

FINANCIAL LITERACY MONTH – A Parent’s Guide to Educating their Young Adult Children

Teaching our adult children about money has a great impact on their future as they become more engaged and in control of their financial journey.

Consider these statistics:

- 95% of parents want to talk to their kids about money, but only 37% feel comfortable doing this.
- 67% of parents in Canada, at some point, will actively look for financial education material for their children.

The frightening truth is that many young adults begin their lives without a firm grasp on the basics of saving, spending, and investing. Due to a lack of knowledge, they may run the risk of overspending, have limited savings, and fail to utilize investment opportunities for a robust financial future.

As a parent myself, I know how challenging it can be to engage in conversations about future planning – you may get eye rolls and hesitation! However, it is crucial that we equip our children with the information they need in order to venture into the working world with more financial confidence.

To simplify things and to enable a more fruitful dialogue with your adult child, consider the following “mini lessons” to discuss:

1) SPENDING

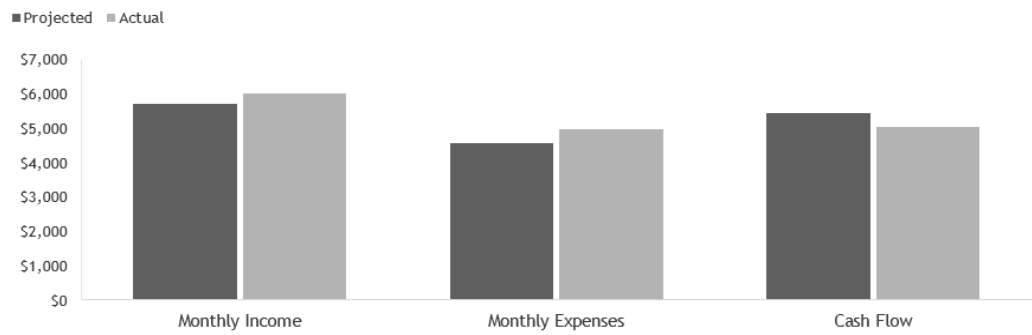


Under the realm of spending, the concept of budgeting is pivotal in terms of understanding cash flow – or even beginning to comprehend the significance of saving.

Since most people are visual, it helps to show your adult child a template of a budget. You could even use your household budget as a real example. Enter key components of your monthly expenses and the amounts in an Excel spreadsheet. That way, your adult child can easily see the numbers – they will be able to understand the concept of going into a budget deficit or budget surplus. Consider the following Excel template as a model for monthly household budgets.

Family Budget

Cash Flow Analysis



	Projected	Actual	Variance
Total Income	\$10,000	\$10,000	\$300
Total Expense	\$4,570	\$4,968	(\$398)
Total Cash	\$5,430	\$5,032	(\$398)



TALKING POINTS

- Use the cash flow analysis to discuss the difference between projected income/expenses and actual income/expenses.
- Show your adult child that in this budget, the monthly income is higher than the monthly expenses, yielding a budget surplus due to the cash left.
- Engage your adult child by asking them what should be done with the surplus of cash (\$5,032)? Use this as an opportunity to discuss the ideas and strategies of savings and investments (which we will get to later on)...

Now, present them with the detailed monthly expenses. By using an Excel spreadsheet (you can find a household budget template in the program), you will be able to modify the template to suit your particular household. Your adult child will also be able to see how the monthly expenses affect cash flow and how the ideal situation to be in is a budget surplus.

Monthly Expenses

	Projected	Actual	Variance
Mortgage	\$1,500.00	\$1,500.00	\$0.00
Groceries	\$800.00	\$950.00	(\$150.00)
Telephone	\$100.00	\$100.00	\$0.00
Electric / Gas	\$65.00	\$78.00	(\$13.00)
Water / Sewer / Trash	\$25.00	\$25.00	\$0.00
Cable TV	\$75.00	\$75.00	\$0.00
Internet	\$60.00	\$60.00	\$0.00
Maintenance / Repairs	\$0.00	\$70.00	(\$70.00)
Tuition	\$250.00	\$250.00	\$0.00
Pets	\$75.00	\$80.00	(\$5.00)
Transportation	\$300.00	\$270.00	\$30.00
Personal Care	\$75.00	\$65.00	\$10.00
Insurance	\$350.00	\$350.00	\$0.00
Credit Cards	\$300.00	\$500.00	(\$200.00)
Loans	\$0.00	\$0.00	\$0.00
Taxes	\$220.00	\$220.00	\$0.00
Gifts / Charity	\$150.00	\$150.00	\$0.00
Savings	\$225.00	\$225.00	\$0.00
Other	\$0.00	\$0.00	\$0.00
Total	\$4,570.00	\$4,968.00	(\$398.00)



TALKING POINTS

- Use an example of monthly expenses to show your adult child the differences between projected and variable expenses.
- Use this as an opportunity to discuss the expenses that are generally the same every month (fixed expenses like a mortgage) and expenses that tend to change (variable expenses like maintenance/repairs). This is also an opportunity to talk about expenses that can be a surprise or out of the ordinary – and that ideally, you will want to have a cash surplus in order to pay for those unexpected expenses rather than going into debt/budget deficit.

After learning more about the concept of budgeting, your adult child may find it helpful to think of the 50/20/30 budgeting rule. Fifty percent of your income should go towards covering essential expenses such as food and housing; twenty percent should go towards savings and investing; while thirty percent of your income can go towards personal expenses. By following this guideline, your adult child will be able to maintain their monthly budget and have a cash surplus in order to be put to savings/investments and personal use.

You may also find it worthwhile to discuss the difference between wants and needs and how our financial decisions should align with our values and goals.





2) SAVING

After looking at an example of a budget and discussing ways to use the cash surplus, you will naturally delve into the area of saving. Perhaps you have been telling your adult child to save for as long as you can remember.

However, now that your child is in post-secondary or about to head into the working world, the concept of saving is more important than ever. Here are some ways you can start this conversation and what to include in your discussion.

Engaging Conversation Starters

Pay Yourself First

Your parents most likely shared this financial sentiment with you. I know my parents did! Whether or not you have paid this significant lesson forward, it's worthwhile to reinforce at this turning point in your adult child's life. Simply explain (or reinforce) to your child that paying yourself first means that whenever you get money, the first thing you should do is put some aside (hence, "pay yourself first"). Explain to your child that the purpose of putting money aside is not to make a purchase later on—the purpose of paying yourself first is to grow a money tree.

The Value of Time

At this point in the conversation, you will want to go over the basics of interest and how interest rates can grow your money tree. Consider the following example when explaining how interest works.

Save this each week...	at % interest...	in 10 years you'll have...
\$7.00	5%	\$4,743.04
\$14.00	5%	\$9,486.08
\$21.00	5%	\$14,229.11
\$28.00	5%	\$18,972.15
\$35.00	5%	\$23,715.19

The concept of compound interest is fascinating, and one your adult children may have been introduced to at school. Talk to them about the concept of saving a portion of their income for their longer-term goals.



3) INVESTING

After reviewing the concepts of saving and interest, you will want to educate your adult children on investing. This, as we all know, can be an overwhelming subject to talk about. However, even with sharing basic information, your adult child will feel much more confident and will be aware of their investment options.

A good place to begin is to define investing – investing is when you buy a product such as fixed income, equities, or mutual funds with the intention of making higher returns. Inform your child that all investments involve some risk.

Introduce your adult child to some types of investments and investment accounts.

★ Fixed income

Fixed income is an investment that pays you regular **income**.

Examples: Guaranteed Investment Certificates, Canada Savings Bonds, and other types of bonds.

- Fixed income is generally considered a safe, conservative investment with a predictable income stream

One popular example is a **Guaranteed Investment Certificate** (GIC), which guarantees your principal investment, plus pays you interest on your money.

★ Equities

Equities (also called stocks) are a portion of ownership of a corporation that you can buy through the stock exchange. There are many different types of stocks which all have varying levels of risk attached.

- Equities let you share in corporate success or failure
- Dividend-paying equities can provide cash flow
- Equities are generally riskier and more volatile than fixed income, cash, and cash equivalents

★★ Mutual funds

A mutual fund is an investment that pools money from many people and invests it in a mix of investments such as stocks and bonds. You put money into a mutual fund by buying units or shares of the fund.

- Mutual funds diversify your portfolio with investments in securities in different companies, industry sectors, asset types, geographic areas, or currencies
- Mutual funds are managed by professional fund managers

★★ Exchange-traded funds (ETFs)

An exchange-traded fund (ETF) is an investment fund that chooses investments based on a market index or sector such as energy. ETFs trade on a stock exchange.

- ETFs give you access to sectors and products that may otherwise be unavailable to individual investors
- Some ETFs are managed by professional fund managers, and they typically have lower management fees than mutual funds

You may find that your adult child becomes more engaged in the stock market. Perhaps they want to know more, how to read stock tables, and how to choose stocks. Reading stock tables may look intimidating at first, but here are some of the basic terms your child will encounter:

- If you were going to buy a stock, you would identify it by its **ticker symbol**, which is usually 2-5 letters in length and appears beside the company name in the tables.
- The **52-week high/low** tells you the highest and lowest price of the stock for the last 52 weeks. These numbers give you the best idea of the stock's average fluctuating price range.
- The **high and low columns** tell you the highest price the stock sold for during the previous day and its lowest selling price.
- The **volume** is the number of shares traded, usually expressed in hundreds. A high volume means that a lot of people are trading the stock, while a low volume shows that there wasn't much trading activity.
- The **change** tells you the difference between the day's closing price and the previous day's closing price.

- **Stocks in bold** closed at least 5% higher or lower than their previous close.
- A **dividend** is the amount of money paid to shareholders annually for each share they own of that company's earnings.

Tracking companies

Now that your adult children are more comfortable reading stock tables, they may want to find out more about specific stocks. Use this as an opportunity to explore a couple companies you believe would be of interest to them, depending on their personal interests.

Take a close look at how the company stocks move over time alongside real events such as news of possible mergers, new products, cultural or political events that may affect their stocks. By doing this, your children will begin to appreciate the trends and fluctuations that make the market so complicated - and get some insights about whether a given company is a good investment.

FINAL THOUGHTS

As our adult children leave their cocooned schools and enter the workplace, we as parents, have a responsibility to ensure they have the skills and knowledge to manage their personal financial well-being. As a proud father, I want my children to navigate an increasingly complex global financial and economic system with awareness and confidence. As an investment advisor, I want to share valuable resources and ideas with my clients so that they, too, can empower their children to make effective decisions throughout their lives.

More Resources:

If you have younger children in middle school and are looking for educational resources, please download and save my **Financial Literacy Unit Plan** designed for teachers (and created with an Ontario teacher).

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As Senior Wealth Advisor and Portfolio Manager, Roy has successfully led The Ruppert Team ensuring his clients receive elite portfolio construction as well as tax minimization and estate planning strategies. Capitalizing on the vast resources of CIBC, Roy is able to provide tailor-made financial strategies to some of Canada's most affluent investors. Roy's business has been built on a solid foundation of mutual respect and trust by a diverse group of clients and their families.

Roy has been in this industry for over 35 years and has more than 25 years of experience as a manager. He possesses extensive wealth management and investment knowledge, along with a considerable amount of insight on business operations. Being in charge of his own office as Branch Manager with staff of over 50 individuals and an oversight of over 3 billion dollars in assets, this helps him identify with his clients who also run their own businesses.

When Roy is not working, he loves spending time with his family.

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