

IT'S YOUR MONEY: Give your adult kids the gift of financial wisdom

This year, the best Christmas gift for your adult children might be the gift of financial wisdom. Unfortunately, most young adults graduate from school without a practical understanding of personal finance. Starting them out with a solid foundation and some smart financial habits can help your children live a happier, more fulfilling life.

Upon graduation, young adults are starting with a blank slate. They are probably accustomed to a frugal lifestyle that is more about friends and experiences than expensive cars and fancy restaurants. Before they take on new financial commitments, encourage them to establish a lifetime habit of living below their means and saving for the future. Work with them to develop a budget, establish an emergency fund and save for the future. Help them to avoid the common tendency to increase their expenses in lock step with their income. They can experience more freedom and opportunity by living below their means and gradually increasing their standard of living.

Another concept that is not taught in school is the difference between good and bad debt. Help your children understand the danger of high-interest credit cards and consumer debt. Encourage them to limit the number of credit cards they use and to pay credit card balances in full every month. Explain the importance of establishing a good credit rating by paying their bills on time. Help them understand that low-interest, tax-deductible mortgage debt can be useful, while high-interest credit card debt can be detrimental to their financial security.

It's important for them to understand some basic investment concepts, including the power of compounding. For example, if they invest \$100 a month for 30 years for a total investment of \$36,000, with a return of 6 percent, their money can grow to more than \$100,000 due to compounding. They have the benefit of time. By investing early, they have tremendous opportunity to grow their money into a sizable nest egg by retirement.

Understanding the importance of diversification and the relationship between risk and return is also essential. Encourage your kids to avoid putting all of their eggs in one basket and help them understand that getting a higher return requires taking more risk. It's best to invest in a variety of investment options with different levels of risk and return. Caution them that anything that sounds too good to be true probably is too good to be true.

To augment the wisdom that you can share, consider buying your kids a book on personal finance for a gift. Some books to consider include "The Richest Man in Babylon," by George S. Clason; "Coin," by Judy McNary; "The Young Couples Guide to Growing Rich Together," by

Jill Gianola; and the “Wealthy Barber,” by David Chelton.

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