Getting Ahead Early, Part 2: Open a â€œTeam Savings & Investment Accountâ€•

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The previous article on this topic focused on how important it is for young adults to â€œoutrunâ€• debt and move quickly from Debt Accumulation to the Asset Accumulation stage of the Financial Life Cycle. The name of the game is to get a good head startâ€¦ to move through the early stages of the life cycle as fast as possible because doing so enables you to reach the final stage, financial independence, at a younger age. That was the concept. This article focuses on execution. Here we offer one idea to help reduce the amount of time young adults spend in Debt Accumulation, or to even bypass the stage altogether.

When our two sons were infants a couple we knew mentioned that they had opened a savings account for their baby girl when she was born. The couple made a regular habit of depositing every penny given to the child on birthdays, special events and other occasions, and eventually the savings grew to a tidy sum. We immediately realized that this was an idea worth stealing, so off to the bank we ran.

We opened passbook accounts, which are harder to withdraw money from than statement saving accounts. (Passbook savings accounts require conducting business the old fashioned way, by making a trip to the bank â€“ during bankers hours. A withdrawal from a statement savings account, on the other hand, can be made easily â€“ too easily â€“ online or at an atm.)

Adding an investment component

When our boys were in middle school we added another feature to the program: stocks. They were allowed to take some of their savings and invest it in one stock each. As overall â€œportfolio managers,â€ my wife and I had veto power on stock selections, but in fact we all made the choices as a family. As we monitored each stockâ€™s performance and the boys became generally familiar with how stocks work, they began making occasional trade suggestions and we did agree to a few additional buy and sell transactions. To reduce their risk we promised that if the stock picks lost value by the time they graduated college we would make up the difference.

Over time this activity evolved into more

than just saving money â€“ it became a process

involving family teamwork and collaboration.

Since their accounts were now comprised of both savings and investments, and because we managed the accounts as a family, we called them our â€œteam savings and investment accounts.â€• I even created an abbreviated version of the 8020 Worksheetâ„¢ containing these asset values plus others (such as sports collectibles, beanie babies and other things they owned). As any reputable portfolio manager would do, I provided the boys with quarterly updates of their accounts; this kept them engaged and also taught them how to read a basic financial statement and use it to help manage their accounts.

Compounding the growth

As teenagers, when they began working, capitalists that they are they even started adding some of their earnings to the accounts. This compounded the growth in much the same way as making

regular contributions to a 401-k account (see our â€œEinsteinâ€™s Theoryâ€• of compounding compound interest article).

As high school graduation approached each account had grown to almost $15,000. This was considerably more than we had expected when we first started the experiment. At that point we suggested setting a final savings goal to be achieved by the time they finished college. We also started discussing what the money could be used for, because after college the funds would be made available to them. Here, as much as I try to avoid being a â€œhelicopterâ€• parent, hovering over their every decision, I must admit I did want to provide some guidance.

Now, what do we do with it?

As you might expect, I suggested that the funds be used to get a Cash Flow Financial head startâ€¦maybe a 5-year head start over where they would otherwise be after college. For many college grads, â€œwhere they would otherwise beâ€• is in debt. From student loans, and in some cases from car loans and credit cards. In our case the boysâ€™ college is being funded by dear old mom and dad, so it was an opportunity for them to hurdle over the Debt Accumulation stage and land in Asset Accumulation. If on the other hand it was their responsibility to pay for college, the funds could have been put towards repaying student loan debt.

How did things turn out? Well, as with most child rearing activities the story still has a few more chapters before coming to a close. One of our sons is on the verge of graduating college and the other is not too far behind. Their accounts have grown to $25,000 and $20,000 respectively (the lower amount due in part to costs associated with having a steady girlfriend). Who knows, they might decide to spend it all on candy, or perhaps a Mustang GT convertible. Hopefully not. Actually, our oldest told us heâ€™d like to save some more and buy a condo. That works for me.

Lessons learned

When we opened the original savings accounts around 20 years ago, we didnâ€™t have any particular expectations about how much money would be saved, or even what the money would be used for. But over time we began to realize that this activity offered an opportunity to accomplish many things:

â€¢ It introduced our children to the concept of saving and the positive effects of compound interest over an extended period of time;

â€¢ It introduced them to stock market investing;

â€¢ It evolved into a process involving family teamwork and collaboration;

â€¢ It gave our children a hands-on opportunity to set and achieve financial goals.

And it did one other thing: It gave them an opportunity to get ahead early in the game. Perhaps this approach can be used in some fashion by your family or by others close to you to help their children get ahead, too.

Part 3 of this series will involve acquiring a â€œbestâ€• asset type to build on this momentum, creating an opportunity to move even farther ahead in the financial life cycle.

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