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How to Teach Teens About Investing

Consider Giving Them Real Money to Invest—But Not Without Sharing Three Stock-Market Truths

Many schools use stock-investing games to teach about investing, as in this March program for Chicago high-school students. Associated Press

How do you teach teenagers and young adults about the stock market?

Teachers and financial planners agree that financial education is important, but are divided on the methods.

Some say that you should encourage young adults to invest in individual stocks so they can learn by experimenting. Others say this path is both risky and potentially counterproductive, as it may teach them the wrong lessons. Better to advise aspiring young stock pickers to put their money into low-cost index funds, they argue.

Larry Glazer, a financial adviser in Boston and the state chairman of the nonprofit JumpStart Coalition for Personal Financial Literacy, advocates a hands-on approach. “Young people aren’t investing in the market,” he says. “You’re not going to engage somebody by buying an index fund.”

Jacqueline Prester, a high-school business and technology teacher in Mansfield, Mass., combines an investing competition, in which each student invests a virtual portfolio in the stock market, with class-based research and analysis.

“I give students time to research and analyze the companies they currently do business with” and encounter in their daily lives, such as Facebook FB -1.15% and Twitter, TWTR -0.27% she says.

She says young people become engrossed by the investing competition. “Students rush to my class every day to see where they fall in the standings,” she says. “They know that the stock market fluctuates based on many factors. We talk about those in class. It’s a great way to bring current events into my classroom as well.”

Some parents fund actual investment accounts—usually with modest amounts—and encourage their children to risk real money.

“I agree we do need to find ways to get young people interested in investing,” says Judy McNary, a financial planner in Boulder, Colo., and the author of “Coin,” a money-management guide for recent college graduates.

But, she says, the problem with the stock game is that it encourages students to focus on short-term gains and on popular stocks rather than sound investing practices.

“One of my kids played the stock-market game in high school,” Ms. McNary says, investing all his money in Chipotle Mexican Grill. CMG -0.89% “My issue with the game was that it taught more about trading rather than investing. The students were following the daily results of the stocks in the market over a short period of time, and the winner was the one who made the most money in the shortest period of time.”

In workshops she has run for young adults, Ms. McNary says she focuses instead on how to build wealth by opening tax-sheltered Roth individual retirement accounts and investing long-term in low-cost, diversified mutual funds.

The response has been encouraging. “Feedback was great,” she says. “We have heard at least a few new Roth IRAs were opened, and we have been asked to develop materials explaining investments further.”

There are pros and cons to each approach.

Yes, it would be good if young people just behaved sensibly and focused on the long term. But the advantage of actual investing is that it is likely to engage their interest and give them hands-on experience.

“Like all of life’s rich emotional experiences, the full flavor of losing important money cannot be conveyed by literature,” wrote Fred Schwed 75 years ago in the Wall Street classic “Where Are the

Customers' Yachts?" No theory or verbal description, he said, "can even approximate what it feels like to lose a real chunk of money that you used to own." Educational research has shown that we learn far more by doing than merely reading or hearing.

In recent weeks I have encountered several instances in which young people were either trying their hand at stocks on their own, or being encouraged to do so with small parental stakes.

One couple told me they were funding an experimental investment account for their teenage son as a learning tool. A recent college graduate said she wanted to try her hand at investing in individual stocks.

But buying stocks without any guidance or theory behind it may teach young people the wrong lessons—and may also, if they lose money, turn them off investing altogether.

If the older generation wants to help, they could start by forewarning their children, grandchildren, nieces and nephews of three stock-market truths that have been demonstrated by a large body of Wall Street research.

First, no one has been able to predict stock-market moves with any consistency. Second, few things are as dangerous to your wealth as the latest glamorous "growth" stock. And third, successful investing only works over the long term.

In the course of their speculations, they will almost certainly learn all three lessons the hard way. But it may be helpful to have the lessons explained to them as well.

And while they are gaining experience of their own, you can give them vicarious access to others' by buying them some engaging Wall Street books, including Schwed's entertaining and hilarious classic, Edwin Lefèvre's "Reminiscences of a Stock Operator" and a good biography of Warren Buffett, such as Alice Schroeder's "The Snowball."

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