technical analysis on her blog, Fox on Stocks.

Her comfort with and knowledge of global markets is intimidating to most adults, let alone high-school students.

However, investing is something that parents can start to introduce early, even to little ones who are still in preschool.

"Child-development experts claim that children as young as four associate the visible accumulation of coin with the concept of saving," says Susan Beacham, CEO of Money Savvy Generation and author of*O.M.G. Official Money Guide for Teenagers*.

"The first step to investment — the gateway — is saving. The very first thing you've got to do to help a child learn about investing is, if you put money in a child's hand, for them not to spend it. The earlier we start the more our money has a chance to compound."

Toronto fee-for-advice money coach Noel D'Souza, financial planner with Money Coaches Canada, agrees that learning about investing all starts with learning how to save.

"Kids need to be old enough to understand the concept of delayed gratification," D'Souza says. "This is something many adults don't grasp. It's something that definitely has to be taught. Fundamentally, to be an investor you have to be a saver. That's the key.

“Some people [adults] spend all their money and borrow to invest, but there are a lot of costs to that and stress,” he adds. “You need to be able to put aside money and leave it for a period of time. Investing is really saving over a longer term.”

Consider an allowance

There’s some debate over whether kids should receive an allowance or be paid to do household chores, but the advantage of giving them a modest amount on a regular basis helps them see their money accumulate. (Beacham notes that it’s intentional that her company’s Money Savvy piggybanks — which have four compartments: Save, Spend, Donate, and Invest — are translucent.)

“In the early years, learning about investing is more about recognizing the concept of money and the fact that it doesn’t grow on trees,” says Vancouver’s Phil Knight, associate portfolio manager with RBC Dominion Securities. “It’s important for them to realize that every hour of work only brings in so much money and that money can be spent on a single item very quickly.

“A weekly allowance is an excellent way of doing this, especially if they are allowed to spend it at will,” Knight says. “Very quickly it will introduce to them not only to the value of money and how quickly it can be spent, but it will introduce them to the concept of budgeting and saving rather than spending immediately.”

Stop, think and reflect

Those three words can’t be repeated enough, Beacham says. Whether it’s waiting 24 hours before purchasing something you have your eye on or investing over the long term, “time is the magic key that unlocks so many opportunities,” she says.

Setting goals

Goal-setting will help kids grasp the idea of investing. Even kids as young as seven or eight can be asked a question like: What do you think you’ll want 10 years from now, when you’re 17 or 18?

“Every kid is going to say a car,” Beacham says with a laugh. “Some will say they want to be in college. Some who’ve been through the recent problems with our economy will say a home. Thinking long-term is a critical component when you start to talk about investing. Most people need to have an objective, a goal, a reason to save money. Kids do too.”

By the time they’re teenagers, young people are ready to start learning more specifics about investing, such as how to research a company to invest in or going over mutual-fund performance with a financial expert.

Start small, Beacham suggests.

Owning a share of stock is a good place to start, because it may motivate young people to track its performance and allow them to experience risk and rewards through real-time ups and downs of the market. From there, they may be in a better position to understand how mutual funds work.

“Investing involves risk, and risk introduces other vehicles aside from stocks,” Beacham says. “You don’t put all your eggs in one basket.”

As they get older they should have more financial responsibilities, D’Souza says, like picking and paying for their own cellphone plan or buying their own clothes with their own money. Again, making choices — do I buy three pairs of pants at Winners or a pair of designer jeans for the same amount? — helps young’uns get used to the idea of prioritizing where their money goes.

Give them some credit — not the financial kind
Keep in mind that kids’ savvy is often underestimated.

“Don’t assume your child isn’t sophisticated enough to understand this stuff,” Beacham says. “They are mini computers…They’re not as naïve and as young as most people might think.”

And remember that children follow their parents’ examples.
“Over time, kids learn what’s important by watching their parents’ attitudes toward money,” D’Souza says. “If they see that you invest or have an interest in money and they understand that resources are limited, they get a sense of what’s important and they learn from that.”