Why you need to give your children a solid financial education

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Financial education is the ability to understand the workings of money. It is the art of investment and money management and the ability to make sound financial choices. Over 75% of adults do not adequately understand basic financial concepts, according to an S&P survey. When it comes to women it is even worse with over 80% of women being financially analphabet. This is the reason why we need to equip our children with the correct attitude, skills and resources to ensure they understand the value of saving. Financial education for your children is all about setting them up to manage their finances in the best way possible and they have a lot to gain.

We all want to give our children every advantage in life as parents, particularly when it comes to their education. Unfortunately, our school system fails to teach our children about one of the most fundamental parts of life: money. Schools are trying to give the children the tools they need to go out and get a good job. They teach how to be an employee and not how to be a businessman. Many teachers are not prepared for financial education. They come from a world of facts and figures which are verifiable. An answer is either right on an exam, or it is incorrect. But things are much more complicated than that, in the real world. We are taught to work hard, avoid debt and save retirement money. But we are not taught how to read a financial statement or that there different types of revenue.

Parents are responsible for providing the kind of financial education that our school systems are not set up to handle. But maybe you need to educate yourself on the subject first. You need to know why good financial education is so critical and how you will introduce this topic to your children. It is a process that should start in childhood and continue into adolescence. However, there is no hard-and-fast rule but when a child can tell the difference between one dollar and a five dollars this shows they are ready to begin their financial education. This education will not be a process which takes weeks or months to complete. Financial education takes years, embracing three distinct learning windows, each with its own specific needs.

The first learning window for a child is the Quantum Learning which occurs from birth until around twelve years old. Children are essentially learning machines during this time and they learn effortlessly. Every new experience imparts something new to them about life and the world around them. The brain begins to divide into separate hemispheres around the age of four: the left – thought to be the more analytical half – and the right, the creative and artistic side. Most children end up favouring either the left hemisphere or the right one. With games like Monopoly, parents can take advantage of this change by educating their children about finance. Games include both the left and right hemispheres, so their learning centres will be activated and engaged no matter which side your child favours.

When a child turns twelve, learning basic skills such as languages becomes more difficult. The process at this age is transformed into a stage of Rebellious Learning. The kid gets to make his/her own decisions and learn what he/she needs to do. Unfortunately, they are not always conscious of the consequences of their decisions and this can cause them trouble. It is a crucial period when any parent-child relationship should be checked but you can also effectively teach them. One tip is to make them aware of potential impacts by discussing your financial concerns openly when they happen. The third learning stage which is Technical Learning happens at young adulthood as they get their first glimpse of the real world. They will build on the lessons they have learned from infancy and apply them to their lives. This is the time to find out whether we have chosen the right career direction or not. If it is not a good fit, then now is a great time to change direction.

There are four quadrants of profits, each one being delineated by a letter. "E" is for the employee; it is here that most people are. "S" is for independent or self-employed enterprises. That can include someone who, including doctors and attorneys, works for a salary or fee. "B" stands for big business – entrepreneurs like Steve Jobs who launch companies that hire hundreds of people. Finally, financial geniuses like Warren Buffett, "I" stands for the investor. The school system prepares children for a life in the quadrant "E" or "S." They are taught to study hard with a steady paycheck to get good work. These two quadrants sadly still carry the highest tax burden. It is those in the quadrants "B" and "I" who legally pay little to no taxes. Only one of these two quadrants can achieve true financial independence.

Part of the education system issue is that it teaches students to be experts in a particular field. This can help ensure success in the quadrants "E" and "S"- but reaching the top of the quadrants "B" and "I" requires a different set of skills. Successful entrepreneurs and investors must be generalists and not experts. Your grades in school reflect how well you have mastered a given subject. It is an absolutes world: right or wrong, pass or fail. Students "A" prefer to become experts, operating in quadrants "E" or "S." Students who get "C"s may have the ability to see the bigger picture in other areas. And that is why we say students with "A" are working with students with "C."

Starting your career in one quadrant is not about remaining there forever. The transition from one to another is possible, especially since your Professional Learning curve gives you more insight into your strengths and weaknesses. It all depends on the primary revenue source. This is why you need to educate your children on the gap between ordinary, portfolio, and passive income.

- **Ordinary income** - any type of income earned by an individual that is taxable at ordinary rates. Even savings accounts and 401(k) plans, is taxed at the highest rate possible. That is another good reason why teaching your children about taxes is important. It's a complicated topic for everyone, so the sooner they can start getting a handle on it, the better.
- **Portfolio income** - this is a step up from ordinary income but it also brings a higher tax and risk burden. Also, a so-called "diversified" equity portfolio is rarely genuinely diverse, with individuals in a particular sector investing in several firms. If something occurs that affects one, it affects all of them.
- **Passive income** - these are assets which can be defined very simply as anything that puts money in your pocket. On the other hand, bonds are taking money out of your pocket. Many people still define their house incorrectly as an asset when in fact it is a liability. Rental property, such as an apartment complex, is a real asset. This offers a stable source of income paid at the lowest of all levels. Passive income is, as you might have guessed, the type of revenue that will help you achieve financial independence.

Teaching your children about the three income types will give them a future financial edge. But for doing so, you cannot rely on the school system. Most teachers are employed on ordinary income. They are experts. They may not even be aware that there are three revenue forms. So it is incumbent on parents to provide this financial education to their children. Many people quit school financially poor, without financial education. If they find a work that pays off well, they will do anything to protect it. That is why so many CEOs are less concerned about the company they are working for and more about their golden parachute pension packages. All of this is a direct result of schools failing to meet one of our most basic needs: safety.

The Hierarchy of Needs was created in 1943 by psychologist Abraham Maslow. His theory describes a pyramid at the bottom with the most basic physiological needs - things like food and shelter. Only after those needs have been met, Maslow suggests, can we continue to meet more advanced needs such as safety, love, esteem, and self-actualisation. Safety is Maslow's Hierarchy level two and includes employment, morality, property, and resources. In their graduates, who are graduating unsure about their prospects and anxious to land a job, schools fail to meet this need by not offering financial education. And people desperately resort to desperate measures.

Rich people are greedy, is a common misconception. This is reinforced in the school with texts such as A Christmas Carol by Charles Dickens which depict rich people as villains. In reality, it is desperation that drives people to gloat. Desperation promotes a feeling of entitlement which is antithetical to the true spirit of capitalism. In contrast, rich people can be exceptionally genetic. So how does education allow parents to satisfy this need for safety? Instead of encouraging your children to get a part-time job, urge them to search out jobs when it is time for them to join the workforce. This could mean working for a mentor instead of a paycheck where they get paid in real-world experience. Or, finding a job in a fast-food restaurant that allows them to work in a variety of capacities – cashier, cook, janitor, on to shift manager – and studying their business practices. At this point in their lives, it can be more valuable to amass a wide variety of experiences than a minimum wage paycheck.

Some parents, whether rich or poor, have a bad habit of trying to show their children how much they love them – with money. They will buy costly athletic shoes, toys for their children finally even cars. When this happens all the time, the children grow up believing that everything they need to do is ask for something and they will get it. If they get the latest high-end video game system from their best friend, they think they deserve to get one too. However, children must understand exactly what money is. It is an exchange rate. This is it. You get something in exchange if you do it for me. And the more you donate, the more you get. Entitlement seeds are planted when the child receives a handout.

Rather of giving children a weekly allowance, set up a program where children are compensated for the hard work they do. The further that they go above what is required of them, the more that they get in return. That is also a good way to speak with them about the idea of kindness. The more generous they are with their time and effort, the more they will get back – not just in money, but in education and experience. A lot of common financial problems start from the same root cause. People overlook Financial Education Advisory. These may sound the same, but the difference is huge. To get financial advice means that you ask someone to tell you what to do with your money. Financial education means finding out what to study so that you can make your own decisions.

Whenever someone tries to tell you what to do with your money, the first thing you have to ask yourself is, "What is in it for them? " A financial advisor will seek to convince you to diversify your portfolio of stocks. But they don't know which stocks are going to rise, and which will fall. They don't care for that matter, because they're going to get a commission either way. A banker who urges you to save money is angling for you to apply for credit cards and loans to your home. Banks don't use your savings to make money. They are making money off your debt. In situations like this, everything that you are is a customer; stockbrokers and banks make a profit from your financial ignorance. But a financial education helps you to keep to yourself their benefit. Any good education is based on learning its language – not just the words, but the relationships between them.

The secret to meaningful education is being able to continuously see more than one viewpoint. Debt can be either good or poor depending on how it is used. Some may identify a millionaire as arrogant, while others may regard him as ambitious. That is the skill that we want to pass on to our children. Do not tell them what their money will be. Give them the tools to make those choices themselves. We all hope our children are out better than we were. Effective financial education will help make this a reality and give them a tremendous life advantage. But we cannot count on others to deliver that education. It is up to us, as parents, to educate our children in the money language.

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