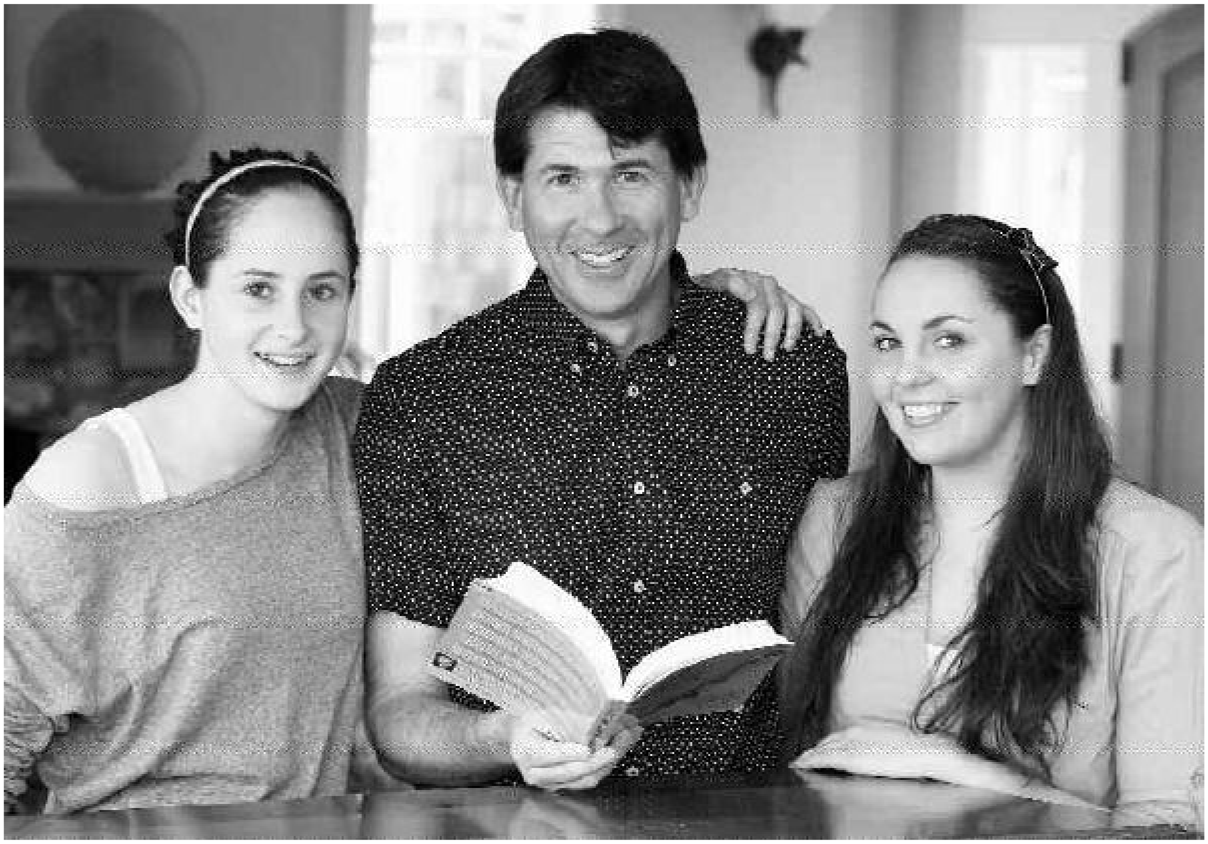
Wealth creation for kids

How to get young people interested in their financial future early on

BY GRANIA LITWIN, TIMES COLONIST JUNE 17, 2010



Michael McEvoy helps his daughters Caroline Macdonald, 14, and Katie McEvoy, 18, learn about finances through books and discussions at home.

Photograph by: Bruce Stotesbury, Times Colonist, Times Colonist

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Katie McEvoy, 18, never imagined she'd be dashing home from school to dive into a book on wealth creation.

But the competitive swimmer and honour-roll Grade 12 student at Oak Bay High has a new interest: Getting a grip on savings, rather than credit cards, and taking her first steps toward financial independence.

She's reading up on bond performance, financial instruments and long-term budgets.

"I want to know more about finances because I'm starting my own life soon," said Katie, who was most surprised to learn about credit card debt and how fast it can accumulate.

She was also fascinated to learn about the power of compound interest.

"I'm unemployed right now but I get money for birthdays and Christmas. It's pretty cool what happens if you start saving early."

Her dad, Michael McEvoy, said: "It's critical for kids to start thinking about financial planning. Many of us don't come to this realization until it's too late.

"Katie is learning about diversification, compounding, the importance of saving, and we're having discussions about all these concepts."

Her stepmom, Judy Harrison, principal of Spectrum School, gave several copies of The Smart Canadian Wealth-Builder by local author Peter Dolezal to top Grade 12 students at her school awards ceremony -- and to Katie.

"It's a great springboard for conversation," said Harrison, who is giving it to teachers, too. Financial planning is covered in the curriculum, she said, but students need to know more.

She said many young adults are offered credit cards through the mail these days and get into trouble because, "they have experience with a job, but need to realize what $10 an hour does NOT buy."

Former Royal Roads University chancellor Bob Skene said one of the book's strengths is its emphasis on compound interest. "It is so simple, but not top of mind for most young people because they have not been educated ... even at Royal Roads where the average age is 35, we see this.

"Too many young people live for the moment, don't think about saving and get into serious jams," the accountant said.

"Part of the problem is the academic curriculum, which doesn't identify some of these real-world issues. We're all living longer and young people need to make the right investment choices."

He said the book emphasizes personally managing affairs and doing independent research, and warns of brokers who push particular products.

Dolezal based his book on a series of informal chats he had with his grandkids, after offering them $1,000 each to come to his Sidney home Saturday afternoons to boost their financial literacy. "I didn't want to write a textbook," explained the financial junkie who was born in Prague.

His family escaped communism in 1948 and lived in a refugee camp in West Germany for two years. "I had a huge advantage because we lost everything. There weren't the opportunities to borrow money back then, so I grew up in that environment."

After taking his MBA at McGill University, he headed two mining companies, was CEO of the B.C. Buildings Corporation, owned a real-estate company and is now consulting and writing.

He emphasizes the biggest accelerants for wealth creation are disciplined saving and compound interest -- "You'll never be rich until you control spending" -- and the biggest "drag" is debt.

For example, a family that carries $10,000 a month on credit cards, for their 40-year working life, making only minimum payments (at typical 19 per cent credit card interest) will pay $76,000 in interest alone.

EASY TIPS FOR MAKING YOUR MONEY GROW

Sidney author Peter Dolezal offers more than 120 tips in The Smart Canadian Wealth Builder:

- Except for mortgage and education loans, avoid all interest-bearing debt.

- Be an investor, not a trader.

- Have two separate savings accounts: The first for wealth creation -- "You simply do not tap into it" -- and second for purchases and vacations.

- Aim to buy a home before you're 30 and whenever possible accelerate mortgage payments.

- Negotiating the best value mortgage is usually more important than the best purchase price, because of the long-term interest costs.

- Avoid complicated investments when starting out. "The less you understand, the riskier it usually is."

- Negotiate price whenever possible, and when successful, transfer what you have saved into a savings account.

- Toss spare loonies and toonies into a jar. At the end of a year roll them up and bank the cash.

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