Great outcomes. Done well.

BAIRD

Are Your Children Financially Capable?

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Recent studies show Americans in general are not learning enough about basic financial principles to responsibly manage their own accounts and affairs. In this Financial Literacy Month, we want to call out some of the opportunities that exist to educate today's and tomorrow's investors about the importance of understanding how money works.

As a parent, it can be easy to become so preoccupied with planning for your family's financial needs that you might not spend enough time ensuring your children will be able to look out for their own someday.

What You Should Know:

1. College isn't necessarily teaching kids financial responsibility.

In 2013, as the nation becomes more aware of a mounting student loan debt crisis among hard-to-employ graduates, EverFi released the results of a study that focused on the banking, savings, credit cards and school loans of 40,000 students at four-year public and private universities in 43 states. Among their findings:

- 28% of first-year students had at least one credit card and 35% of those made only their minimum payments each month.
- 79% of respondents were worried about debt.
- 30% said it was better to buy something now and pay it off later.

2. Many Americans lack fundamental financial knowledge.

A variety of studies conducted in recent years have shown that this disturbing lack of financial awareness among Americans isn't confined to young people. For example, a 2012 SEC report showed many adult investors don't understand fundamental concepts, including:

- Compound interest and inflation.
- The difference between stocks and bonds.
- The impact of investment costs on returns.

3. You can test your kids and yourself. If you are concerned about your children's or your own financial literacy, there is a five-question quiz that FINRA used in its 2010 Financial Capability Study. The average respondent could only answer three of the following five basic questions correctly:

- Suppose you have $100 in a savings account earning 2 percent interest a year. After five years, would you have more than $102, exactly $102 or less than $102?
- Imagine that the interest rate on your savings account is 1 percent a year and inflation is 2 percent a year. After one year, would the money in the account buy more than it does today, exactly the same or less than today?
- If interest rates rise, what will typically happen to bond prices? Rise, fall, stay the same, or is there no relationship?
- True or false: A 15-year mortgage typically requires higher monthly payments than a 30-year mortgage, but the total interest over the life of the loan will be less.
- True or false: Buying a single company's stock usually provides a safer return than a stock mutual fund.

What you should do now:

Even though April is Financial Literacy Month, it isn't the only time you can educate your children or yourself about important financial matters. Whether you're making time for a lesson in the fundamentals of budgeting, saving and goal-based investing for your child or you have questions yourself about more sophisticated elements of your own financial plans, your Financial Advisor is there to help – any time of year. ■