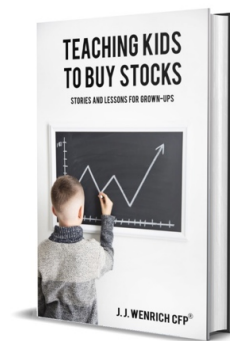


Book Excerpt

CHAPTER 2 | The \$500 Challenge: A Bait and Switch



It all started with a silly bet I made with my kids when they were roughly ages three, four, and five. That's Max, Henry, and Annabel—oldest to youngest.

Once a child realizes that money can be traded for “stuff,” they seem to have a natural tendency to want to make that trade happen as soon as possible.

“These coins and bills are fun and all dad, but can we go get some toys and candy now? I mean right now—as much as I can get.”

I watched them immediately spend everything they ever received.

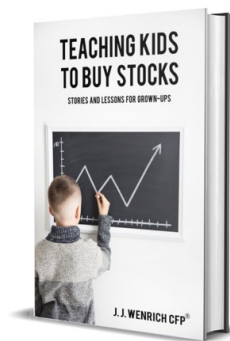
At the time, the five of us were living in a small apartment just so we could save money. I wanted to teach our kids the lesson that you should sacrifice to save, rather than spend, spend, spend. For motivation, I told the kids, “If you save \$500, I’ll match it.”

I knew it would take at least two to three years to save \$500 dollars unless they found a way to earn extra money. Their only real source of income was from birthday and holiday gifts. I also wanted to see them trying to find ways to earn extra money beyond waiting for gifts twice a year.

It was about that time we started to pay allowance for chores. When I needed some extra help for other miscellaneous chores, I was also known to pay extra. If they weren't being particularly helpful in a given week, we would remind them of the \$500 challenge and sometimes it helped.

Over time, we found they cared more about chores because of the goal. More importantly, they cared more about saving their money. We opened a savings account for each of them at the bank, and they began to deposit their money.

Book Excerpt



FROM CHAPTER 5 | Help Kids Find the Entrepreneur Within

Kids have great imaginations. If left alone in a room with nothing, they will come up with new games on their own. If you teach them about money, you'll be surprised how quickly they become entrepreneurial.

I've watched my kids try to develop different businesses with various levels of success. My daughter (and youngest) used her earnings to build a baking business with a friend. Both homeschooled, they decided to use their flexible schedule to bake cupcakes between the end of their lessons and the end of public school. They then set up shop on the sidewalk between the neighborhood and the school and sold them to the public-school kids on their way home.

Not to be outdone, our middle son found a better way. He biked to Target, bought a bulk pack of Smarties and Snickers bars, and sold them individually on the same sidewalk. Why put all that work into cupcakes when you can make a bigger margin on someone else's work?

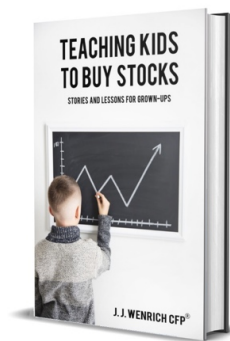
Later, the scene at dinner was similar to any mafia-head *famiglia* meeting ever held. There was discussion of who owned what territory on what days.

In the end they never reached much of a conclusion because none of them really wanted to work every day anyhow. After a few days, the work started to feel like work, plus they ended up eating most of their profits.

What's the point in telling this story? Giving the kids a financial base gave them the understanding of money to help them think about how a business works and how to use that knowledge to build something bigger with those resources.

Encourage your kids to be entrepreneurial. It helps them begin to incorporate the concept into their daily activities, whether it be playing make-believe or actually trying to start their own little business. It helps them begin to speak the language.

Book Excerpt



FROM CHAPTER 5 | Business is Happening All Around You

Begin to have conversations with your kids about businesses you see every day. Chances are, most of the time you're spending money there's a business associated with it. Help your kids be aware that there are businesses all around that you take for granted. Some are small, locally-run operations. Some are enormous corporations that could become potential stock picks for them.

Talk about how a particular company makes money if you know. It doesn't have to be complicated. If you're at a restaurant, explain how the business tries to make a profit by spending less on food, staff, and rent than it receives from customers buying food. If you're at the grocery store, explain how the grocery store buys things in bulk at "wholesale" prices and sells it to us for more. We pay more because of the service the store provides: the convenience of a huge selection of products in one location.

Explain that the products the grocery store or restaurant sells also represent other businesses for other companies. If you are buying veggies or milk, there's a farmer out there working hard to make that happen. If they are paying rent, there's a landlord that owns the building as a business.

As you talk about the businesses you see around you, start talking about the difference between public and private companies. Wait a minute—public and private companies—that sounds a little like **nerd words**. These were my kids' first investment nerd words; maybe they'll be your first too. Here's a quick explanation.

Nerd Word Alerts

Privately owned: Businesses that are not available to buy or sell in the stock market. With private ownership, there is no formal exchange or marketplace, so it may take days or months or years to find a buyer or seller.

Publicly traded: Businesses that are available to own in the stock market. A private business becomes public by offering shares to the public in an "initial public offering" or IPO.