



Investments: The gifts that keep on giving

Michele Wulff is a former public school educator of 30 years and a 2007 recipient of the peer award "Excellence in Teaching Economics." As an economic education coordinator with the Kansas City Fed, she works to heighten financial literacy throughout the seven states of the Tenth District.

We've all seen kids enjoy a new toy for a week and then toss it aside, bored. For the next special occasion or holiday, try a gift with more longevity: a savings bond, certificate of deposit or shares of stock. Realistically, an investment gift isn't likely to make little ones or sullen teenagers jump for joy, but there are ways you can make investing fun and, in turn, pique their interest and teach them a financial lesson or two. Once they understand the concept of investing, their interest will grow, quite literally. Here are some investment gift options to consider.

Certificates of Deposit / Savings Accounts:

CDs and savings accounts are similar, though a CD has a fixed interest rate and is intended to be held until maturity, at which time the investor can withdraw the accrued interest. When I was a math teacher, my students were wowed by the concept of earning interest, learning, for example, that a \$1,000 investment earning 5 percent a year would become \$1,050. Earning interest on that interest excited them even more, as they crunched numbers that showed compound interest would make them "rich." As a class, we made a chart comparing CDs and savings accounts. My biggest savers liked the higher interest rates offered for CDs, assuring me they could handle delaying any fund withdrawals in order to earn the big bucks. Either is a good option for a young investor, around age 8 and older.

Savings Bonds: You might also consider giving the kid-friendly gift of savings bonds through the U.S. Treasury. Series EE bonds can be purchased at half their value and become worth their face value in future years. Even younger children can do the math to figure when their bonds will reach maturity. Series I bonds are purchased at face value and are indexed to inflation. They can be redeemed after five years without a penalty. And if the child later redeems the bonds to pay school tuition, the interest earned is not taxed. Bonds are good investments for age 10 and older.

529 Savings Plan: Want a great way to build your child's college education fund? This account invests money in mutual funds and grows tax-deferred, with education costs coming out tax-free. Each state has its own 529 plan and most are low maintenance; just enroll



PHOTO BY GETTY IMAGES

and contribute or have amounts deducted from your bank account. You can begin 529 plans at birth and later get your child onboard. Have your child chart the gift contributions and color in the dollars toward his or her education as soon as he or she is able by using our Education Fund Tracker on Page 24.

Stocks: When is your child ready for the world of stocks? Once he or she understands that a favorite food product, clothing brand or video game is produced by a company for profit. Tell him that companies issue stock to raise money for new products, technology or expansion. Explain that he can become a stockholder, an owner of shares (or parts) of a company. What toys, electronics or restaurants excite him? What stores sell quality products? His answers are a good starting point for picking stocks. Do online research using *quote.com* or *finance.yahoo.com* with your child to find stock prices, as well as their growth or decline in the last year. *Smartstocks.com* offers a free game where kids develop a million-dollar portfolio of their favorite picks and can track their stocks' progress. Background information on companies and graphs of stock gains and losses help players make their choices. Decide which stocks would be the best investment gift. Make the gift more fun by adding a related product, such as a Disney toy or McDonald's gift certificate. Try gifting stock to kids age 12 and older. (Stocks can be purchased for a custodial investment account for those under 18.)

Once the investment has been gifted, the learning begins. Teach kids how to track the progress of their investments. When they have a basic understanding of investing, they may want to research other products to add to their investment portfolios. You may find

them paying more attention to the daily news and state of the economy. If they become discouraged because of a decline, discuss reasons why this might have happened, such as stocks dipping as a result of weather-related effects on crops or bad publicity about certain products. Remind them investing generates wealth over the long-run and is not a get-rich-quick scheme.

Cash: If the gift recipient is quite young, it's still not too early to develop awareness in investing money. Consider giving children 5 and younger a piggy bank that they can fill with loose change. For every coin added, the parent could add one, too, teaching that concept of growing money. Subsequent gifts could be cash that's intended to be saved in the piggy bank. As the child grows older and understands more, talk about moving the money into a CD or savings account. You could even help the child draw a chart comparing the two and pointing out the advantages either has over keeping the money in the piggy bank.

Financial advisors say that the sooner kids start investing, the more financially savvy they'll be as adults. This investment building will help them plan for financial goals such as their education, first car or house. And the financial knowledge they learn along the way is truly a priceless gift!



Financial Education Resources

The Kansas City Fed is committed to promoting economic and financial literacy and greater knowledge of the Federal Reserve's role by providing resources for teachers, students and the public. Visit our website at KansasCityFed.org for more information.

Kansas City Fed.org: **"Banking Basics"**

This booklet describes the types of accounts that banks have to offer. For ages 8-12.

"The Money Circle"

This lesson looks at saving and investing tools available and illustrates the importance of compound interest. For ages 12-17.

"Building Wealth"

This booklet discusses the advantages and disadvantages of different investment options, including CDs, bonds, stocks, individual retirement accounts and 401(k) plans. For ages 14-adults.

"Diversification and Risk" **(stlouisfed.org)**

This lesson discusses developing a stock portfolio through looking at the concepts of risk and diversification. For ages 14-18.

Fiction Books:

"Rock, Brock and the Savings Shock"

by Sheila Bair
Twin brothers Rock and Brock are very different when it comes to money management. When Grandpa matches the money they save, one twin comes out ahead and shows that saving makes good sense. For ages 8-12.

"Lawn Boy"

by Gary Paulsen
Lawn Boy is 12 and uses an old riding mower to start his own business. A neighbor gives him investment advice and he soon has 15 employees, money in the stock market and a prizefighter whom he manages. For ages 9-14.

Non-Fiction Books:

"Growing Money: A Complete Investing Guide for Kids"

by Gail Karlitz and Debbie Honig
This book explains investing and compound interest in terms kids understand. It contains sample forms to record income, savings, withdrawals and to test kids' risk tolerance. For ages 10 and older.

"I'm a Shareholder Kit: The Basics About Stock"

by Rick Roman
This book takes kids through investing basics, becoming a shareholder and understanding the stock market. It includes a coupon for \$10 off their first share of stock. For ages 12 and older.

"The Motley Fool Investment Guide for Teens: 8 Steps to Having More Money Than Your Parents Ever Dreamed Of"

by David Gardner, Tom Gardner and Selena Maranjian
This book explains stocks, mutual funds and how to enter the market. Additional features are a glossary, financial worksheets and helpful websites. For teens.

For more free activities, videos, curriculum and other resources, go to **FederalReserveEducation.org** and **KansasCityFed.org**.



Take Stock!

Introduce these words to your child as an introduction to investing. Ages 12 and older.

Review the words with your child by reading the definition and asking for the matching word. Make a game of it by scoring points for each correct match.

+10

Ticker Symbol

Letters that identify a company for trading purposes on the stock market table.

Stock

Ownership of shares in a company.

Profit

The amount of money that remains after subtracting the company's expenses from its earnings.

Quote

The bid or ask price for a stock at a given time.

Portfolio

A collection of investments owned by one person or organization.

Diversification

Investing in a variety of companies in order to reduce risk.

Compound Interest

Interest that is earned on the original sum and also on the interest accumulated.

Dividend

Portion of a company's profits that may be paid to shareholders.

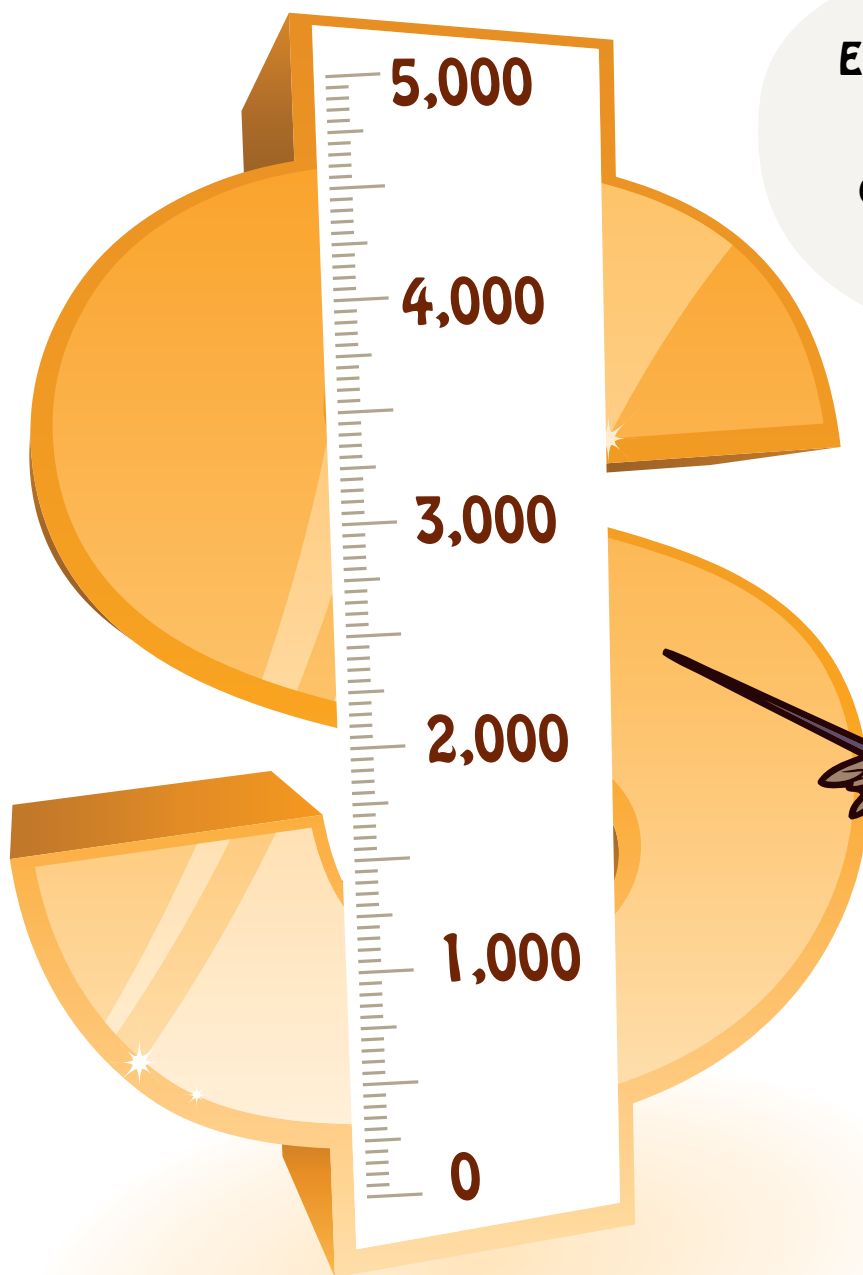
Principal

The amount of money you invest before interest accumulates.

Mutual Funds

An investment company that pools savers' money to invest in a variety of stocks and bonds.

Education Fund Tracker



Each time you receive money toward your education, color in the dollars on your Education Fund Tracker

