Palisade CAPITAL MANAGEMENT | Private Wealth

Financial Literacy in the Digital Age

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The digital age has simplified financial transactions. We tap our phones to make a retail purchase or buy what we need online, receive and pay bills electronically, and settle up with friends via payment sharing apps. Electronic payments eliminate the need to fumble for cash.

However, now that these transactions take place "behind the scenes," our children and grandchildren may no longer bear witness. It's more important than ever to proactively teach your loved ones about money and help them develop healthy financial habits. Here are some money lessons to share with those you care about:

Practice mindful spending. By kindergarten, children are ready to learn the distinction between "wants" and "needs" and that money is required to pay for things. There are toys and games that teach through play, such as a toy grocery store or Monopoly, and allow for discussion of how to make choices and stick to a budget. Age-appropriate books can be read together, such as Max and Ruby Bunny Money, Alexander, Who Used to Be Rich Last Sunday, and the Berenstain Bears' Dollars and Sense, to start a conversation and tell stories about financial choices you've had to make.

Save toward your goals. As kids get older and begin to earn money through entrepreneurial ventures, such as opening a lemonade stand or babysitting, earning an allowance, or receiving cash as a birthday gift, they'll need to consider what to do with those funds. You can teach them about allocating income towards saving, spending, and charitable giving. Labeling jars with these categories or helping your child open a bank account are ways to encourage good habits.

Resist impulse purchases. The convenience of e-commerce allows for spontaneous purchasing any time of day or night. When your children are old enough to shop on their own, teach them strategies to avoid buyer's remorse, such as letting their virtual shopping cart sit for a bit while they decide whether a purchase is really worth it.

Use credit cards wisely. When your kids (or grandchildren) are heading to college or going out on their own, they need to understand the potential benefits and consequences of using credit. While credit cards can be useful for building credit and earning points and miles, many kids get into trouble when they buy more than they can afford. It can be helpful to explain how an expense, such as a $2,000 spring break vacation, can wind up costing substantially more if they "revolve" their balance and pay only the minimum due. For example, at an 18% interest rate, it would take nearly 11 years to pay for the spring break trip in full. And more than $2,500 in interest would be paid on top of the original purchase price (more than doubling the cost of the trip) if only $35 was paid toward the balance each month.

Invest for your goals. Talk to your children and grandchildren about how you worked to plan and invest over the years, allocating a portion of your income toward your retirement, college savings, and other goals. Remind them of the importance of putting money away for the future and let them know you are available to answer any questions they may have.

Help your child see the benefit of compounding by following the rule of 72. How long will it take for your savings to double? Dividing 72 by the interest rate you are earning gives you a close approximation. For example, if you earn a 10% return, it will take 72/10 or about 7.2 years. If you earn 6%, it will take 72/6 or about 12 years to double your money.

Initiating regular conversations about money can help your children and grandchildren develop sound financial habits and become confident about handling money. Please remember that your Palisade team is always happy to facilitate financial conversations with your loved ones to help preserve and enhance your family's wealth across generations. Please reach out to your advisor with any questions you may have about financial literacy.

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