SELFLENDER

WHAT NOT TO TELL YOU KIDS ABOUT YOUR INVESTMENTS

By: Douglas Matus - December 3, 2015

Most parents would prefer not to burden their children with worries about money and investments. While it's advisable to keep adult children informed about issues of estates and wills, parents should otherwise feel free to limit their financial disclosures.

Even if you feel obligated to keep your children in the loop about money matters, certain information will cause a disservice to the child's best interests. When it comes time to have the "money talk," take care to avoid the following issues.

Keeping Up With the Joneses

Parents would do well to avoid any discussion that makes clear financial advantages — or disadvantages — as compared to their children's peers. This is especially important with young children, as attitudes about wealth can become entrenched and lead to interpersonal problems down the road. Additionally, a child who is raised with a clear understanding of his or her privilege may never develop a healthy attitude toward work.

"Children who are born into affluence often do not understand the struggles required to get there," says Jeremy Office, founder and principal of Maclendon Wealth Management. "Parents want to give their children everything they didn't have — but then they lose the value of a strong work ethic."

Detailed Investment Info

Parents who try to educate children about the nature of investments will find either a disinterested or uncomprehending audience. As many investors know firsthand, investments can be a confusing business; for children, these concepts can prove impossible to grasp. If a child feels overwhelmed with advanced financial concepts, it can leave them with a negative perception of investments in general.

While it's important to educate children on finances, parents should keep things simple and not use examples from their own portfolios. Once children understand the basics behind budgeting, credit and debt, the parent can introduce certain investment concepts.

"The investment discussion should be a general one about stocks and bonds," says Jill Knittel, a financial advisor with Sage Rutty & Company. "It should not include alternative investments such as hedge funds since children don't have the capacity to understand risk."

Financial Losses

Children need security, and because of this should be spared updates on financial losses. If a parent loses $10,000 in the stock market, it feels natural to vent frustrations; but without context or an understanding of how investments work, children will internalize anxiety around something beyond their control. Jared Heathman, a family psychiatrist, says:

"While it's important for children to learn about investing, it is best not to include details about family finances that could result in undue stress. Worrying about family finances and bills is an adult responsibility, not a child's."

Trust Funds and Child Savings Accounts

If you have adult children and your losses bear critical importance on your overall finances or the child's own savings, then you need to discuss the situation. General discussions about the child's own inheritance, education plans or trust funds present an entirely separate topic of consideration, however. While parents may feel obligated to keep children informed, there are many reasons to at least delay the conversation.

"If you have savings for your children, do not tell them until you are ready to give them access to the money," says Jeremy Office. "Giving them a security blanket or embedded safety net can limit their potential to reach."

Too much knowledge about an eventual windfall can discourage a child from laying their own foundation for success. It can also create a point of contention, as a child who feels entitled to money may demand it too soon.

"If an investment portfolio has been set up for the long-term benefit of your kids, make sure it's well documented in your will or trust, but otherwise, don't tell your children about it," says Mike Tove, president and founder of AIN Services. "This will ensure that there's no chance they'll mess up something you've carefully established for them later in life."