MAKE YOUR KIDS MILLIONAIRES

A Parent's Guide for Leading Your Children to Financial Freedom

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Loral Langemeier and Kyle Boeckman

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Chapter 1 – How to Use This Book

"Give a child a fish and you feed them for a day;
teach a child to fish and you feed them for a lifetime."
Our version of the old Chinese proverb

Bryce beamed with excitement. His young eyebrows rose to meet his blonde locks and his eyes seemed to double in size. His 7-year-old mind raced nearly visibly with the possibilities of what he could do with his potential bounty. His father had just made an unusually lucrative proposal and promised him 5 cents per apricot pit that he picked up, and the yard was riddled with hundreds of them. To his mind it must have seemed like a field of gold nuggets. The contract had nary been set when he sprinted to action and began filling the bucket he had been provided. Only 4 handfuls into the endeavor his fervor quickly turned to horror. His 3-year-old brother, Bret, had just sauntered outside. Though he wasn't part of the agreement, sensing his brother's exhilaration, he had quickly grabbed his own bucket and was filling it with pits. Bryce recognized his fortune was swiftly becoming half a fortune and pleaded angrily for his brother to stop. But it was too late. Bret was biologically compelled to follow his brother's lead. As the father watched Bryce loom over Bret with growing rage, he knew he needed to act fast to avoid bedlam and salvage the teachable moment. He called Bryce over and explained how, far from being a travesty, this incident was actually a lucky break. "Since my agreement for picking up pits was only with you, what if you were to hire your brother to help you pick up the apricot pits? You could pay him 2 cents per pit and I would still pay you 5 cents per pit. Although you would make a little less you would finish the job much more quickly, and while he is working you would be getting paid 3 cents for doing nothing but setting up the deal." Bryce's anger began to melt into a wide and approving smile as he contemplated the 7-year-old version of passive income. For better or worse, an entrepreneur was born.

As parents, we all aspire to provide the best instruction we can to our children. We carefully mold them to be caring, healthy, happy, and educated. But how often do we focus on their financial education?

The intent of this book is not to create an exhaustive encyclopedia of every financial concept possible. Doing so would take thousands of pages and put all of us to sleep. Instead, the intent is to set the foundation of financial curiosity and the atmosphere of open conversations about money that will drive a lifetime of financial learning. In her books, Loral calls this "Living out loud!" Our experience has taught us that raising kids who are smart about money is not only possible but practically guaranteed if you do it thoughtfully and consistently. This book can provide you the guidance to help you do both, but in the end, you must put forth the effort. While there is a considerable amount of financial education in this book, you shouldn't construe

this as investment advice, which can only be given by a certified financial advisor, which we are not. It's also worth noting that, although Loral and Kyle are Americans and use terminology from the United States, the principles in this book are universal and can be applied worldwide; you may just have to substitute some terms for those used in your country. For years, they have been successfully teaching these concepts to students from all over the world. In fact, Loral's first book, *The Millionaire Maker*, has been translated and distributed in 78 countries!

If you bought this book thinking you could shove it in your kid's face and be absolved from the responsibility of helping them, then you have purchased the wrong book. This book was written to teach you, the parent, so you can have a reference to guide your child's financial education and journey. Similarly, if you bought this book hoping you could cram the information down your child's throat in a week then mark it off your to-do checklist then you will be disappointed. Properly using this book and teaching your child requires a long-term commitment to training them and doing things different than the masses who live paycheck to paycheck. This book can provide the tools and motivation to make that commitment. Finally, if you think reading this book will be like waving a wand that magically and instantly creates millionaire kids then you have come to the wrong place. This book can help you raise kids who will eventually become millionaires but it won't happen overnight or even by any established timeline. Your child's speed toward millionaire status depends on a myriad of factors. The most important is how well you can lead them on their journey. Congratulations on purchasing this book and committing to take that first step!

About the Authors

About Loral

Loral Langemeier is a money expert, sought after speaker, entrepreneurial thought leader, and bestselling author of five books who is on a relentless mission to change the conversation about money, and empower people around the world to become millionaires. She is known for her high strategy and creative thinking, working with clients from all over the globe.

Loral is the CEO and Founder of Live Out Loud, Inc., a multinational organization through which she shares her best advice without hesitation or apology. What sets her apart from other wealth experts is her innate ability to hone in on the skills and talents of everyday people to inspire them to generate wealth. She has created, nurtured, and perfected a 3-5-year strategy to make millions for the "Average Jill and Joe." To date, the company has served thousands of individuals worldwide and created hundreds of millionaires through wealth building education keynotes, workshops, products, events, programs, and coaching services.

Luminaries including Bob Proctor, John Gray, Jay Conrad Levinson, and Michael Gerber are powerful champions of her work. T. Harv Ecker says:

"Loral Langemeier's investment strategies make millionaires – and the best thing is that anyone can use them."

Loral's straight talk electrifies audiences and inspires powerful action from live stages and television programs ranging from CNN, CNBC, The Street TV, Fox News Channel, Fox Business Channel-America's Nightly Scoreboard, The Dr. Phil Show and The View. She is a regular guest host on The Circle in Australia, and has been featured in articles in USA Today, The Wall Street Journal, The New York Times, and Forbes Magazine. She was the breakout star in the film The Secret.

With unquestionable candor, she is quick to speak truth that leaves no doubt about her point of view.

"Get off your lazy assets."

"Millionaires don't leave money to chance."

"Companies make money. People get taxed."

"You are here to do something better."

“Change and engage your relationship with money. Start first by hanging out with people who have it.”

“Entrepreneurs change economies.”

“Entrepreneurs solve problems and meet needs.”

“What problem do you solve and what needs do you meet?”

“Say YES and figure out how to get it done.”

Growing up on her family’s farm in Nebraska, Loral was never content to sit at the little kids table for holidays or special occasions – even as a nine-year-old. The Big Table was where the important conversations were happening, and she quickly took her place – even if it meant sitting on someone’s lap. Today, she and her team call smaller players in money matters to take their seats at The Big Table as the conversations around money shift perspectives and livelihoods for the better.

Loral is living proof that anyone can have the life of his or her dreams through hard work, persistence, and getting things done in the face of opposition. Loral began her career as a contractor for Chevron and, despite her own fears and persuasion from friends and family against it, Loral quit that role to become an executive coach. Virtually overnight, Loral quintupled her income while working much less. The door opened to meet with Robert Kiyosaki, author of *Rich Dad Poor Dad*, after which she became the master distributor of the Cash Flow game, and with her newfound freedom of time and accumulation of wealth, she founded Live Out Loud, Inc. in 2001.

Loral and her expert team have completed strategy and deals from Real Estate, Gas & Oil, Cannabis, Private Aviation and many more asset classes. As a single mother of two children, she is redefining the possibility for women to have it all and raise their children in an entrepreneurial and financially literate environment. Loral is dedicated to helping men and women from all walks of life to become millionaires and enjoy time with their families.

Legacy is something very important to Loral. She is a frequent donor to charitable groups including The Boys and Girls Club of America, The Lake Tahoe Bear League, An Empowered Woman Foundation, Life School and Family Resource Centers. She has developed special programs for women and children and, in 2012, raised $40,000 for the founder of the Make-A-Wish Foundation. She also runs Serve Out Loud, a program aimed at providing discounted education in financial literacy to United States Veterans.

About Kyle

Kyle Boeckman is newer to the financial education business than Loral, but he's been instructing young people for over 15 years. He spent 25 years pursuing his passion as a fighter pilot and instructor pilot in the United States Air Force. He retired from the Air Force as a Lieutenant Colonel, but not before graduating with a bachelor's degree in Human Factors from The United States Air Force Academy and a master's degree from University of Illinois in Engineering Psychology. While in the Air Force he was privileged to travel to 22 countries all over the globe, manage projects valued at $100 million in both the Middle East and East Asia, oversee a 200 million dollar airspace program, serve as director of a base safety department that was responsible for the safety of 2,500 military and civilian personnel, fly $12 million fighter jets in the best air force in the world, teach over a thousand young pilots from eight different countries to do the same, and lead other instructor pilots under his supervision to teach thousands more. Kyle is grateful for the incredible leadership opportunities and experiences he had in the Air Force at such a young age.

When Kyle retired from the Air Force at age 43, he was completely financially free and had enough passive income from his investments to live off and support a family of four for the rest of his life, even if he didn't have a military pension. Although he is an entrepreneur at heart, during the first part of his life, Kyle took a traditional path to his wealth as an employee. Having a set salary meant he had to focus more on managing his expenses and passionately learning everything he could about investing. As evidence of this passion and a lot of hard work, Kyle has 20 years of experience consistently outperforming the market in his stock and real estate investments as well as other non-traditional investments like venture capital, land development, precious metals, and gas and oil. He also has an inactive Oklahoma real estate license.

As a 25-year veteran of the military, Kyle is living proof that reaching financial freedom doesn't take an incredibly high-paying job. It also doesn't take an inheritance or a trust fund, as his parents gave him nothing financially outside of a great work ethic and a solid foundation of love. What it does take to achieve financial freedom is persistence and a system. Although Kyle never needed to work again, he knew it was his duty to society to continue his passion for instruction and teach others the system he followed.

After instructing young people for over 15 years how to fly high-performance jets in support of freedom, Kyle has pivoted toward teaching people how to take their own Flight To Financial Freedom. He now helps people all over the world learn his secrets for acquiring financial freedom at an early age. The system Flight To Financial Freedom is his program for leading people down their own flight path to the wealth they desire and deserve. Kyle uses his background as a flight instructor in the Air Force to teach people with a system similar to the one the world's premier Air Force has been employing in pilot training for over 60 years. He also incorporates his education in engineering psychology to help people understand their own psychology and the math needed to reach their goals. Kyle's specialty is using analogies and systems to keep learning so straightforward that even a child could excel in it. If you complete

the education, conversations, exercises, and actions in this book, Kyle is confident your child will learn everything they need to be financially literate and accelerating in their own Flight To Financial Freedom and millionaire status. Step into the cockpit and get ready for takeoff!

How to Use this Book

It's been said there is more than one way to skin a cat. The same could be said of teaching your kids about money. Although this may be true, years of investment education experience have proven that certain key concepts are required. We'll discuss these concepts in the next two chapters, titled "Millionaire Mindset" and "Millionaire Actions." We'll reference these concepts throughout the book, so feel free to refer back to them whenever necessary. We'll also point out some areas where we, the authors, share differing opinions on how to skin the cat. Furthermore, we'll explain why these varying opinions occur and what the objectives might be at the heart of these differences so you can make your own decision on which direction you would like to take. In the end, we want the same thing you want: to help your children understand and master money so it can be a conduit toward helping them reach their dreams, rather than an obstacle.

We worked hard to create specific actions, examples, and talking points in this book. It would be easy to read through the entire book in a short period of time. However, this is not our aim and is not the best way to use this book. The intent is that this book be used as a reference to guide your money conversations with your children. You should refer to it throughout your child's life to make sure their money mastery is on track. The book is broken down into chapters which are age-based, as well as sections within each chapter. We would recommend that everyone start by reading chapters 1 through 3. In a perfect world, one would get the book when their child is born and follow along as they grow up. However, many of you who have purchased the book will already have children at varying ages. For you, we would recommend reading through the material for age groups younger than your child. If there is something you have not instructed or accomplished, then make sure you cover it. The goal is to make sure that at some point you have thoroughly educated your child on all the concepts we discuss in the book.

Once you reach a section on a topic you haven't taught your child, we would recommend that you focus on only that section, or maybe a few others at most. Then follow the recommended guidance or talking points in that section. If you don't feel like you understand the material enough to teach it, you may need to work on getting smart on the topic for yourself first. We highly discourage you from taking the easy route and just skipping that section. Teaching your kids about money and investing is one of the most important and enduring things you can teach them, and it will make a huge difference in their life. Very little is taught at school, so if you skip an important topic then nobody else is going to fill in the gaps. You MUST teach it at home.

Go to our website makeyourkidsmillionaires.com for further resources on the topics discussed here, or reference the recommended reading list at the end of this book. Loral and Kyle will also be releasing additional materials to supplement this book soon, so look out for those. The bonus of you having to teach the financial material in this book to your kids is that this will help

cement the concepts for yourself. The best way to ensure you fully understand a concept is to learn it to the level you can teach it. Nobody said parenting would be easy. Parenting a millionaire is even harder.

Once you are confident you understand the topic in the given section, spend several weeks making sure you incorporate the example conversations into your daily life. Whenever possible, try to keep it fun or incorporate games so your child will always associate money and learning about money with positive emotions. Learning is much more effective if it's entertaining and not a drudgery. Try to make sure you bring up each topic at least three times before you move on. Even after moving on, commit to incorporating the new money concept or action you introduced into regular conversations with your child about money. Usually the best teaching examples are not the ones you repeat from a book but the new organic conversations that happen unexpectedly in daily life, which may be inspired by ideas from this book. For example, in the apricot pit example that opened the book, the teaching point Kyle thought he was teaching Bryce quickly pivoted to an entirely different learning point when his brother Bret decided to enter the picture. As a result, it drove the point home even more powerfully, and Bryce remembers the lesson he learned then, even to this day. Remember, the point of this book is to inspire you to learn more about money and to instill that inspiration in your child, so feel free to get creative! Additionally, you should talk to your kids about money at a level higher than what you think they'll understand. With the foundation they will get from the teachings in this book, you'll be amazed at how much they can comprehend. Even if they don't fully get it, when they see the concept again it will make more sense. Remember, the best way to teach is ultimately by example. Let them see you make smart money decisions, and describe how you are making those decisions when they happen. Be willing to explain and let them learn from your failures as well, so they don't have to learn the lesson themselves.

After you feel like your child has a good grasp on the content in the section you have focused on, move on to the next section. Some sections may discuss content you may feel you have already fully covered through your own parenting. Congratulations! If you are confident, then feel free to move on the next section. Just make sure your child is exposed to all the content and has done the recommended actions. The chart at the beginning can be used as a checklist to help you ensure you cover all the topics. If your child is advanced, you may be able to begin introducing concepts from the chapter associated with an age group older than your child. That's great, but be very careful to avoid working too far ahead and turning the learning process into a frustrating chore for your child.

Why is it that society tells us money is more forbidden as a topic than even religion, politics, or sex? We all have to use money in our lives so why not talk about it? Not teaching or talking to your kids about money before they go off into the world is like kicking them out of the nest and hoping they will instinctively fly and not go crashing to the ground. The problem is that humans don't have any more instincts about money than they do about flying. It must be taught. In our model we actually teach people to fly to their financial freedom. The model is time-tested and effective. It's about learning by doing. It's the same model Kyle used to teach pilot trainees how to fly in Air Force Pilot Training at Vance Air Force Base in Oklahoma. First, the trainees would

have to pass through “academics,” or ground school, and learn the academic knowledge needed to fly the airplane. This included an array of information about everything from the aircraft systems to aeronautical engineering concepts, to airspace structures and even basic meteorology. After they demonstrated proficiency in this knowledge, they could move on to the aircraft simulators, which let the students experience the visual and hands-on feel of flying but in a safe environment where their mistakes were not fatal. After proving their effectiveness in a simulator, they were finally able to physically get in the jet and fly. Even when the students did begin to fly, the instructor had his own set of flight controls with the ability to take over and override them when necessary. Slowly but surely the students were permitted to fly more and more of the time until finally they were deemed proficient enough to fly solo. This model is the one we recommend for teaching your child about money.

Throughout the book we slowly walk your child through the ground school and simulation of adult aspects of money. In later years you will begin letting your child assume their money controls more and more. All the while you will still be able to “take over the controls” if necessary. By the time they leave the nest they will be ready to fly solo on their own Flight To Financial Freedom. Doesn’t this make a lot more sense than just pushing them out of the nest with no training and hoping they get lucky?

Before proceeding, we’d like to make one final point of emphasis. True learning requires integrating the concepts from this book into your lifestyle and everyday life over the long term. No matter how quickly you read this book or how aggressively you teach the concepts, you can’t turn your child into a millionaire in a week. It takes time. In his bestselling book titled *First Things First*, Stephen Covey refers to “the law of the farm.” He describes that true change and learning can’t be rushed. Covey explains that even though you could cram knowledge in the short term, it won’t make a life-changing and lasting impact unless you abide by the law of the farm. In his description of the law of the farm he relates how silly it would be to think you could forget to plant the crops in the spring, do nothing all summer, then think you could quickly cram in the cultivating, planting, and watering in just one day and hope to have a bountiful harvest the next day. It just doesn’t work that way. As Kyle and Loral both grew up working on farms, they can relate. You should talk to your child about money all the time, not just via occasional lectures. Show and explain to them how money is a part of everyday life, and let them know it’s not a forbidden topic. Take the time now and for the rest of their childhood to slowly but surely sow and cultivate your child’s knowledge of money, and they will indeed yield a bountiful harvest that will be capable of feeding them for a lifetime.

Again, further content can be found at makeyourkidsmillionaires.com.

Chapter 2 – Millionaire Mindset

"By changing the way you feel about money,
the amount of money in your life will change.
The better you feel about money,
the more money you attract to yourself."
Acclaimed documentary film, The Secret

In this chapter and the next one we will be teaching you the parent as much as your child. In order to get you to understand our perspective it's important that we get you thinking like a millionaire first. Then we can be on the same page toward getting your child to have a millionaire mindset. Some of the concepts we will teach in these chapters may be foreign or uncomfortable to you. We encourage you to approach these concepts with an open mind. Try not to read them and immediately question their validity. Generally, when people digest information either by hearing or reading it, they listen in a judgmental mode of either affirming "Yes, I believe that" or "No, I don't believe that." However, the only way we can truly learn is to consider the fact that there may be other perspectives or ways of doing things. In order to open our mind to learning these new perspectives we must try to avoid listening and thinking "That isn't true" every time we hear something that doesn't fit our paradigm of beliefs. Instead, we would challenge you to think "What if that were true?" Doing so will give you a much more open mind to learning. In other words, as Kyle likes to say, "Try to be a sponge and not a filter." Welcome to what, for many of you, may be a whole new way of thinking about money. We call it the millionaire mindset.

Financial Freedom Over Retirement

Congratulations on committing to making your child a millionaire and financially free. But what do those things even mean? The millionaire part seems pretty easy to define if you are American – 1 million US dollars. But what if you live in South Korea, as Kyle and his family did for a year? At the time of this writing, the South Korean Won to US dollar conversion rate stands at over 1,000 Won to equal 1 dollar. That means with only 1,000 US dollars you have over 1 million Won! Some of your kids are Won millionaires already! Don't worry, that's not how we plan on making your child a millionaire. With the guidance you learn in this book and the action you will help inspire, your child should easily be able to be worth $1 million in US dollars in their lifetime, if not at a relatively young age. The problem is that inflation will make $1,000,000 have much less purchasing power in the future that it does now. Who is to say what it will take for your child to be truly wealthy like we hope they will be? That's why, even though the millionaire term is catchier and more recognizable, we feel a much more important goal is to make your child financially free. But what does financial freedom look like? How do we

define it? Does it mean we are retired? According to Merriam-Webster, a few definitions of retire are "to withdraw from action" or "to go to bed." A synonym is "to recede." None of those things sound like much of a goal we would want to aspire to reach at any age, much less an early one. So, retirement isn't the answer. If you do an internet search for the term financial freedom you will get various definitions ranging from "able to make life decisions without being stressed about money" or "having enough money to do what you really want in life." The problem with these definitions is they are not very measurable. We'll talk much more about goal setting in a future chapter, but one of the rules is that goals should be measurable. If they aren't measurable, how do we know we've achieved them? The answer is as easy as PIE. Kyle's belief is that financial freedom centers around creating passive income. Passive income is just a fancy way of saying money that comes in automatically, with little to no effort required to achieve it. Having financial freedom means that you have enough passive income to cover all your future expenses. With his mathematical background and military affinity for acronyms, Kyle even created an easy-to-remember formula. Financial Freedom is PI≥E. In other words, we reach Financial Freedom when our passive income is greater than or equal to (represented by "**≥**" sign) our expenses. Here's the formula:

Passive Income ≥ Expenses

If we replace Passive Income with "PI" and Expenses with "E" we get:

Financial Freedom=
PI ≥ E

We don't propose to know what your child's expenses will be later in life but as they grow older and wiser, they should be able to figure it out. We'll even show them in this book how to begin forecasting their expenses at an early age so they will be practiced when they are ready to "Pass the PI≥E" as Kyle likes to put it. Loral has another term that describes when you reach your financial goals. She calls it your Freedom Day. The beautiful thing about reaching PI≥E or your Freedom Day using this definition is that it means you never have to work again. That's not to say you wouldn't stay active and do something. We aren't retiring and going to bed after all. It just means you have the freedom to do whatever you want. You no longer need to worry about working to meet your needs – your income comes passively. No longer would you have to feel the confusion, uncertainty, frustration, or fear (CUFF) about money. You could get "off the CUFF" as Kyle likes to say. Now imagine you could give your child the ultimate gift of that freedom and help them eliminate stress about money forever. That's what Financial Freedom can provide.

The Simplest Way to Achieve Financial Freedom

English philosopher William Ockham stated in his Law of Parsimony that "Entities should not be multiplied without necessity." This has often been paraphrased as "The simplest solution is most likely the right one." The next formula we are about to provide is so incredibly simple that we risk offending you by even talking about it. However, as Ockham knew, simple things can be

elegant. Also, you'll hopefully be teaching your child this formula so it's best that it be simple enough for them to understand at an early age. Doing so will create the mindset they need, and provide the foundation for building wealth. In fact, even though Loral and Kyle differ on some of their opinions about wealth, it's one mindset they can easily agree on. The most basic equation for how to generate wealth is that you must first keep your income greater than your expenses. This can be depicted with the equation where I=income and E=expenses:

Income > Expenses
or
I > E

If you get this backwards and "E" is greater than "I", you deplete your wealth and eventually go into debt. If "I" is greater than "E", you can invest the difference to grow your wealth. Eventually these investments can provide you passive income (PI), which allows you to achieve financial freedom, or PI≥E. We warned you it would be simple. Yet despite its simplicity, many people around the world just can't seem to follow it. They consistently spend more than they make, and go further and further into debt. We like to say it is simple, but it isn't easy. To have a millionaire mindset and build true wealth you must ensure that you and your child follow this formula unfailingly. In fact, the quickest way to financial freedom is to make the income not just greater than the expenses, but much greater. Here's where the elegance comes in, and where some of the differences between Loral and Kyle emerge. There are two ways to make the income much greater than the expenses. It makes sense because the equation has two sides. The first is to raise the income to a very high level. The second is to lower the expenses to a very low level. Either way works, and both require commitment. While Kyle was building his wealth, he tended to focus on lowering his expenses. Loral focused more on raising her income. In a perfect world you could Pass the PI≥E or reach your Freedom Day the quickest by doing both simultaneously. In fact, both Loral and Kyle endorse doing that as much as possible. It should be obvious that if your expenses go up just as much as your income does then you aren't making any progress. Likewise, all the expense reductions in the world won't help you if you don't have some income.

Your child's individual situation may make one side of the equation easier to work on than the other. Kyle, for example, chose early in his life to commit to being an Air Force pilot. As a pilot he worked 12-hour days most of his 20-year career, sometimes including weekends, and was at times deployed. This left him very little time to stoke his entrepreneurial fire and increase his income. As a military member, he also never had a huge salary. Despite this, he was able to acquire and renovate several rental properties and a large portfolio of stocks that grew in value and generated some income. However, he wasn't able to use a business to really ramp up his income until the last few years. As a result, he increased his assets and wealth mostly by focusing on lowering his expenses, especially while he was young. By being frugal, he was able to invest a very large percentage of his income so that, by age 43, he had enough passive income being generated by his investments that he didn't need to work at all. As a result, although Kyle is now a business owner, he emphasizes the E (expenses) side of the equation in his teaching a bit more than Loral.

Loral, on the other hand, has had her own business for 30 years. She did plenty of travelling and put in lots of long hours of her own. However, because she was a business owner, she was able to use her knowledge of money to grow that business and ramp up her income significantly at a young age. Although she still is careful about her spending and minds her cash flow statements, she didn't have to be as frugal as Kyle did to keep her wealth growing and accumulating assets. Thus, her teaching tends to emphasize the I (income) side of the equation a bit more than Kyle.

Neither could have made it to financial freedom without being mindful of both income and expenses, but their different paths prove that many routes can be followed to reach wealth. Both have learned valuable lessons along their journey to their Freedom Day/ PI≥E and have chosen to give back by passing these lessons on to the world. Fortunately for you, the reader, you'll get to learn from both their perspectives, and can use those lessons to teach your children how to find their own path to millionaire status and financial freedom.

Entrepreneur Mindset

Another common theme in this book is the value of teaching your kids the mindset of an entrepreneur. Even though Loral and Kyle both spent time as employees (Kyle much longer), they both feel strongly that it's critical to teach kids about being an entrepreneur for 3 key reasons. First, being a business owner means your income is totally uncapped. It's one of the few income-producing endeavors where there is no limit to how much you can make if you work hard (and smart) enough to grow your business. In fact, the ability to use entrepreneurism to raise one's economic standing is one of the pivotal advantages of capitalistic economies. As Loral often says, "Christopher Columbus didn't come to America so he could get a job." We'll discuss this more in a moment but suffice it to say, the benefits of having your own business are numerous. Second, being an entrepreneur allows you to create additional income even if you already have employment in a job (sometimes referred to as "W-2 income" due to the IRS Form W-2 given to employees). Many huge companies today were started as "side hustles." For example, Steve Jobs was working at Atari when he built the first Apple computer. Twitter, Craigslist, and Khan Academy are just a few of the other companies that were started as side hustles to their founders' jobs. Even if you don't want to grow your business to be the next Apple, creating a side hustle can allow you to pursue and create income from your passion while still having the consistent and reliable income of a job. Finally, even if your child never aspires to become an entrepreneur, understanding the mindset of businesses and how they work is a vital skill. People who understand business concepts will often rise more quickly to the top of organizations because they understand how to make their company more money. The leadership and innovative thinking that successful entrepreneurs possess are the same skillsets sought after for high-paying executive positions. Additionally, experience and knowledge as an entrepreneur makes people better investors. Even though Kyle, as an Air Force officer and pilot, was an employee for over 20 years, he credits his passion and knowledge of businesses with helping him achieve market-beating investment returns. Most investing, whether it be real estate, venture capital, or stock investing, requires a good knowledge of business. After all, stocks are merely small stakes in the ownership of a business. If you can understand the fundamentals of business, your stock investing prowess will be much better.

Earlier we mentioned the advantages of being an entrepreneur. We like to focus on eight key differences between how wealthy entrepreneurs deal with money versus how employees do. The chart below is a good summary of these differences.

	Employee	**Business owner**
1	Boss controls your salary	You control your salary
2	Boss controls your hours	You control your hours
3	Expenses are paid after tax	Expenses are paid pre-tax
4	Take vacations	Take business trips
5	401K	Solo 401K
6	Debt & credit cards = bad	Debt & credit cards = critical
7	Retirement	Financial Freedom/Freedom Day
8	Fixed tax filing date	Variable year-end filing date

1. As mentioned earlier, the biggest advantage of being a business owner is that your income is virtually uncapped. If you work hard and do well in your business it will translate directly into more income – no blaming it on your boss or coworkers if you don't make enough money. You can also turn up the spigot on sales if you decide you need more income and are willing to invest the capital and time.

2. The principal reason most people start their own business is because they want the freedom to control what they do for a living. However, the freedom provided by being a business owner goes beyond that. While many business owners put in more overall hours than their employee counterparts, the beauty is in the freedom of WHEN to work. Want to take a trip or spend more time with your kids? You have the power.

3. Owning your own business allows you to pay expenses related to your business before tax. In other words, if your business needs a new tool you can buy it with pre-tax dollars and then expense/deduct it from your business profits, which will actually lower your tax bill.

4. One of the many expenses you can deduct as an entrepreneur is the cost of business trips. Savvy entrepreneurs don't take vacations. They take business trips instead. Want to go to Florida? As long as you have a legitimate business reason to go there, and follow IRS guidelines, you can expense the trip. You obviously still have to do actual business while you are there but you don't have to do business ALL day. As always, make sure to get guidance from your accountant to make sure your trip qualifies.

5. Most people are familiar with a 401K. A 401K is a work-related retirement account in which your employer allows you to put some of your salary ($19,500 for 2020) directly into a tax-advantaged investment account. In many cases the employer

will match a percentage of the employee's contribution. A Solo 401K is very similar except that it is for small business owners with no full-time employees. As the business owner, you get to choose how much you match. Instead of matching only a few thousand, you can actually choose to max out the employer contribution ($37,500 for 2020). This means that you could contribute up to $57,000 into a tax-advantaged account in one year. This is a huge benefit.

6. Another difference between business owners and employees is that business owners understand that debt isn't necessarily bad. In fact, using other people's money to help you make more money is critical, and is how you can grow your business at a much greater rate than could be possible if you had to fund all the capital for the business out of your own accounts.

7. Business owners, and the wealthy in general, also think about the term *retirement* in different ways. In a 1905 valedictory address to Johns Hopkins Hospital, the physician William Osler expressed the commonly held viewpoint of the early 1900s regarding retirement. He stated that after age sixty the average worker was useless and should be put out to pasture. Though this view has changed some in recent years, it is still common for workers to be "pushed out" after age 65. As a business owner, you can be as active as you want for as long as you want. You can also choose to hire employees and take a passive role whenever you want, especially if you've reached financial freedom. Thus, you can still continue to enjoy the income of the business.

8. As an employee, your tax filing date is limited to the calendar year. This limits your flexibility on when you can take deductions and use expenses. As a business owner, however, you can adjust your filing dates of your business or businesses. This allows you to potentially pull forward or push back expenses or income into a different personal filing year so that you can maximize your tax savings.

Investor Mindset – Compound Interest

It's important to get your child to think with the mindset of an investor. An investor is always thinking about how their wealth can compound and grow over time. One of Kyle's favorite financial lessons that he enjoys teaching students involves an example he learned in 2nd grade from one of his most influential teachers. It starts with a simple quiz.

The Rich Neighbor Example:

- *Your rich neighbor offers you a 1-year contract to take care of his yard each week. He offers 2 compensation choices:*

1. $20,000 weekly
2. a single penny the first week with your salary doubled weekly

This particular contract is binding for the entire year. You must tend to his yard each week for the entire year and he must pay you for the entire year. Which would you choose? Before moving on, take a moment to review the problem and decide.

Now let's review the math to figure out which option would produce the most income. The chart below shows the math for the first 13 weeks. Note that, for the column depicting the doubling penny option, the numbers don't double every week. This is because the numbers listed are the cumulative amount earned by that week. For example, in week 2 you earned $.02 but that added with your week 1 income of $.01 equals a cumulative salary of $.03. Through week 13 (1/4th of the year) those of you who chose the first option of $20,000 per week are probably feeling pretty confident.

Week	Option 1 - $20K per week	Option 2 - one penny doubled per week
1	$20,000	$0.01
2	$40,000	$0.03
3	$60,000	$0.07
4	$80,000	$0.15
5	$100,000	$0.31
6	$120,000	$0.63
7	$140,000	$1.27
8	$160,000	$2.55
9	$180,000	$5.11
10	$200,000	$10.23
11	$220,000	$20.47
12	$240,000	$40.95
13	$260,000	$81.91

Let's see what the next 13 weeks look like. In the chart below you'll see that after 26 weeks, the game has changed considerably. In fact, on week 26 the option of choosing the penny the first week (doubling weekly) has now surpassed the income you would make by choosing $20,000 per week. Incredible, right? The power of compound interest wins again. If you chose option 2 and accepted only one penny for the first week, give yourself a hand – even if you only chose it because it seemed like a trick because option 1 seemed to be obviously better. But we're not done compounding yet. We still have 26 more weeks before this contract is complete.

Week	Option 1 - $20K per week	Option 2 - one penny doubled per week
14	$280,000	$163.83
15	$300,000	$327.67
16	$320,000	$655.35
17	$340,000	$1,310.71
18	$360,000	$2,621.43
19	$380,000	$5,242.87
20	$400,000	$10,485.75
21	$420,000	$20,971.51
22	$440,000	$41,943.03
23	$460,000	$83,886.07
24	$480,000	$167,772.15
25	$500,000	$335,544.31
26	$520,000	$671,088.63

So how much higher will the compounding option grow? What will be the total income at the conclusion of the entire year? Can you guess? Before proceeding, take a moment to look at the numbers above and venture a guess.

Now that you've taken a stab at guessing the total income for the entire year for the option of choosing a mere penny in salary for the first week, doubling every week thereafter, let's look on the next page at the results for the final 26 weeks.

Week	Option 1 - $20K per week	Option 2 - one penny doubled per week
27	$540,000	$1,342,177.27
28	$560,000	$2,684,354.55
29	$580,000	$5,368,709.11
30	$600,000	$10,737,418.23
31	$620,000	$21,474,836.47
32	$640,000	$42,949,672.95
33	$660,000	$85,899,345.91
34	$680,000	$171,798,691.83
35	$700,000	$343,597,383.67
36	$720,000	$687,194,767.35
37	$740,000	$1,374,389,534.71
38	$760,000	$2,748,779,069.43
39	$780,000	$5,497,558,138.87
40	$800,000	$10,995,116,277.75
41	$820,000	$21,990,232,555.51
42	$840,000	$43,980,465,111.03
43	$860,000	$87,960,930,222.07
44	$880,000	$175,921,860,444.15
45	$900,000	$351,843,720,888.31
46	$920,000	$703,687,441,776.63
47	$940,000	$1,407,374,883,553.27
48	$960,000	$2,814,749,767,106.55
49	$980,000	$5,629,499,534,213.11
50	$1,000,000	$11,258,999,068,426.20
51	$1,020,000	$22,517,998,136,852.50
52	$1,040,000	$45,035,996,273,705.00

If you couldn't quite make out that total for the doubling option due to all the numbers and commas it is $45,035,996,273,705, otherwise known as over $45 TRILLION! That's not a typo. We said trillion, not million or even billion. Run the math through your own spreadsheet if you don't believe it. It's true. We just gave you a trillion-dollar idea! Now you just need to find somebody gullible enough (and rich enough) to agree to pay you 1 penny the first week, doubled every week for a year. If you find that person, we'll accept a meager 1% royalty!

What can we learn from this exercise? The first lesson is the incredible power of compound interest. It's no wonder that Albert Einstein stated, "Compound interest is the eighth wonder of the world. He who understands it, earns it…he who doesn't…pays it. Compound interest is the most powerful force in the universe." When you guessed what you thought the total would be for option 2 in the example, what number did you guess? In his years teaching this example, Kyle has never had a single person even guess as high as a trillion, even after seeing the first 26 weeks. Most guess in the millions. This leads us to the second point of the exercise. Our brains aren't wired for calculating exponential growth. Until we see an example like this one, we just don't truly appreciate it. But exponential growth is exactly what can happen with your investments or your lifestyle debt if you let it. That's why Einstein said you either earn interest if you understand it or you pay it if you don't. Wouldn't you like to be on the side of those who understand it?

In the example above, your income doubled every week. You'll be hard pressed to find an investment that does that. As a result, you obviously won't see the same incredible growth from this example. But that doesn't mean your investment returns can't still be incredible in their own right. Let's look at a few more realistic examples of compound interest, and some actual tools you can use to estimate compound interest in your daily life. The point of these tools is to help you make more informed decisions about what to do with your money.

The Rule of 72

The rule of 72 is a commonly used tool to approximate the number of years it would take for an investment to double, given a known investment return. The formula is this:

72/(investment return %) = years to double

Here's an example. The historical return of the US stock market is approximately 10%. If we plug this number into the equation, we can see that, historically speaking (historical returns do not guarantee future returns), it should take about 7.2 years to double our money. For this reason, 7 years is commonly used as an estimate of how long it should take to double the value of your investment in the stock market, sometimes referred to as an investment double. The problem with the rule of 72 or even the 7-year approximation is that, over a long investment time horizon (like for your kids), it still takes some mental math to figure out how many doubles you can expect. A better tool was required.

The 10X Rule

We introduce to you the 10X Rule. To be fair this rule was mostly created by Kyle's son Bryce! Kyle and Bryce were on the airplane coming back from an investment event that Loral hosted, at which Kyle had been a guest instructor. Kyle was teaching Bryce about compounding interest and they were going over some spreadsheet numbers which depicted the exponential growth at different investment percentages. As the two looked over the spreadsheet numbers, Bryce noticed some patterns in the numbers. He found that with 10% returns, it takes just under 25

years for approximately a 10X return. In other words, if you can assume 10% returns, in 25 years you can simply add a zero to the end to estimate what the investment will become. Let's look at an example:

At 10% returns, in 25 years the $6,000 in an IRA becomes $60,000

Note that we simply added a zero to the $6,000 to reach $60,000. The other interesting part of the math is that the years required to 10X are proportional to the return percentage. In other words, if you can double your investment return to 20%, it will take only approximately 12.5 years to get a 10X. Conversely, if you can achieve only 5% returns on your money then it will take twice as long, or 50 years, to get your 10X. Also, since your money 10X every 25 years (at 10% returns) it stands to reason that an additional 25 years would also result in an additional 10X, making a total of 100X (adding two zeros) if you kept the single investment earning 10% for 50 years. All of these calculations are only approximately correct but they get you close enough to have a better sense of how your money can compound than you could guess without them.

The 100X Rule

Though the 10X rule is great for calculating a one-time investment, it isn't very helpful for figuring out future values when an investor contributes annual contributions (as we highly recommend). As Kyle and Bryce reviewed more spreadsheets and looked more closely at the numbers, they discovered an interesting phenomenon. They could also approximate future value for annual contributions by using an equally easy calculation, the 100X Rule. The 100X Rule states that with 10% investment returns on annual contributions, it will take 25 years to achieve 100X returns. In other words, after 25 years you can approximate the future value (at 10% returns) by adding two zeros to the end. For example:

At 10% returns, in 25 years, $6,000 in annual contributions to an IRA becomes $600,000

As you can see, although not as eye-watering as the rich neighbor compound interest example, we've still been able to build a healthy nest egg through the magic of compound interest. Unfortunately, because of the annual contribution value, unlike the 10X rule, the 100X Rule doesn't abide by the same math which allows different investment return percentages to be easily calculated. Consequently, it's best used for approximating 10% returns. However, it's still quite useful since 10% is the standard baseline investment return that is often used when comparing alternative investments. In the IRA example above, we've used compound interest and annual IRA contribution to reach over halfway to our goal of making our kid a millionaire. How do we reach the rest of the way?

The 1,000X Rule

You guessed it. We would now like to introduce the 1,000X Rule. Kyle and Bryce wanted to see what happened if Bryce could really build his money for the long term, so they invented the

1,000X Rule. The 1,000X Rule is nearly identical to the 100X rule; it just takes more time. The 1,000X Rule states that with 10% investment returns, it will take approximately 50 years (closer to 48) to achieve 1,000X returns. In other words, after about 50 years you can approximate the future value of annual contributions (at 10% returns) by adding three zeros to the end. Let's look again at our IRA example:

At 10% returns, in 50 years, $6,000 in annual contributions to an IRA becomes $6,000,000

We've finally eclipsed our 1 million dollar goal! Even if you had only put $1,000 per year you would still eclipse 1 million. Although 50 years may seem like a long time it isn't that long if you get your child started investing in their IRA right away (as recommended in Chapter 4). Also, if your child follows the tips in this book, they should eventually be able to put away much more than $6,000 and achieve higher returns than 10%. This would allow them to reach 1 million dollars much quicker!

As we said before, the purpose of the 10X, 100X, and 1,000X Rules is not to predict exact future values of investments. Since we can't predict with certainty what our investment returns will be, they will only give you approximations. Instead, the point is to guide spending and investment decisions. For instance, let's suppose your 16-year-old child had earned some cash and is faced with a decision whether to buy a car that is $12,000 or a less expensive one that is only $7,000. Using the 10X rule, you could quickly calculate the future value of the $5,000 they could save by buying the less expensive car would be approximately $50,000 in 25 years when they were 41 – potentially a down payment on a house. Alternatively, in 50 years when they were 66 and at retirement age that same choice alone (choosing the less expensive car) could provide them $500,000 in retirement. Children don't always make forward-thinking decisions in their youth and they may still choose the expensive car, but at least they would be making an informed decision with full understanding of what they would be giving up in the future by making that purchase today.

Investor Mindset – Tax-advantaged Accounts

Although understanding the growth of your investments through compound interest is probably the most important factor in the investor mindset, a close second would be understanding how to keep as much of that growth as possible. One of the best ways to keep more of your investment money is through paying less taxes via tax-advantaged accounts.

So just what is a tax-advantaged account? For the purposes of this discussion a tax-advantaged account is an account that is exempt from taxes for contributions or withdrawals or both. Some of the most popular tax-advantage accounts that we would recommend include: 529 College savings plan, Coverdell Education Savings Account, Individual Retirement Account (IRA), Roth IRA, and 401K. An exhaustive explanation of each of these accounts goes beyond the scope of this book and would be, well… exhausting. The internet has plenty of resources for that. We will, however, address several of these types of accounts in the Chapter 4 sections titled "Set Up a Tax-advantaged Education Account" and "Open a Roth IRA For Your Child." We also feel

it's important to discuss at length the general concept of tax-advantaged accounts and how they work. The tax-advantaged accounts fall into three basic categories: tax-deferred, tax-exempt, or completely tax free.

Tax-deferred accounts include traditional IRAs, traditional 401Ks, traditional solo 401Ks, traditional SEP IRAs, and the Thrift Savings Plan (TSP). These accounts are often considered "traditional" because they were the only type of widely used tax-advantaged account until the Taxpayer Relief Act of 1997, which established the Roth IRA. These accounts provide an immediate tax savings in the year of the contribution, but future withdrawals will be taxed at your ordinary income tax rate. In other words, they are taxed on the back end but not the front end. For example, if your income for the current year was $50,000 but you contributed $5,000 into a traditional IRA, your taxable income for that year would be only $45,000. This would effectively lower your current tax bill, but you would still have to pay taxes on your withdrawals. It's also worth pointing out that tax-deferred accounts pay no annual taxes on interest, dividends, or capital gains. As the name implies, all these taxes are deferred until the end. For regular accounts, annual taxes on these factors serve to erode your investment balance and reduce the money available to compound each year. Depending on what you are invested in, this could lead tax-advantaged accounts to grow at a much faster rate than non-tax-advantaged, regular accounts. Multiple factors go into deciding whether traditional accounts are best for you but, in general, contributing to traditional types of accounts is preferable when you think your tax rate in retirement will be less than your current tax rate.

The second type of tax-advantaged account is tax-exempt accounts. Some of the more commonly used tax-exempt accounts include Roth IRAs, Roth 401Ks, Roth Solo 401Ks, 529 College Savings Plans, and Coverdell Education Savings Accounts. Tax-exempt accounts aren't really completely exempt of taxes because they provide no immediate tax benefits. However, the withdrawals are exempt from taxes. Thus, they are taxed on the front end but not on the back end. For example, if your income for the current year was $50,000 but you contributed $5,000 into a Roth IRA, your taxable income for that year would still be $50,000. However, you would pay no taxes on the withdrawal of that money. Like tax-deferred accounts, tax-exempt accounts also have the advantage of avoiding annual taxes on interest, dividends, and capital gains. This boosts their growth rates in a similar way. In general, if you think your tax rate will be higher in retirement than it is when you make the contribution you would probably be best served with a tax-exempt (sometimes called a Roth-style, after the Roth IRA) account.

The final type of tax-advantaged account is the fully tax-free account. This account is free of taxation on the front end and the back end – for contributions and withdrawals. Since the government generally likes to take their share on one side or the other, this type of account is very rare and often has limitations. One example is the Health Savings Account (HSA). Money is contributed to an HSA before taxes, just like a tax-deferred account. This money then grows without the requirement to pay tax on the earnings. Additionally, as long as the HSA is used to pay for qualified medical expenses, withdrawals aren't taxed. It's the best of both worlds. HSAs do have special requirements, including having a high-deductible health insurance plan, so you'll need to do your research and talk to your accountant to see if you qualify. If you do, and

you anticipate having medical bills that aren't covered by your insurance, it can be a great way to legally pay less in taxes. Another type of account that can be completely tax-free is the Flexible Spending Account (FSA). There are health, dependent care, and limited purpose FSAs. These accounts must be set up by your employer, and allow you to set aside pre-tax dollars for purchases related to one of the three categories associated with your FSA. Similar to an HSA, the money is not taxed upon withdrawal. However, unlike HSAs, FSAs must be used in the same year they are contributed, meaning they can't compound over time like the HSA can. This "use it or lose it" status means you have to carefully forecast your expenditures. Also, they may disqualify you from using an HSA or from taking certain tax credits, like in the case of the Dependent Care FSA. As always, seek counsel from a tax professional. We should also mention that, depending on your income level, some tax-deferred or tax-exempt accounts may end up being tax-free or at least close to it. If your income is very low (like for most kids), you may be effectively paying zero tax or nearly so. Therefore, even contributions to a tax-exempt account wouldn't really be getting taxed on the front end – making this an obvious scenario where choosing a tax-exempt account would be best. Likewise, if your income when you make your withdrawals is very low, then your effective tax rate may be nearly zero then as well. Also, some states give exemptions or partial exemptions to contributions to even tax-exempt accounts, reducing the tax even on the front end for these accounts.

The problem with the non-tax-advantaged account, or regular account, is that it doesn't have the advantages of either of the previously listed accounts. You end up paying tax on your investment twice. First, you pay tax on your income. Therefore, anything left over that you can commit to a regular investment account is with after-tax dollars. Second, in a regular account, you also pay tax on any withdrawals from the account. This double taxation can really add up.

Let's look at a few examples. For this example, assume you are 22 years old and, like the average American, are in the 12% tax bracket. You saved $6,000 before taxes, but after paying taxes at 12% on that $6,000 you are left with approximately $5,357. If you were to invest that $5,357 every year for the next 45 years and achieve 10% returns (approximately the historical stock market average) you would have $4,241,648. Congratulations! You're a multi-millionaire! It really is that easy. But you don't get to keep it all. Your filing status, other income, and the type of investment income you have will determine your tax rate. For example, interest income and ordinary dividends would be taxed at your ordinary income, while capital gains and qualified dividends are taxed at a lower capital gains tax rate. For this example, we'll assume you chose to split up your withdrawal over the next 15 years and pay about 15% in primarily capital gains tax, with 2020 tax rates. This means your total usable account value would be reduced by 15% to only $3,605,400. Okay, that's still a pretty big number and you are still a multi-millionaire, but you are paying over $600K in taxes.

Contrast the previous example with what your money would have grown to in a tax-advantaged account. If you had put that same investment in a traditional IRA, you wouldn't have had to pay any taxes up front so you could invest the entire $6,000 every year. This investment would have grown to $4,750,772. However, the downside of the traditional IRA is that withdrawals are taxed at your ordinary income tax rate versus the capital gains tax rate, which is generally

lower. If we assumed again that we took withdrawals over the next 15 years and we had little other income in those years, then the effective tax rate would be more applicable and would be approximately 20%, given 2020 tax brackets. Thus, after removal of the investment and paying taxes on the back end (but not the front end) you would be left with $3,800,618. We end up paying even more taxes. Despite this, even though we paid a higher tax rate on the back end for the traditional IRA than the standard account, the savings from the 12% front-end taxes resulted in you having nearly an additional $200K. This doesn't even take into consideration the annual taxes that would have eroded the standard account even more and made the disparity larger. But a traditional IRA wouldn't have been the best type of account in this tax situation because you would still have to pay the tax rate on the back end which was higher than the front end.

The best type of account for this example by far would have been the Roth IRA. Because the Roth IRA has no tax break on the front end, we would still only contribute $5,357 per year, just like the non-tax-advantaged account. However, because there are no taxes on the back end, you would finish with a net amount of $4,241,648 (same as the regular account pre-tax). By avoiding the 15% capital gains tax you end up netting $636,248 more than the regular account. Again, this savings would likely be even larger by avoiding the annual taxes you would have to pay on the regular account. By avoiding the 20% income tax rate you would net $441,030 more than even the traditional IRA. By saving over $600K versus a non-tax-advantaged account, you have significantly boosted your net worth and spending power. What could you do with $600K more dollars? These numbers are depicted in the table and chart below. As can be seen in the chart, the effects become even more pronounced over longer time periods.

Regular Account	Tax-deferred Account	Tax-exempt Account
$3,605,400	$3,800,618	$4,241,648

Note that the previous example used a relatively small increase in your tax rate over the course of the 40 years. Since this book is for teaching your kids, the tax rate increase for them will likely be much larger. In almost all cases, young people would best be served by investing their money in a Roth IRA. Given that many people pay little to zero actual tax when they are young, and we intend to help our children have a higher income in retirement than most people, the numbers would have been even more pronounced in favor of the Roth IRA. Here's a table and chart for the same example, but with the child starting at age 12 with a 10% initial tax bracket and withdrawing their money at age 70 with a 28% income tax or 20% capital gains tax rate. The blue regular account line can't be seen because it is hidden and nearly the same as the orange line. If you follow our advice in Chapter 4, your child will start even sooner than age 12. Note how soon they pass the millionaire status with only $6,000 or less in annual contributions. Now do you see why we feel making your child a millionaire is so realistic?

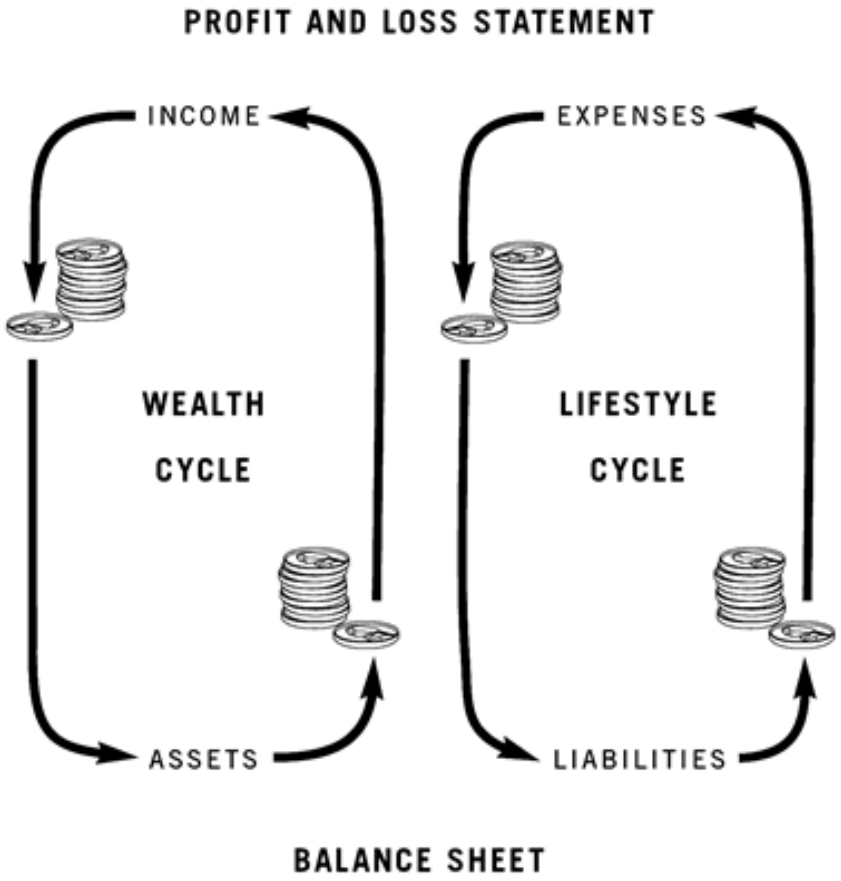
Regular Account	Tax-deferred Account	Tax-exempt Account
$11,819,749	$11,914,624	$14,774,686

If you are an adult and trying to decide which account to choose, be aware that if you are in your peak earning years and expect to be in a lower tax bracket in retirement, the traditional IRA might be better suited for you. Every person's situation is different. We would recommend making some assumptions about your current and anticipated future tax rates and throwing them into a spreadsheet or online calculator. If you do an internet search for "Roth vs traditional IRA calculator" you will find many tools that can do the math for you. If your head is spinning over all the numbers, don't get discouraged. Look at the scale of the numbers. Even the worst scenario made you a multi-millionaire. The most important thing is to start investing right now and get that money compounding and working for you.

Lifestyle Cycle Versus Wealth Cycle

The next key theme that is discussed throughout the book is the concept of Lifestyle Cycle vs Wealth Cycle. Loral discussed these concepts in depth in her first New York Times Bestseller *The Millionaire Maker*. She then dedicated a whole book to discussing the Wealth Cycle, titled *The Millionaire Maker's Guide To Wealth Cycle Investing*. If we handed you $10,000 right now and you did not understand how to put it into the Wealth Cycle Process, then you would be no closer to generating wealth than you were before you had it. That's because most people grew up living in a Lifestyle Cycle. In the Lifestyle Cycle, wealth can never be built because money that comes in goes right out again to support perishable, one-time-use consumption. And in many Lifestyle Cycles, money is spent, thanks to credit cards, even before and at a greater rate than it's earned. This would be reflected by an equation where the I < E – never a good thing.

Conversely, in the Wealth Cycle, money coming in supports assets – that is, money-making resources that will generate cash flow and create wealth. Note the differences between the Wealth Cycle on the left and the Lifestyle Cycle on the right in the picture below. An income statement (to be discussed more later) would show primarily income for those in the Wealth Cycle but expenses for those in the Lifestyle Cycle. The balance sheet (also to be discussed later) would show primarily assets in the Wealth Cycle but liabilities in the Lifestyle Cycle. Also note the flow of money in the chart below. In the Wealth Cycle income buys more assets, which generate more income to buy more assets. In the Lifestyle Cycle expenses result in liabilities, which create more expenses and liabilities. If you aren't following the terminology, it's quite possible that you are living in the Lifestyle Cycle. We'll explain all these concepts in this book so you can ensure you and your child can stay out of the Lifestyle Cycle and in the Wealth Cycle. They are vicious cycles that can work either for you or against you.



The difference between having wealth and not having wealth is the difference between living in a Lifestyle Cycle and living in a Wealth Cycle. As crazy as it sounds, a person earning $14,000 a year who understands the concept of a Wealth Cycle has a much better chance of building and sustaining wealth than a person who makes $1 million a year and lives in a Lifestyle Cycle. Thus, although it would be nice of us to hand you $10,000, it's better if we teach you about the Wealth Cycle Process. It's better if we teach you to fish. The Wealth Cycle Process shows you

how to continually make money by increasing your assets, thus creating a Cash Machine to feed those assets, and steadily building your passive income so you can expand your wealth. Now that you understand the Wealth Cycle mindset, we'll explain in the next chapter the millionaire actions you can take to energize your child's wealth cycle.

Conditioning

The fundamental premise of the millionaire mindset is that you are already a millionaire; you just haven't attained it yet. The problem is that it's natural to get caught up in your subconscious programming that tells you that you aren't a millionaire. It's important to understand that any limit to your thinking exists only in the paradigms ingrained in you, not in your ability to create a big vision. We encourage you to establish a vision that's unencumbered by your past paradigms. Let's talk about paradigms. How would you finish the phrase "Money is …"? Much like our views about people, food, or health, our beliefs about money came from our parents, our teachers, and other adults in our lives. These adults' beliefs were influenced by the circumstances through which they lived, or what they learned from their parents. You could even say it goes back to what those parents learned from their parents, and so on. These beliefs are ingrained, and because they're usually subconscious, the cycles are continuous until someone breaks them. It's not their fault if your parents taught you beliefs about money that were limiting and restrictive. They were only repeating the cycle of what they had been taught and what society reflected. Consider some of the following paradigms you may have been taught:

MONEY IS SCARCE. Some of us have parents or grandparents who lived through the Great Depression, an era that rooted an entire generation in a scarcity mindset. Others experienced great hardship during the Great Recession of 2008. These people passed on to their children the idea that money was in short supply and that, when it did surface, it had to be squirreled away. Even banks were considered untrustworthy. If the phrases "We can't afford it" or "Money doesn't grow on trees" resonate with you then you may suffer from a mindset of being fearful about money.

MONEY IS EVIL, DIRTY, OR BAD. Several of us have parents or grandparents who believe that the road to bad places is lined with green. They've only ever seen the drawbacks of the money chase, and the audacity and indulgence of those with too much money. Some even believe that wealthy people are bad people. Novels and films often highlight the idea that it's the crooked ones who make the money. If the phrase "The meek shall inherit the earth" sounds accurate to you then you may have a hands-off approach to money.

MONEY COMES MONTHLY. The most common way to make a living is to be employed, either with a company or as a skilled professional, with a weekly wage or an annual salary. Historically, this provided the safe, sure thing required by heads of households. Yet, that level of risk was usually balanced with an equal level of reward – low. For most, even those who do very well, working for a company or as a skilled professional is a constrained opportunity. Most employees, even well-paid ones, have only a small increase in salary during their lifetimes.

“Slow and steady wins the race” may have helped the turtle but if it reflects your relationship with money then you may have a cautious relationship to money.

MONEY IS NOT FOR ME. Some people feel that they don't deserve to be wealthy or that there is only so much of the millionaire pie to go around. Creating wealth and financial freedom is available to everyone. It is our right to be wealthy, and my hope is that people take their space and know they deserve it. By making money, you are not taking it from someone else. It’s more like the concept that a rising tide lifts all boats. By making money, you create a greater capacity to contribute, and it's your duty to do this. If you’ve ever thought “Better them than me” about money, then you may have a defeated relationship to money.

MONEY IS A MAN THING. There was a time when men made and managed the household money. That time was not so long ago, and some of you may have grown up with such conditioning. Although there are gender tendencies, the reasons behind this are not genetic; they are realities falsely fabricated from years of conditioning. Women and men need to understand that money knows no gender. One of Loral’s programs that really resonates with wealth builders is "Wealth Diva: A Man Is Not a Plan.” If you ever thought “Let him bring home the bacon” then you may suffer from an apathetic relationship to money.

MONEY IS MEDICINE. For some people, retail therapy goes a long way; there's no difficulty a new pair of pants can't cure. We live in a culture of consumerism, and many of us use money to fill the unsatisfying holes in our lives. Some people grew up with a sense of entitlement about money, assuming their parents or a trust fund would always pay for everything. In the process, they became careless about what they had. This is a vicious and unproductive cycle. The new car gets old, the closet fills up with clothes, and the toys pile up in the playroom. This is not to say there aren't wonderful things to buy and spend our money on; after all, money should be fun. But as with overeating, too much spending on the wrong things can get any of us feeling sluggish and sad. If you love the saying “Shop ‘til you drop” then your relationship to money may be disrespectful and nonchalant.

MONEY IS ALWAYS A MENACE. For too many people, money is always viewed as a problem. Bills are a hassle. Keeping up with the Joneses is exhausting. Being an entrepreneur sounds like too much work. Some people may even think getting rich would be a burden and make these things worse due to all the paperwork and responsibility. These views of money create a perspective that money is a problem, not a solution. If you’ve ever thought “It's hard enough just to survive, let alone thrive” or “More money more problems” then you probably have a negative and pessimistic relationship to money.

MONEY TALK IS TABOO. Many of us have been brought up to believe that conversations about money are in bad taste. Money and financial success, and failures, are considered personal subjects that shouldn't be discussed and certainly shouldn't be taught. Few of us asked our parents how much money they made. Incredibly, some people don't even know their spouse's salary. The results have unintended consequences and have created a world where very few people are having real conversations about money and finances, the very conversations they

need to learn and succeed. If your parents ever told you “Money is not discussed in polite society" then you may have a withdrawn and uninformed relationship to money.

In each of these examples, it's clear that unless your parents made a conscious choice to think and act differently, they conditioned you to have the same mindset as they did. There is no doubt they had your best interests at heart and did the best they could, most likely having learned these beliefs from a culture that dictated commonly held and subconsciously acknowledged agreements about money. If you decide to break this cycle, you will have the opportunity to teach your children to have more productive beliefs and a more profitable relationship to money. As you come to understand the beliefs you hold, you can work to change them. With the help of mentors and respected friends, you can change your paradigms and those of your child. By sharing your desire for new beliefs and asking your mentors and respected friends to help you spot the subconscious limitations you may be putting on yourself, you will teach your brain to follow your behavior. Begin now by restating your beliefs. For example, if you've discovered that you hold any of the above examples as beliefs, you will:

1. Change "money is scarce" to "money is abundant" and support a courageous relationship to money.

2. Change "money is evil, dirty, or bad" to "money is good and acceptable" and create a hands-on relationship to money.

3. Change "money comes monthly" to "money comes from a range of sources" and create an opportunistic relationship to money.

4. Change "money is not for me" to "who better than me for money to come to?" and create an empowered relationship to money.

5. Change "money is a man thing" to "money is for everyone to know about and understand” and create a thoughtful relationship to money.

6. Change "money is medicine" to "money is a tool to improve my life for the long-term" and create a respectful and responsible relationship to money.

7. Change "money is a menace" to "money is a solution" and create a constructive relationship to money.

8. Change "money talk is taboo" to "money talk is vital" and create a communicative and educated relationship to money.

You can see how much better it is to be courageous, hands-on, opportunistic, empowered, thoughtful, respectful, responsible, constructive, communicative, and educated than to be fearful, hands-off, cautious, defeated, apathetic, disrespectful, nonchalant, negative, pessimistic, withdrawn, and uninformed. With practice you can make sure you and your child

have the right positive paradigms about money. How do you do so? Reconsider the phrases in your brain. Play to win, not to lose. Be decisive, not tentative. Increase and expand your money, rather than holding onto, preserving, and protecting it. Be excited and enthusiastic, not fearful or overly cautious. Wealthy people are proactive and create the lives they want to live. Consider your language. The vocabulary you choose not only reflects, but actually affects, your thinking. For example, the word “if” is conditional while the word “when” is definitive. From this point on, your dreams and goals are *when*, not *if*. Do not let “if” pass your lips in relation to this pursuit. You will get there, there's no doubt – it's only a matter of when. Begin now: "When I become a millionaire, I will ... " Similarly, try saying yes, not no, to what you will and can do.

You must reset your mind and psychology to reinforce what it is you want, instead of supporting the very thing from which you would like to move away. You can start by restating your beliefs to reverse that financial conditioning. Take the statements you've summarized about the preconceived notions you culled from childhood, such as "Money is difficult to earn and even more difficult to keep,” and flip that around. In this example, that would restate to "Money comes freely to me; money is easy to keep and multiply.” It may seem trite, but it's anything but. Experts will support the fact that something tangible occurs when you, and others, hear you verbalize your beliefs. While you restate your beliefs, you are announcing your dreams to yourself, which is the first step in making those dreams come true. When others hear your dream, loud and clear, they begin to understand the real you better, and can help direct you, through referrals or resources, toward your goal. It's a prosperous cycle that starts with you, what you believe and, just as importantly, what you say.

It’s time to conceive a new perspective. Most people do not have a clear direction or vision of what they want their life to look like when they have great wealth. Though no official ceremony takes place, too many people have said "I do" to their current reality, making a lifetime commitment to something that really doesn't satisfy. Make no mistake about it. Even after you commit to a new vision for wealth in your life, the little voice in your head is going to mess with your plan. There's no getting around it; there is a lot of noise in your brain. The ingredients that make up this recipe of noise include excuses, blaming, confusion, disjointed conversations, rationalizing, procrastinating, distraction, and lack of focus. They need no introduction and no explanation. We know them all too well. As you move forward you must turn off the noise of your brain. You must also avoid getting stuck in your own story. The stories we contrive in our heads started with the results we observed, usually those of adults around us, and continue with the results we create, usually very similar to the ones we observed as kids. This is a vicious cycle. Our story is created from our experiences. Each time we have an experience, we filter that through our feeling and reason, to either confirm or deny the truths we believe. For example, if you invest in a real estate deal, and it fails and you lose your money, you can choose either to learn from the experience, by taking the lesson and building a new experience, or to get stuck in the drama of your story. If you do not recognize your truths, you will continue to affirm negative truths. Loral often tells her clients, “Don't get stuck; get it done.” If you have stated new truths, then you can reflect on each experience in a new light and spiral up into a better story. A self-fulfilling prophecy is better when the prophecy is positive. The vision is

yours. The journey is yours. The team you build around you to take the journey and the action you take to achieve the vision are all yours. You must be willing to be the leader of your own life if you want to make yourself a millionaire.

You created your current financial situation based on your beliefs. It’s okay if you don’t yet believe the new possibilities for your financial future. It takes action to reconstruct and then reinforce thought. Those who do it the opposite way, waiting for the belief in order to create the action, have a long wait. Instead, you will program your brain the way it was programmed in the first place, by letting it learn from your actions. By acting first, the reaction is visceral, as it was when the notions were first imbedded. This will create a more enduring change, because you're not painting over old paint, but stripping the walls and starting over. You will be uncomfortable, and maybe even frustrated. That's because you're growing. As you change your financial situation, this will reprogram your brain to a new and progressive set of beliefs. It took you years to be conditioned the way you are. That conditioning did not come from lectures and thought exercises; it came from behavior and practices. Behavior and actions will turn your brain around. As your brain is being redesigned you will create this new design for your child as well. The action begins!

Chapter 3 – Millionaire Actions

"The path to success is to take massive, determined actions."
Tony Robbins, self-help and motivational speaker

In the last chapter we talked about the millionaire mindset and how we are often weighed down by the scarcity mindset that was taught to us in our childhood. It's important not to pass this mentality on to our children if we want them to be truly wealthy. To be successful they need to think of money as being abundant. It's funny that the common saying amongst those that have a scarcity money mindset is that "Money doesn't grow on trees." When people say this, they mean that money doesn't come easy. Kyle and Loral both grew up in families that had fruit trees. What people don't understand about fruit trees is that they require a lot of work. They require watering, pruning, spraying for pests, harvesting, and cleaning up fallen pits, just to name a few. Kyle and Loral both remember dreading having to help their parents with the fruit trees. It was back-breaking work, but they are glad their parents taught them that lesson. The fruit that grows on fruit trees can, in fact, be sold. Therefore, in a real sense, money does indeed grow on trees. Kyle and Loral had a true abundance of home-grown fruit growing up. It's just that it took a lot of work to grow that abundance. Money is no different. It's quite abundant—you just have to work for it. Perhaps the reality is that the opposite phrase, "Money does grow on trees," is accurate. Money is abundant, and continues growing and producing as long as you work for it. The millionaire mindset is important but it's nothing without millionaire actions.

Money Muscles

Money muscles transition us from a millionaire mindset to millionaire actions. They could be thought of as the habits we have about money that lead us to action. These habits are born out of the thoughts we have about money and the paradigms we've set for ourselves. Let's talk about the way our body's muscles work. When pushed to their limits through uncomfortable exercise, the muscle fibers undergo trauma and break down. Our body repairs these fibers by fusing them, which increases their mass and size. The next time we work out, the muscle is stronger and can take on more workload. Our money muscles work the same. As our new money habits become engrained, we get stronger and better able to take on more challenging financial situations. The actions of talking about money, making money, forecasting money, and investing money become easier. As we flex these new money muscles, we will gain confidence. This confidence will motivate us to even more action. Just like with regular muscles, building our money muscles will involve some soreness and discomfort along the way. It's that discomfort that lets us know our money muscles are growing.

You all have money muscles – for some of you they're just a bit atrophied. If you had a dream to run a marathon, your first steps would most likely be to get some running shoes, stretch out the kinks, and jog a few miles. Similarly, if you dream of being a millionaire, you need to start with the building blocks that will help you go the distance. Becoming a millionaire requires getting into financial shape, and that means building your money muscles.

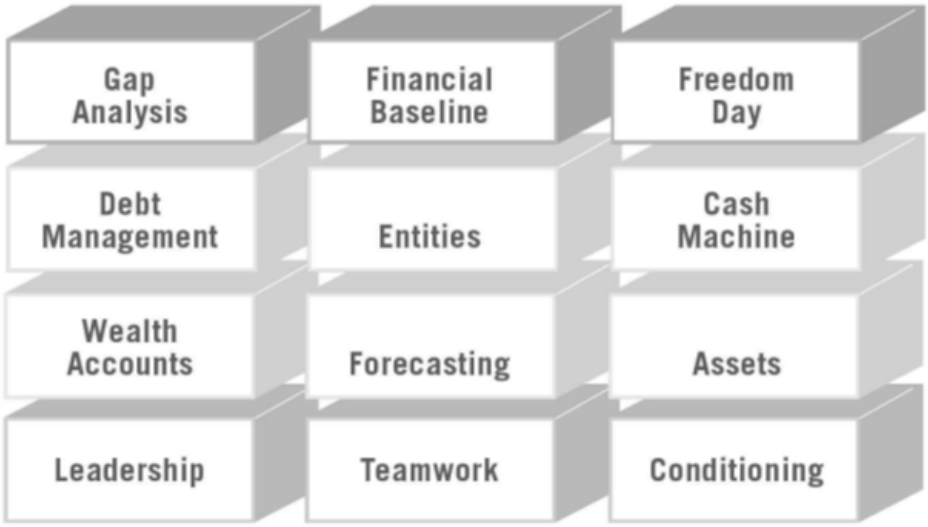
Prompted in part by consumer product companies and the entertainment industry, many of us are obsessed with our health and fitness. It's also pervaded our conversation, sparked by articles and journals. Many of us have become proficient in fitness studies, diets, medical procedures, and scientific terminology. People have no problem revealing the most intimate details of their health to perfect strangers.

As health and fitness govern our physical lives, money and finances affect our economic lives. Money may not be the most important thing in life, but it can probably have the most impact. Money may not bring us happiness but having it in abundance can remove one of the largest causes of unhappiness and stress in our lives and marriages. Whether right or wrong, it seems that more people measure themselves by the yardstick of their wealth than by their health, and yet money and finance conversations rarely take place. If the conversation does occur, it usually covers general issues like Wall Street or the nation's credit card debt, not anything personal or specific, like our own portfolio or bad debt.

If you want to become a millionaire, it's time to get in shape, to build the money muscles, and run the race toward wealth. As with all exercise programs, the first days are the most difficult; you'll be a little sore at first. Not only will it take your brain a while to adjust to this new behavior of focusing on your finances and committing to a positive perception of money, but it will also require a time commitment. This means that you will have to build this program into your schedule. This too, will seem second nature after a while – much like taking an hour to jog, or to watch a favorite TV show, or meditate. As those things eventually fit into your day, so will this. It will make each day of your life more important and significant. Time and again, we've found that when we put substance into our schedule, the unsubstantial moves off. As you progress and get financially conditioned, it will become more fun and exciting, and it will get easier and easier. You won't believe you've not been doing it your entire life.

Wealth Cycle Actions

In the last chapter, we introduced the concept of the Wealth Cycle and how important it was to change your thought process from one of a Lifestyle Cycle to a Wealth Cycle. Now we will describe the actions required to accomplish that. Just as every person's life is particular to them, so must each person's Wealth Cycle plan be tailored to the individual. In her book *Millionaire Maker*, Loral describes that the Wealth Cycle Process is based on 12 building blocks that you will employ in your own fashion, depending on your specific requirements and objectives.



We'll discuss most of these building blocks in more detail throughout the book. Some are more applicable for adults than children, so we will focus on those blocks your child needs to learn the most. The blocks are briefly defined as follows:

1. Gap Analysis: An innovative financial model that will create a map from where you are to where you want to go.

2. Financial Baseline: An overview of your current financial situation in the form of a basic income statement that includes revenue and expenditures and a balance sheet that includes assets and liabilities.

3. Freedom Day: The realization of each goal, starting with 120-day objectives and accelerating beyond millionaire status.

4. Debt Management: A Five-Step Debt Elimination Plan that erases consumer debt, the greatest barrier to wealth building.

5. Entities: The organization of trusts, partnerships, and corporations that hold and service wealth, and take advantage of the tax strategies devised by Congress and state legislatures to protect companies and help businesses grow.

6. Cash Machine: The fuel that accelerates the Wealth Cycle, which comes from your capacity to create more revenue from a legitimate business venture. You must learn to earn.

7. Wealth Account: The account where you consistently pay yourself first, out of your earnings. This account is specifically earmarked for purchasing investments. The assets you buy with the Wealth Account will eventually replace your earned income with passive income.

8. Forecasting: A projection of your revenue, expenditures, assets, and liabilities and how to direct those numbers into companies that make full use of the tax code.

9. Assets: Direct and diversified asset allocation, which is essential to create passive income to feed the Wealth Cycle.

10. Leadership: You must learn to "lead your wealth." Though you may, and should, choose to delegate your wealth building, no one can drive the Wealth Cycle process like you can.

11. Teamwork: You must build and direct a team of professionals to help you develop and execute your strategies and reach your goals. Wealth building is a team sport.

12. Conditioning: Financial way of thinking. As you accumulate the experience that gets results, and gain the confidence to commit even more significantly to your wealth plan, you will develop a positive and healthy relationship with money.

Now that we've introduced these concepts, let's break them down and talk about how these actions work toward achieving wealth and financial freedom. All wealth plans begin with the first three blocks: Gap Analysis, Financial Baseline, and Freedom Day. These three blocks are tools for uncovering where you are and where you need to go. The Financial Baseline involves figuring out where you are currently with your finances. This could be considered the starting line. To measure this, we will use the balance sheet to figure out our assets and liabilities as well as an income statement to know our revenue and expenses. Your child will learn about these in the Chapter 7 sections titled "The Balance Sheet" and "The Income Statement." Next, we need to know where we are going. What are our goals? The long-term goal might be financial freedom, or as Kyle calls it PI≥E, but we need to define the specifics of that goal. Your child will learn about goal setting in the Chapter 5 section titled "Your Child's Money Goals." This is an opportunity for you and your child to clarify your purpose and create a vision to step toward making it happen. The last Wealth Cycle block in the first group is Gap Analysis. The Gap Analysis uncovers the financial gap between where you are now and where you want to be – between your current financial situation and your long-range goals. Specifically, you will understand how much money it takes, and what you must do, day-to-day, for you to reach those goals. The gap between your Financial Baseline and your goals may be small, but for most of us with a big healthy vision, it's usually a large gap. We can assure you; this is good news. This gap is not a threat to your ambition. It is, in fact, a necessary element to fueling that very ambition. It should be a motivator. It should drive you to take immediate massive action in order to change your situation and move forward. When combined, the first three blocks are continuously revised and adjusted throughout the process.

The next three blocks we'll discuss are the bottom three foundational blocks: Leadership, Teamwork, and Conditioning. We already discussed Conditioning at length in the previous Millionaire Mindset chapter. Conditioning involves not just changing the way we think, but also changing the way we act. Conditioning is discussed and trained throughout the rest of this book. We will be teaching you to condition your child to think and, more importantly, act like a

future millionaire. An important aspect of this conditioning is getting your child to understand that nearly all millionaires are made so with teams. It's impossible to be an expert at everything. Even when he was the pilot of the vaunted Fairchild Republic A-10 Warthog, which only has one seat, Kyle knew he needed a team to complete the mission. Even fighter pilots usually employ flights of several wingmen to help provide mutual support. He also had team member support on the ground from crew chiefs, maintenance personnel, air traffic controllers, intelligence officers, medical personnel, security forces, comptrollers, and a host of other support personnel. Without the teamwork of all these specialists his flights could never happen. Similarly, to build great wealth you need your own team of professionals: accountants, lawyers, bookkeepers, mentors, brokers, professional advisors, and investment partners, just to name a few. Having that team in place allows you to focus on what you do best. An African proverb states, "If you want to go fast, go alone. If you want to go far, go together." Our goal is to help you go far. We'll talk more about teamwork in Chapter 5 in the section titled "Teamwork is Fundamental." Of course, just having a team isn't enough. As the pilot of your own Flight To Financial Freedom, you must lead that team. You have to ensure everyone is aware of your flight plans and coordinating their efforts to accomplish the mission – your financial goals. Without leadership, your team would be flying blind. In Chapter 5 we'll talk more about leadership in the section titled "Leadership is Vital."

The four building blocks of entities, forecasting, Wealth Accounts, and debt management are core strategies that ensure money making and wealth building. These middle building blocks of the Wealth Cycle, though engaged simultaneously, are used in different sequences and with different emphasis, depending on the needs and wants of the individual wealth builder. Although entities are a bit beyond the scope of this book for kids, we'll discuss them a bit here because they absolutely are essential for adults who own a business. The entities we are referring to in the Wealth Cycle are technically just legally established companies or organizations that are separate and distinct from their owner. They are almost like a fictitious person that is created only on paper. In the section titled "Entrepreneur mindset" in Chapter 2 we discussed several advantages of businesses over individuals. Many of these advantages exist because of the entities that own your business and the substantial tax and liability advantages afforded these entities. Under the U.S. Tax Code, assets held in some entities are treated differently than an individual's personal assets. This can save taxes and, consequently, increase cash flow. Other entities protect the individual owning them from liability associated with that entity or protect assets in the entity from the personal liability of the owner. This can save you money if you get sued, and can even prevent litigation because the assets are either hidden or are owned by an entity and not the individual. Loral and Kyle both have an assortment of entities to protect their assets. Knowing which entity to use can be complicated, but that's one major reason we are such advocates of having lawyers and accountants on your team. Forecasting involves projecting what your future revenue, expenditures, assets, and liabilities will be. It's similar to what most people know as "budgeting" but without the negative connotation. In Chapter 7 we'll provide more information in the "Forecasting" section. The Wealth Account is the Wealth Cycle building block that is like traditional saving. The difference is the Wealth Account is specifically allocated for investing. It should be an interest-bearing account that allows you to pay yourself first until you have enough to invest in assets that can

provide passive income. As the Wealth Account grows you can buy more and more assets. The idea of the Wealth Account is crucial toward building wealth. As such, we will be discussing it in several chapters in this book. The fourth building block in the middle section of the Wealth Cycle building blocks is debt management. Although we won't go into the specific debt management tactics that Loral talks about in her book *The Millionaire Maker*, we do talk about debt extensively in several sections of this book, including "Good Debt Versus Bad Debt and Your Credit Score," "Student Loans," and the two sections on credit cards. Our passionate hope and belief is that this book will ensure that your child never gets stuck in the vicious Lifestyle Cycle that can create massive consumer debt.

The remaining two blocks of the Wealth Cycle are the essential tactics to make more money – Assets and Cash Machine. Assets are the things you own that have value and provide the passive income necessary to reach financial freedom and "pass the PI≥E." As your assets grow, they will provide more income, which will allow you to buy more assets. This cycle of turning income into assets, and assets into income, is the key to building sustainable wealth. The money works for you, not you for it, and you focus your attention on maximizing your rates of return. The Cash Machine is the legitimate business venture you create to bring in revenue. It is where you "learn to earn." By bringing in multiple streams of revenue we can accelerate the Wealth Cycle much faster than if we just had a fixed income job or if we relied on the growth of the assets alone. The Cash Machine and assets are discussed at length throughout this book. They are the jet fuel for your airplane. Without them, your aircraft isn't going anywhere. With enough of them, you can fly on your Flight To Financial Freedom as fast as you want to go.

Proper sequencing is essential to bringing it all together and making the Wealth Cycle work. Sequencing could be succinctly described as doing the right thing at the right time. The most common mistake we see in wealth building is people doing the right thing but at the wrong time. One example would be paying down low interest existing debt on assets (like your home) before beginning to build wealth through assets that provide you income. Another might be focusing on your cash machine before you've done a GAP Analysis to establish your goals.

When you begin the Wealth Cycle process, you engage each and every building block; they are codependent and indivisible. You will always keep track of a Gap Analysis that will tell you how to get from where you are – your Financial Baseline – to where you want to go – your Financial Freedom Day. You will always employ Debt Management, and if you have or create consumer debt, you will always make it a priority to eliminate it immediately while simultaneously building your wealth. You will always have Entities (legally established companies), which means you'll always run your life like a business. And that means you'll always have a business, a Cash Machine, that will create more money for your Wealth Cycle. You will always run the right expenses through the right entities, which means you will always be Forecasting. You will always be prioritizing a portion of your money into a Wealth Account used only for investing. You will always be investing in assets, and those assets will create more assets, and more and more assets. You will always support these activities with leadership and teamwork and be mindful of your financial way of thinking, or Conditioning.

Now that we've provided a foundation for you as the parent to understand the framework of the millionaire mindset and millionaire actions, it's time to get to work teaching your child. The rest of the book will follow along with your child's progression, becoming more comprehensive and challenging chapter after chapter as they grow older and older. It will give you specific recommendations for things to teach, stories of how we taught them, and models for actions you should have them perform. It will also give some examples of things you should do on behalf of your child to set them up for success. It will serve as a guide to steer your money conversations with your child but you still have to be the one to lead them. The journey won't be easy, but it will be rewarding. That sentiment you'll feel when you gently nudge them out of the nest will be confidence that you've given them all the tools they need to fly to their own financial freedom and fulfill their phenomenal potential for wealth. The journey starts now!

Chapter 4 – Birth to Age 5

"The best time to plant a tree was 20 years ago. The second-best time is now."
Chinese proverb

We can hear the objections already. Are these people crazy? Two-year-old kids don't even realize the world doesn't revolve around them. They can barely talk. They can't be taught about money, right? Well, we disagree. If there is anything I've learned from parenting, it's that kids can learn more than you think. Even if they can barely talk, they can still listen…and learn. How else could they repeat at the worst possible moment that embarrassing curse word you accidentally let slip just once? Many of the concepts we recommend teaching at this age may seem obvious. Clearly nobody makes it to adulthood without understanding that money buys things. Why worry about teaching this concept when people obviously figure this out eventually? The reason we recommend consciously committing to teaching these concepts very early is that doing so puts your child a leg up on others who don't make such a commitment. With the basic concepts firmly grasped, thanks to your early teaching, your kids can now move on to more advanced concepts while others are still trying to pick up the basics. This allows them to start becoming an investor and entrepreneur much earlier than their peers. Faster learning equals more time earning – for both your child and his investments. We also have several tasks in this chapter for you, the parent, to accomplish. Many of these steps can be accomplished right after birth. Again, the sooner they are accomplished the better off your child will be.

Open a Roth IRA For Your Child

Put your child to work! We know this sounds radical, but your child can do "age-appropriate" work immediately following birth. While your newborn probably can't do your taxes (you wish!), they can do jobs such as modeling shoots and be paid for it. We're not trying to convince you to turn your child into an international supermodel. Do you have a business? Whether it be a family picture or an individual picture, your child can be paid for promotional pictures that might be used on the website or social media advertising for that business. As long as the pay is reasonable and the job is real and age-appropriate (talk to your accountant for specifics on what is appropriate), it is legal for your child to make an income for your own business. Loral and Kyle have a friend who made calendars for his business which he sent out to all his customers. The calendar featured pictures of the cutest person he knew – his daughter. The cutest baby in the world can't be expected to work for free, can she? The main reason to create income for your child is so you can start their IRA. That's right. As long as they have verifiable income, your baby can begin saving for retirement. If they are under 18 you can even make the contributions yourself. The child just needs to have the income, not make the contribution.

Why would you start an IRA for your new child? There are two huge reasons. First, the sooner your child starts, the sooner they can begin putting compound interest to work for them. Review the compound interest example from the section "Investor mindset – Compound interest" in Chapter 2 now to see why this is important. Having them start saving for retirement now versus when they are 21 or older can give your kid three additional 7-year periods for their money to double. Let's look at an example of two children and how compound interest can play out in the real world.

Odette was born to a mother and father who had a real estate business. They didn't have much money but they read the incredible book, *Make Your Kids Millionaires – A Parent's Guide For Leading Your Children To Financial Freedom*, and knew they could employ Odette right away and open a Roth IRA for her as soon as she had income. Before she was a year old, she was in several photo shoots along with her family that were used to promote her parents' real estate website. These pictures were updated every few months to keep the content fresh. Her parents' real estate business paid Odette $300 total in modeling fees for six sessions that year. Odette continued working for the business for the next 18 years. When Odette was older, she was able to help the business with office cleanup, photography, and eventually bookkeeping. For 18 years the business paid Odette every year, and her parents put just $300 into her Roth IRA each year. This money was put into investments that averaged 10% returns per year. After she was 18, Odette went off to join the Peace Corps and chose to ignore her parents' advice to put more money away for retirement (you can lead them to water but you can't make them drink). At age 65 she hadn't contributed a single penny to her IRA beyond what her parents had contributed through age 18. The account, however, had continued to garner 10% returns over its history. All told, only $5,400 total had been contributed to her account. What do you think the value of Odette's account was at age 65? Any guesses? We'll reveal the amount in a moment.

Aisha was born to wealthy doctors. They made great money, but they didn't read the book *Make Your Kids Millionaires – A Parent's Guide For Leading Your Children To Financial Freedom.* They were highly educated but they didn't know much about financial matters and never learned they could start a Roth IRA for their child. As a result, Aisha was never taught about the importance of starting an IRA. After attending medical school and paying off most of her debt, Aisha decided she needed to open a Roth IRA at age 30. She had a good income, so she was able to contribute and invest $4,200 every year from age 30 to 65. All told, she made 35 contributions of $4,200 for a grand total of $147,000 in contributions. Just like Odette's account, Aisha's account garnered 10% returns over its entire history. What do you think the value of Aisha's account was at age 65? Any guesses? Let's look at the numbers.

Name	Age begun	Years of contributions	Contribution $ per year	Total contributions	Account value at age 65
Odette	<1	18	$300	$5,400	**$1,327,196**
Aisha	30	35	$4,200	$147,000	**$1,252,133**

The good news is that due to their retirement contributions into their Roth IRAs, both Odette and Aisha are millionaires! Since they both used Roth IRAs, all the funds in their accounts can be withdrawn tax free. The astonishing part is that even though Aisha contributed 27 times more money into her account, she still ended up with less money than Odette, who contributed much less and never contributed a penny of her own money after age 18. Even though Odette was less responsible with her saving than Aisha, Odette's parents' foresight and the extra years of compounding for her account proved incredibly important. By contributing less than a dollar a day to Odette's account during her childhood, her parents had made her a millionaire! Let that sink in. **You can make your kid a millionaire by investing less than a dollar a day on their behalf during their childhood!**

Hopefully the huge advantage of compound interest when time is on your side is clear now. The second huge reason you should start an IRA for your young child right away is because of the vast advantages of tax-advantaged accounts and the contribution limits toward these types of accounts. Refer again to the "Investor mindset – Tax-advantaged accounts" section in Chapter 2 for a discussion of how important tax-advantaged accounts can be. The incredible tax savings they provide is remarkable. The problem is that, as good as IRAs are, they have contribution limits (currently $6,000 for 2020). Unless you start at a very early age, it is difficult to put enough money into IRA accounts to make a significant contribution toward your retirement savings. That's why we recommend starting these accounts for your child as early as possible.
When you create an account for your child who is under the age of 18, it will be considered a Custodial IRA. A custodial IRA is managed by the custodian (generally the parent) until the child turns 18 or 21, depending on the state. As mentioned before, the contributions can be made by either the custodian or the child, as long as the child has at least that much verifiable income. It's up to you to decide which route you would prefer. One of our favorite options is to have older children be offered a matching contribution. We match every dollar they contribute to their IRA up to a certain value so as not to exceed their allowable contribution. This incentivizes them to invest into the IRA while still making sure they have some skin in the game. If you are the custodian, it is up to you to make the investment decisions. As your child approaches the age where they will take over the account, you can slowly begin giving them some say in the investments for the account. That way, when they take it over, they will have already demonstrated proficiency in managing money and it won't be overwhelming for them.

Now that you understand that you truly do need to start an IRA for your child (and yourself if you haven't already), what investments will you hold inside that IRA (or education account)? The answer to this question depends on a few factors. The first factor is what type of financial institution you choose to manage your account. Technically, non-licensed individuals cannot buy stocks directly on the stock exchange. They must do so through an intermediary at a licensed financial institution. There are 4 primary types of institutions that can do this: mutual fund companies, full-service brokerages, discount brokerages, and self-directed brokerages. A full description of these types of institutions is beyond the scope of this book but the chart below highlights some of the basic differences between these institutions.

	Mutual fund company	Full-service brokerage	Discount brokerage	Self-directed brokerage
Fees	medium	medium to high	low or zero	very high
Flexibility	low	low	high	very high
Guidance	none – automatic	medium to high	low or none	none

Note that we didn't reference performance in the chart. The performance of each investment depends on the individual company (or you in the latter 2) so it can't be generalized across types of institutions. We recommend discount brokers because of their high flexibility and low fees. With practice and experience your child will be able to beat the performance of most mutual funds and full-service brokers without having to pay their high fees. Eventually your child may want to move their money into a self-directed IRA for even more flexibility, but for now the discount broker is probably the best option. Some examples of discount brokers include TD Ameritrade, E-Trade, Interactive Brokers, and Robin Hood.

New financial technology (Fintech) companies are constantly improving the individual investor's landscape. One company we particularly like in the brokerage realm is iFlip. Although they aren't a brokerage themselves, they make software that integrates with a discount broker to provide the same sort of algorithmic trading technology that is used by the pros. Although their premium version of the software does have a subscription fee, you can get started with their basic version for free. The advantage of the software is that it uses technical factors similar to those used by expensive hedge funds to reduce risk by getting you out of the market before it crashes. It's particularly useful for people who don't want to be constantly checking their stock portfolio, and have a low tolerance for risk but still want to participate in the market's upside. To learn more, check out the following link: https://iflipinvest.app.link/aGhW1AFnX8

Another factor to consider when deciding what financial institution you want to use is the type of investment you will purchase. If you are in anything other than the self-directed IRA your choices will generally be limited to mutual funds, ETFs, or stocks. A mutual fund is a basket of stocks chosen by a mutual fund manager. The advantage of mutual funds is that they have built-in diversification because they generally own a large assortment of stocks. The problem with mutual funds is that most underperform the overall market and charge fees that can be up to 2% of the funds invested. These fees can quickly eat into your returns. To combat the fee problem, a special type of mutual fund was created by former Vanguard chairman John Bogle. Rather than paying a mutual fund manager an exorbitant salary to manage a mutual fund, it sought to mathematically and automatically match a segment, or index, of the stock market like the S&P 500 or Dow Jones Industrial Average. Because it is mathematically calculated and doesn't have a fund manager in the traditional sense, it can charge much lower fees. The only problem with index funds was that they still had some of the disadvantages of mutual funds relative to stocks. They still had minimum investment requirements, generated capital gains (albeit very small amounts compared to mutual funds) and weren't as liquid as stocks since they traded only at the end of the day. Eventually, a man named Nathan Most solved some of these issues when he created the first US Exchange Traded Fund (ETF). The ETF works like an

index fund by tracking a segment of the market but is traded as a stock. This reduces the minimum investment problem, lowers (slightly) the already low index fund fees, provides slightly better tax efficiency, and affords much greater liquidity.

If you are a stock beginner, we recommend that you start investing in your child's discount brokerage by putting your money in ETFs that match one of the major indexes like the S&P 500 index, Dow Jones Industrial Average, or Nasdaq composite. A quick internet search will reveal multiple potential ETFs on which you can start your due diligence. After getting your feet wet with ETFs, if you have the time and inclination to try investing in stocks, you can put a small percentage of your account in a few individual stocks. As your portfolio grows, you could slowly begin increasing your number of individual stocks, but keep the percentage relatively low. If you'd like to dedicate a larger percentage of your portfolio toward individual stocks, we'd recommend you do so only after you gain knowledge and experience and you have a proven track record of consistently beating the ETF performance. If you do have the talent and inclination to invest in individual stocks, the IRA you create for your child will eventually be a great account to start slowly letting your child "take the controls" on their own investing flight. We'll talk more about surrendering this control in Chapter 7 in the section "Begin Relinquishing Control of Their Investments." Until then, you will have to do most of the IRA flying.

Set Up a Tax-advantaged Education Account

Though it certainly won't be the first expense associated with having a child, paying for college could easily be the biggest. With tuition rates increasing well beyond inflation, the costs of college tuition are becoming more and more cumbersome. Although we foresee a time when colleges are structured much differently and aren't seen as "mandatory" as they currently are, the reality is that attending college does still have a positive correlation toward increased income for your child, whether they are an entrepreneur or a W-2 employee.

Whether you wish to pay for your child's college education or not is a matter of personal preference. Some parents feel that paying for it is an extension of their childhood and that doing so will best set them up for success later in life. Others feel that college is a time for children to transition into being adults and that making them pay for their own college helps them appreciate it more and be more apt to take it seriously. As your child begins to make their own money (as advised later in this book) it might even make sense to have your child set aside part of their own earnings to place in their education account. One can also encourage relatives to give money into the account as gifts instead of buying a toy or gadget that will only provide short-term use. In a perfect world, your child would acquire scholarships or perhaps grants to help fund their college expenses. Unfortunately, this isn't always the case. Both Loral and Kyle have been fortunate so far that their children have received considerable scholarship money. Vast resources exist for tapping into scholarship money and, incredibly, much of it goes unused. Therefore, you shouldn't despair if you don't have money to set aside for your child's education. Neither Loral nor Kyle was given money by their parents for college. Both were told early by their parents that money wasn't available to help them pay for college. As a result, each worked hard to ensure they received scholarships to fund their own education. As long as

you set the expectations for your child early on, they can take the necessary actions to be prepared.

If you decide that you do want to help pay for your child's education, it is important that you get started right away so your investments have time to grow and compound. What investments you choose for inside your education account will depend on your investment experience and expertise. We discussed a few of these options in the previous section "Open a Roth IRA For Your Child." Regardless of what you invest in, you want to do it in the most economical way. This would generally be the way that saves the most in taxes. If you haven't already, now would be a good time to read or review the section "Investor mindset – Tax-advantaged accounts" in Chapter 2. That section discusses the tax implications of different types of tax-advantaged accounts. Five primary options exist for saving toward your child's education, and all have some form of tax advantage. These options include:

5 Options for College Savings
529 College savings plan
Coverdell Education Savings Account (CESA)
Individual Retirement Account (IRA)
Uniform Gifts to Minors Act (UGMA)
Uniform Transfers to Minors Act (UTMA)

Knowing which account is best for your situation depends on several factors, including the current and anticipated future income, net worth, and tax bracket for both the parent and the child. These aren't always easy to know with certainty so you'll just have to make a few assumptions and go with it. Several resources are available online that cover this topic, but to ensure you make the best decision for your situation it is best to discuss this important financial obligation with your accountant. The Coverdell and 529 plan are the most commonly used vessels for college savings plans. They were created specifically for the use of college savings and have the best tax savings for most situations. Both plans also offer the ability to have people other than the original creators of the account help fund the account. For example, grandparents or aunts and uncles can contribute to the 529 plan or Coverdell account to help fund it, even if the parents are the ones who set it up. Encouraging relatives to give to the account rather than spoiling the kids with toys they will quickly outgrow is an important tip, particularly for parents with limited funds to establish these types of accounts. Also, the sooner you can contribute to these accounts, the longer that money can compound and potentially pay for a larger portion of the schooling. Following is a brief description of each account type.

529 College Savings Plan

Often called the "529 plan" for short, this is a tax-advantaged plan that is sponsored by states, state agencies, or educational institutions and is authorized by Section 529 of the Internal Revenue Code. Two types of 529 plans exist: prepaid tuition plans and education savings plans.

Prepaid tuition plans allow the account holder to purchase units or credits at a participating university or state's universities at current prices for the beneficiary. They can generally not be used to purchase future room and board. Although the prepaid option may seem like a good idea, it is sometimes restricted to only a specific state or university. What happens if that institution ceases to exist? Also, one thing we have learned about parenting children is that we can guide them but not control them. Because parents don't know which university or even state where their child will want to attend college (or if they'll attend at all), we usually recommend avoiding prepaid tuition plans. Education savings plans, however, can be a great way to save for your child's education. These accounts can be used to pay for beneficiary's future qualified higher education expenses – tuition, mandatory fees and room and board. Withdrawals from education savings plan accounts can generally be used at any college or university, including sometimes at non-U.S. colleges and universities. Unlike prepaid plans, education savings plans can also be used to pay for tuition at any public, private or religious elementary or secondary school. In addition to their flexibility in expenses they can cover, the 529 plan has some of the best tax advantages of any type of college savings vehicle. Similar to the Roth IRA described in the previously mentioned "Tax-advantaged accounts" section, any withdrawals that are used for qualified higher education expenses (or tuition for elementary or secondary schools) are not subject to federal income tax or, in many cases, state income tax. But the tax advantages don't end there. Unlike Roth IRAs, which generally have no tax benefits at the time of the contribution, many states offer tax benefits for contributions to their 529 plan. If you qualify, you may be able to deduct current year contributions from your state income tax. Particularly if you live in a state with high income taxes, this could be a significant benefit. Although the advantages of 529 plans are impressive, some disadvantages do exist. The account holder often has a limited choice in investments within the education savings plan. The lack of diversity in investments sometimes means that expenses and fees can be significant. It's important that you research these choices and fees before deciding on a plan. Another potential disadvantage of 529 plans is that investing in a 529 plan will usually impact a student's eligibility to receive need-based financial aid for college. This may or may not be a factor for you, depending on your financial situation. Despite these possible disadvantages, the large potential tax advantages of 529 plans make them one of the best and most popular savings vehicles for education expenses.

Coverdell Education Savings Account (CESA)

The second most common account for college savings is the Coverdell Education Savings Account. This is commonly known as the Coverdell ESA or ESA. Like 529 plans, Coverdell ESAs can be used to pay for a beneficiary's future qualified higher education expenses – tuition, mandatory fees and room and board at any college or university, including at non-U.S. colleges and universities. Like 529 plans, ESAs can also be used to pay for tuition at any public, private or religious elementary or secondary school. However, the Coverdell ESA allows for additional expenses for elementary and secondary school beyond just tuition. The similarities between Coverdell ESAs and 529 plans also extend to the same tax-free withdrawal of funds used toward qualified higher education expenses (or tuition for elementary or secondary schools). However, unlike 529 plans, Coverdell ESAs do not offer any state tax benefits toward contributions into

the account. They also allow only $2,000 per beneficiary in a given year, versus 529 plans which allow the donor to contribute up to the gift tax exemption amount (currently $15,000 in 2020 for an individual and $30,000 for a married couple) without having to file tax paperwork. Additionally, the Coverdell ESA only allows contributions if you fall under its income restrictions (currently your adjusted gross income cannot exceed $110,000 for an individual, or $220,000 for a married couple filing a joint return). Coverdell ESAs suffer from the same impact on a student's eligibility to receive need-based financial aid as 529 plans. On the positive side, Coverdell ESAs do not have the same restrictions for investments that 529 plans have. Most brokerages allow accounts to be set up as ESAs, so they allow much more freedom and control of your investments, including the purchase of individual stocks. You aren't stuck with the state's choices for investment options. Also, a Coverdell ESA could be opened in a discount brokerage, allowing one to reduce nearly all fees. Deciding between the 529 plan and Coverdell ESA can be complicated, so make sure you do your due diligence and consult a professional if needed. Better yet, you could contribute to both. The contributions to the Coverdell ESA could be used for the elementary and secondary school expenses that aren't covered by the 529 plan. The 529 plan would allow high income individuals to contribute, or those who want to contribute more than just $2,000 per year.

Individual Retirement Account (IRA)

Although IRAs are not generally considered investment vehicles for higher education, the reality is that IRAs can be used for higher education expenses with some restrictions. First, contributions (but not earnings) are always available for withdrawal, income tax and penalty-free. Second, even earnings can be removed without the usual 10% early withdrawal penalty if they are used for qualified higher education expenses. However, you will still have to pay income tax on the earnings portion – eliminating one of the powerful advantages of Roth IRAs. Thus, it would be better to remove only contributions if possible. Also, because of the limited contributions to a Roth IRA each year (versus 529 plans), pulling out money for higher education expenses can drastically reduce the money left over for retirement. This could potentially have serious consequences when you do reach retirement age and don't have a sufficient nest egg. Roth IRAs are described in more detail in the next section "Open a Roth IRA For Your Child."

Uniform Gifts to Minors Act (UGMA)

Although the UGMA has waned in popularity since the creation of the 529 plan and CESA, it still has value as a college savings plan in certain situations. The UGMA provides a way for donors to transfer financial assets to underage beneficiaries without having to establish a formal trust. This eliminates having to hire an attorney, and the associated time and cost. The donor appoints a custodian to oversee the assets until the beneficiary is of age (usually 18 or 21 depending on the state) and can assume control of the account. Although UGMAs don't have the benefit of being tax free on the front or back end like the previous accounts, they do have some tax advantages. The main reason people place assets in UGMA accounts is that, because the money is technically owned by the beneficiary, earnings are taxed at the minor

beneficiary's (usually lower) tax rate rather than the donor's rate. Depending on the tax rate of the beneficiary, this can result in significant tax savings. The fact that the beneficiary owns the assets in a UGMA does mean that the assets will count toward the student's assets for college financial aid purposes. However, an advantage of UGMAs is that friends and family can make unlimited contributions (subject to gift tax rules) without income limits for the donors. Additionally, donors can make penalty-free early withdrawals not just for college, but for nearly any expense that can be proven to be incurred by the beneficiary. Once the beneficiary reaches the age of majority, they can use the funds for anything they want. This can either be an advantage or a disadvantage depending on the situation.

Uniform Transfers to Minors Act (UTMA)

The UTMA is almost identical to the UGMA, with only a few exceptions. The primary difference is the type of assets inside the account. Whereas the UGMA is limited to only financial products like stocks, bonds, mutual funds, insurance policies, or cash, the UTMA can hold any form of property, including real property and real estate. The other difference between the UGMA and UTMA is that there are differences between the implementation of these accounts from state to state. Make sure you check the regulations within your state before opening the UGMA or UTMA to ensure they meet your needs.

Create a Will and Advanced Directive

If you have a child, then you need a will. It's that simple. Nobody wants to think about their own mortality, but the fact remains that all of us will eventually die. For a few of us, it will happen unexpectedly and at a much younger age than we would hope. If you are one of those unfortunate few, wouldn't you want your child to be taken care of according to your wishes and not those of the state? A last will and testament, often referred to as a "will," is a legal document that dictates how your debt should be handled, who will have custody of dependents, and how assets shall be divided, including those with sentimental value. If you don't have a will (or trust) then the distribution of your assets and care of your dependents will ultimately be decided by the probate court of your state. This can cost your heirs thousands to tens of thousands of dollars, depending on the size of your estate, and can drag on for weeks or sometimes even years. Do you really want the state to decide what to do with everything you've worked for? Worse yet, do you want the state to decide who gets to take care of your children? A will can spell out your desires. With a well-written and valid will, the probate process can be much quicker, cheaper, and less stressful for your heirs and family. More importantly, it lets you get what you want.

The great news about wills is that they don't have to be complicated or expensive. What they do need to be, however, is accurate and complete. The internet is full of services that can help you make a will. If you are tight on funds and the alternative is no will at all then these are certainly better than nothing. If you choose this route, make sure to do your research and go with a trusted source. However, the problem with these services is that they give you a cookie-cutter approach to wills that may not work for your individual situation. Depending on who

provides them, they may not even be deemed valid. Do you know all the probate rules associated with your state to know with certainty that the will you received is valid? We highly recommend you consult a trusted attorney to create a customized solution that will be certain to hold up in probate court. If you have a will that is deemed to be invalid it will be effectively ignored and the distribution of your assets and care of your dependents will again be back in the hands of the state. This is a situation where paying an attorney now could save your heirs ten-fold those costs after you die. What if you don't die but become incapacitated and can no longer communicate your wishes? This is the realm of the advanced directive.

The advanced directive, otherwise known as a living will, is a legal document that provides instructions regarding the medical care a person wishes to receive if he or she becomes incapacitated or seriously ill and cannot communicate their preferences themselves. It will answer questions such as whether you want to be resuscitated, what life-sustaining treatments you desire, whether you wish to donate organs, and who will make medical decisions on your behalf. It will often include a health care power of attorney to legally appoint that decision maker. Advanced directives are important because, like a will, they allow you to communicate your preferences when you can't speak for yourself. When you set up your will, the attorney will often recommend you set up an advanced directive at the same time. We highly recommend you take their advice and set one up. The combination of the will and the advanced directive will make sure your family is taken care of, your assets are properly distributed, and your desires are achieved even when you can no longer communicate them.

Create a Trust

Trusts get a bad rap in popular culture. The stigma of the spoiled trust-fund baby is one most of us have seen in movies or TV shows. Unfortunately, the caricature of an entitled elitist is sometimes true – but it doesn't have to be. It is possible to set up trusts for your children and leave a legacy for your family without creating spoiled brats. In a moment we'll discuss numerous reasons you should probably set up a trust. First, let's discuss some reasons you probably should not. If you have no aspiration to acquire any assets or wealth, then you probably don't need a trust. For you, a last will and testament would probably be sufficient. Likewise, if you do plan to eventually acquire assets but you currently don't have any, you probably don't need a trust – yet. The costs of setting up a trust are not cheap. Nonetheless, for anybody who intends to achieve wealth and has already begun to acquire some assets, a trust can be worth its weight in gold. Here are a few reasons you may need or want a trust:

1. To control what happens to your assets when you die
2. To avoid probate court and provide privacy of assets
3. To protect trust assets from creditors
4. To plan for business succession
5. To shelter assets from estate and transfer taxes
6. To protect beneficiaries from their own poor judgement
7. To control future charitable giving from your estate
8. To aid a special-needs family member

If you want to accomplish any of the items above, the trust may be the best vehicle to accomplish it. Many of these reasons don't necessitate that you have a giant fortune. They just require that you have some assets that you would like to control and protect.

Trusts can be revocable or irrevocable. Revocable trusts, often called living trusts, are estate planning tools that can be changed by the grantor until their death, upon which they become irrevocable. Irrevocable trusts, on the other hand, cannot be modified, amended or terminated without the permission of the grantor's named beneficiary or beneficiaries. Each one has its own advantages and disadvantages. The irrevocable trust provides potentially better tax advantages and protection from creditors but allows less flexibility since it can't generally be revoked or changed. The revocable trust allows the malleability to change its conditions while still providing probate protections. However, this malleability comes with a price. The fact that it can be changed means it can be more easily targeted by creditors. Ultimately, the best type of trust for you and your family is a personal choice and involves many factors. We highly recommend using an attorney who specializes in estate planning. Especially when it comes to trusts, it's better not to be "penny wise but pound stupid."

For those of you who already have a trust or have decided to open a trust, you may think you don't need a will. You would be mistaken. Even if you have a trust, you still need a will for 2 main reasons:

1. A trust won't include everything you own
2. A will can do some things a trust can't

For a trust to protect a possession it must have been formally and legally transferred into the trust. Very few people take the time to transfer every single item they own. Additionally, what if you bought something new right before you died? It wouldn't be covered by the trust. A will can formally dictate what should happen with those possessions that don't get entered into the trust. A will can also do other things a trust cannot cover. For example, a will can dictate what will happen regarding the custody of minor children. This won't generally be covered by a trust. A will can also include special requests like forgiveness of debt or other personal requests that won't be included in a trust. The good news is that if you do have a trust then the will might not need to be as comprehensive as if you did not have a trust. In the end, legacy planning should include at least a will, an advanced directive, and for most people, a trust. For some people, legacy planning would include a host of other things like corporations, life insurance, and a durable power of attorney. We'll talk about a few of these things in the upcoming sections. Don't put off the important actions of taking care of the estate planning for your child. Tomorrow isn't promised for any of us.

Purchase Life Insurance

Unless you have sufficient funds to fully support the multitude of expenses your family would face if you die, you probably need life insurance. Once you have a nest egg to cover all these expenses you may not need life insurance, but you might still want it. There are two primary

types of life insurance: term life insurance and whole life insurance. With term life insurance you pay a set insurance premium for a specified time period and the insurance guarantees payment of a death benefit if it occurs during that time period, or term. Whole life insurance, sometimes called permanent life insurance, can take various forms and names depending on the policy. It generally requires the payment of insurance premiums for a set period of time, but provides a death benefit for life. On the surface this sounds like an easy choice. The problem is that whole life insurance is much more expensive on a per-year basis than term insurance – sometimes 10 times more expensive. Another difference is that whole life insurance provides a policy cash value that grows as you contribute to it. This cash value is usually invested on your behalf to help it grow even more. The problem with this, however, is that, after fees, many whole life insurance companies underperform the investment returns that you could achieve investing on your own. Often you could grow your money faster by buying term insurance and investing the extra premium on your own. As a result, term insurance is probably the best choice for most people. But you aren't most people. The mere fact that you are reading this book probably means that you aspire to be more wealthy than most people, and want the same for your child.

For the wealthy, whole life insurance can actually make a lot of sense. The reason has to do with the tax advantages associated with whole life insurance. Some withdrawals, as well as the death benefit paid to beneficiaries, are tax-free. Similar to the tax exempt accounts we discussed in the Chapter 2 section "Investor Mindset – Tax-advantaged Accounts," this can be a substantial advantage to people whose family will be in a significantly higher tax bracket later in life than when the contributions are made or people who plan to leave their children a considerable fortune. Some strategies for using whole life insurance also include a component of borrowing from the cash value. Since you are borrowing from yourself, this can effectively produce an income source during retirement that is tax-free.

For people who plan on being wealthy, whole life insurance is certainly something worth investigating. As always, we recommend talking to your accountant and a licensed insurance agent to get the specifics. It's especially important with whole life insurance that you dig into the details of due diligence because some insurance plans have hidden fees that are so expensive that they override any tax advantages you might receive. Although whole life insurance isn't for everyone, in the right circumstances it can be an important tool towards building generational wealth.

Consider Getting Incorporated

Incorporation is a topic that won't necessarily apply to everyone reading this book. However, for those to whom it does apply, it is so important that it absolutely needs to be addressed and considered. We first talked about incorporation in the Chapter 2 section titled "Entrepreneur Mindset." Getting incorporated creates a separate business structure or entity that is distinct from the individuals that own the business. Although sole proprietorship and partnership are business entities that have specific purposes, for the purpose of this discussion we will primarily be discussing the Limited Liability Company (LLC) and Corporation due to their superior liability

treatment. There are four main reasons to get incorporated: liability, credit, credibility, and taxes.

The first reason to become incorporated is to provide liability protection. For example, a properly structured and maintained entity protects your personal assets from creditors and court judgements against the business. It could also protect your business from creditors and lawsuits against you personally. Additionally, getting incorporated allows the business itself to develop its own business credit and receive loans, credit cards, or lines of credit on behalf of the business. Similarly, businesses that are incorporated often get more credibility from lenders, partners, and even customers. Finally, incorporation can potentially provide tax benefits if structured correctly. The mere fact of being incorporated opens up deductions and expenses that wouldn't be allowed if you didn't incorporate and remained a sole proprietor.
If you as the parent have your own business or even side hustle, you should seriously consider getting incorporated. Which type of corporate structure to choose is a very personalized decision based on numerous factors. Different entities have different advantages. Some provide better tax advantages but little liability protection. Others provide liability protection but may have no tax advantages, or even tax disadvantages. This is where the concept of building a team to handle your wealth comes in. You need to get advice from a lawyer and accountant to help balance the liability and tax consequences of your personal situation. The laws regarding taxes and estate planning are constantly changing so you need a professional to make sure you have the plan that's right for you. Failing to do so is just asking for trouble, particularly if you have a large fortune to pass to your heirs.

Another situation where incorporation should be considered is if you own real estate or other assets or investments that may be subject to litigation. Having these assets in their own corporate structure separates them and their liability from your personal assets. For example, if a tenant of your rental property sued you, a suitable entity could prevent them from being able to take your personal accounts and assets. Having your assets in a properly structured corporation can also create an organized entity that will be easier to pass on to your kids in the future if you choose to do so. Additionally, because the corporation would have several years to season and develop its own credit history and credibility, your child would be able to immediately have access to credit and the other benefits that come from having an established history as a credible business.

So far we've discussed all the advantages to getting incorporated, but there are a few downsides as well. To provide the liability protection for which they are intended, corporations and LLCs must be operated as a separate entity from their owners. This means they require separate banks accounts and accounting, among other things. Additionally, even LLCs, which are known for requiring less corporate hassle, still require administrative paperwork to ensure a court would uphold their separation from the personal assets of their owners. These additional administrative duties need to be handled by either you or your lawyers and accountants. Either way, it is your responsibility to make sure they get done. This is why we say that incorporation isn't for everybody. However, the more assets you accumulate and wealth you acquire, the more the advantages outweigh the disadvantages. If you want a life of abundance and wealth

for you and your child, it sometimes takes a bit more paperwork. We can't overemphasize the importance of not making these decisions on your own without the advice of a professional. They spend their whole life studying the intricacies of corporate liability and tax law so you don't have to. With the help of a professional, you can create a corporate structure that meets your needs and can provide the perfect mechanism towards helping you build and keep your family's fortune.

Money Buys Things

Although many people avoid talking about money at all when your child is this age, setting a good foundation right away is pivotal to the child's development. It seems obvious but perhaps the most basic concept of money they can learn is simply that money buys things. It's hard to imagine, but there was a time when even you didn't understand this concept. When your one- or two-year-old sees you grabbing things at the store they don't understand you aren't just taking those things. It must be explained to them that you are purchasing those things in exchange for money. Let them see you making a small cash purchase of something they can relate to, like food or juice purchased for them. Using actual bills or coins is important at the beginning to simplify the concept. The idea of credit cards can and will be introduced at a later age. A grocery store purchase is perfect for this since they can relate to food and understand that it is something you need to have. As you hand the money to the cashier, point out to them that "Mommy is buying the juice you like with money. We trade the money for the juice." Remember, as with everything we teach in this book, repetition is key. You probably didn't learn trigonometry the first time you saw it either. You may have to point out this transaction several times. A key concept to convey to your child is that when you have money, you can trade it for things you need. It's important that they begin to grasp the fact that money isn't an end, of and by itself, but rather a means to an end. After you give the money to the cashier, point out that the cashier can now go and trade the money for something they want (explaining the fact that the cashier doesn't actually get to keep the money is a story for another time).

During the later stages of this age group you may be able to best explain the transactional nature of money by explaining that if the cashier wanted a watermelon and you had one at home you could just trade the watermelon for the juice, but the watermelon would be heavy to carry so it would be much easier to just use money so the cashier could buy their own watermelon. Plus, you might not have what they want so trading money lets them get what they want, not just what you have to trade.

One way to think of the purpose of money is to think of the idea of water – our most basic of human needs. We all need water to live. The pipes that run through our cities and houses are necessary tools to bring that water to us, but the water is what we really need. In the same way that a pipe can help water flow from one place of need to another, money can be thought of as the pipe, or conduit, from one person's needs to another's. The idea of money as a mere conduit is an important one to begin conveying early. Just like the water pipes, it's a tool to get what we need and want. Later in life you'll teach your child how to use that tool.

Counting Money

Use money to help your child count. If your child would rather taste a penny than count it, you might want to hold off on this lesson a bit. However, once they can be trusted not to eat it, counting money with your child can be a great way to introduce both counting and even basic math. Start with pennies and having them count a handful of coins. While counting, point out that "This money is valuable and can help us buy things, so make sure you don't lose it (or eat it)." Once your child grasps the idea of counting pennies you can explain subtraction by removing pennies from their hand. As they get older, you can try introducing the concept that different coins have different values. If you teach your child to count nickels or dimes it will help them learn to count by 5s or 10s. Eventually you can even introduce quarters into the mix. If they've mastered addition and subtraction, then the different denominations can also help them begin to understand the concept of multiplication. Kyle remembers sitting at the dinner table with several piles of different coins. He made one stack that had 5 pennies and another with a nickel. He then added another stack of 5 more pennies and an accompanying nickel so his child would count them out and see how 2 stacks of 5 pennies is the same as 2 nickels. After practicing this several times, Kyle then added 3 more nickels and placed them next to 3 more stacks of 5 pennies and a quarter. He eventually made it a game to have his kids figure out different ways to make equal stacks of money using different coins. You might even let your child win rewards for passing certain counting milestones. What rewards would they win? How about rewarding them some of the coins they just counted? To cement the point that the coins have value, consider letting them use their newfound wealth to buy a treat or small toy. As they near the end of this age range you can even use shopping trips as opportunities to count money. Pick out a cheap item and tell them how much it costs. See if they can count out the coins necessary to buy it. Yes, this will slow down your shopping! It will be worth it some day when they are buying your groceries because you've given them such a firm understanding of money.

Goal Setting Foundations

Goal setting is integral to a child's success in life. It's so important that we will discuss it in four different sections of this book. If you follow our guidance, your child will be an expert at setting and achieving goals by the time they are an adult. Of course, they aren't an adult yet. They are just a very young child. But that doesn't mean it's too early to begin laying the foundation for what will eventually become goal setting. At its most basic level a goal is just something we want to do. Even your 2-year-old can understand that. Goals at this age should be of short duration and relatively easy to attain. The point is to create a habit of setting small goals and achieving the satisfaction of reaching them. If your child is learning to count pennies like we discussed in the last section, they can have a goal. You might say, "Great job counting to five, Tristin! Now let's see if you can count even higher. Let's set a goal to count to seven!" Equally as important as setting the goal is celebrating their victory when they reach the goal. This is the time to heap praise on them and let them know how proud you are of them for reaching their goal. Using the term "goal" when you talk about this will help them associate positive feelings

with goals and help them work to set and achieve new goals. It becomes a positive feedback loop of setting then achieving goals, then continuously setting and achieving goals. Remember to never forget the feedback. Even at this age you can look back and reflect with your child how they did. You might say, “Tristin, I’m so proud of you. When we started today you could only count to five but now you met your goal of counting to seven! We practiced and practiced and now you did it!” In the next chapter we’ll provide some specifics on how to set well-defined goals. For now, we’re just introducing the concept and the terminology and using the term *goal* rather loosely. As your child gets older you can begin challenging them with more difficult goals, and those that might take a longer duration to complete. Until then, just work on the repetition of setting, achieving, then reflecting on the goals.

Although most of the goals you set for your child should be short-term at this point, you can also begin to plant the seed of long-range goals. Loral created a unique way to talk about longer-term goals with her children that blended the idea of Christmas and New Year’s resolutions. During the holidays, starting at age two, she would get together with each of her children and talk about the year that had passed and the one that was about to begin. To make it fun, Loral would outline the shape of a stocking and draw a line down the center of it with the current year at the top of one side and the upcoming year at the top of the other. On the left side, the child would reflect and write down what they did that they enjoyed in the previous year. When her children were toddlers Loral had to guide most of the conversation, of course. As her children became older and reached five years of age, they were able to add more and more to the conversation and the stocking. At this age they may have written things like “won our soccer league,” “became friends with Luke,” or “learned to play chopsticks on the piano.” Loral would then guide the conversation to what things they would want to do in the next year. The right side of the stocking would be reserved for these goals for the upcoming year. For Loral’s daughter Tristin, this might have included goals related to her dance or basketball competitions. A year later, Loral and her children would pull out their stockings from the previous year to review and reflect how they had done toward meeting the goals they had written down. Even though she was sometimes leading the conversation, talking about the stocking was an early-stage behavior of getting her children to learn goal setting and reflection, year after year. It also provided an opportunity for her children to notice how their actions and behaviors either helped them achieve their goals or not. She found it was very important to begin managing the conversation and realization in her child that their actions have consequences. As each child became older, Loral would encourage them to include a goal that was related to their personal development. This would include health goals, family goals, charity goals, spiritual goals, and of course financial goals. In addition to setting the foundation for goal setting, another advantage of the stockings is that they provided a way to track her child’s handwriting and development over the years. Her son Logan is 20 years old at the time of this writing, so she has 18 years of memory lane of his goals and handwriting, including the letters of his name, which she helped him write when he was two. Her daughter Tristin started even younger. In fact, Loral continues the Christmas stocking tradition to this day. Even her son’s girlfriend had to fill one out when she visited the previous Christmas. Loral loves how it provides a great way to track the family’s progress over the years. She also feels the exercise

created a great foundation for teaching her children the basics of goal setting in a purposeful yet fun way that brings the family together and creates memories.

Basic Opportunity Cost

Webster defines opportunity cost as:

"the added cost of using resources (as for production or speculative investment) that is the difference between the actual value resulting from such use and that of an alternative (such as another use of the same resources or an investment of equal risk but greater return)."

That's a mouthful. Don't worry. We're not suggesting you use the term "opportunity cost" with your five-year-old child. It might be better to phrase it as "money choices." In other words, opportunity cost is the cost of giving up the chance to buy (or do) one thing by making a choice to buy (or do) another. Since money available at a given time is limited and we should only spend what we have, we must make smart decisions about which things to buy with that money. This is the key to opportunity cost. How do we begin to introduce this concept to our children? One way to teach this concept is to again use the grocery store as a learning tool. You might say to your child "Bret, Mommy only has 5 more dollars to spend on groceries. She could either buy the granola bars you like or the juice you like. We can't buy both. If we choose the granola bars, we can't get the juice. If we choose the juice, we can't get the granola bars. We must choose which one would be the best choice. Let's talk about which one we should choose and why." An exercise like this might seem trivial but by doing so you teach them many lessons, not the least of which is that sometimes life comes down to choices and they need to put thought into those choices. Believe it or not, that is the beginning of getting them to understand opportunity cost. Later in this book we'll help you teach your child the tools to help make better decisions on their money choices. For now, focus on getting your child just to understand that these choices exist.

Delayed Gratification

Sometimes good things are worth waiting for. Although we believe in living a life of abundance and doing what is necessary to create that life of abundance for yourself, it's important not to put the cart before the horse. As Loral has stated in her books, "Successful, wealthy people are those who build their assets and then they build their lifestyles." In order to do this, we must delay consumer purchases of things we want until we've created the income to afford it. In Kyle's experience teaching about money, he has found one's willingness to delay gratification to be one of the pivotal factors which makes up one's money psychology. It shows a huge correlation with a person's ability to save money, the first step in investing. Thus, it plays an enormous factor in a child's potential for great wealth. Since this attribute is largely fully formed and relatively stable through adulthood, it's up to you to teach your kids while they are young. How can we do this? Like most things, it requires setting a good example. Talk to them about times when you are going to delay your gratification, even if it isn't about money. If you

are considering a tasty dessert, explain to them that you really want to eat it now, but you are going to wait. “Daddy loves ice cream,” you might say, “but he’s going to wait to eat it until after dinner.” Teaching kids that even as adults we don’t always get what we want right away will help avoid creating entitled kids. The next time they whine for candy or a toy at the store, remember that even though buying it for them might help avoid a temper tantrum and personal embarrassment, it teaches them entitlement – that they should get whatever they want whenever they want it. It doesn’t even matter if you can afford it. They don’t understand that yet at this age. They just see the instant gratification. Of course, we all love our kids and want to give them everything we can, but we also need to realize that giving them everything they want is training them to believe that they never need to deny themselves anything. Not only will this create problems for them later with debt, but it will create a host of other problems with health, work ethic, and self-discipline. In fact, we believe that developing delayed gratification is a key component in teaching kids about willpower, a trait that will be vital in helping them find success in all aspects of life.

Never Pay Your Kid an Allowance

It’s important that kids begin to develop an appreciation for money at an early age by sometimes earning and spending it on their own. As your child approaches the later years of this age group, and understands that money buys things and how to count it, they are ready to start earning it by helping around the house. Many parents have turned to an allowance as the answer for this. The problem we’ve always experienced with an allowance is that it sets up an expectation that they will be paid the same amount every week or month, no matter what they do. Paying your kids a fixed, flat rate teaches them to be employees rather than entrepreneurs. Why pay them a fixed amount when they don’t have fixed potential? Allowances also make it difficult to police whether they do all the chores they are supposed to do, and it can sometimes breed in the child a sense that they are entitled to their allowance regardless of how well they perform. Allowances also allow for no acceptance of the fact that some tasks are more difficult, create more value, or take more time to accomplish. They often don’t seem fair to the child because in weeks when they perform particularly difficult or labor-intensive jobs, they receive the same pay. Finally, occasional extra help will inevitably be needed from them, and in the allowance system there won’t be a framework for the extra pay.

Instead of using an allowance, we prefer a different approach. Certain chores should be required just for being a part of the family. Since the family is all working together to help each other out, these chores should not be compensated. When ours kids would complain about these chores, we would remind them they had free rent and meals. It may take some repetition but eventually they will learn that arguing against these basic family chores is fruitless, especially when you offer a host of other chores for which they will get paid.

For the tasks that go beyond the level of basic family chores we recommend a more entrepreneurial way of doing things – pay per job. Start by sitting down with your child and creating a brainstorm list of age-appropriate tasks that they could accomplish in exchange for pay. At the beginning you shouldn’t assign any pay to these tasks. Just write them all down. Try

to be creative and come up with everything they could possibly help with. As they grow older and more mature you should continually modify the task list to keep it age-appropriate. It's probably best to also modify it every quarter to keep your kids engaged and learning, since they tend to get bored and lose attention if you don't mix things up regularly. It may take a few days to even a week to make sure you have an exhaustive list. You can use the template at the end of this book titled "Home Tasks Negotiation List" if you would like. For now, just write the brainstormed ideas into the "proposed home tasks" column.

Once the brainstorm list is complete, you and your child need to decide on a shortened list of 5-10 items, depending on their age, that you can both agree on them accomplishing. One way to do this is by rating the items on your brainstorm list by your child's rating and the parent's rating of importance. Place these ratings in the template in the appropriate columns. This is your opportunity as a parent to groom the behaviors you want to instill in your child. Good manners and hygiene-related tasks could even be part of the list when your child is young. Use the ratings and whatever other criteria you decide on to confirm your shortened list by putting checkmarks on the far-left column of the template next to the tasks you have finalized. The shortened list you create in this step becomes the actual list of tasks your child will perform. For example, when Loral's son Logan was 9, he had the tasks of taking care of his sister when his mom was busy, taking out the trash for the whole house, doing his own laundry, cleaning the garage, and raking the lawn. It's a good idea to create a name from this task list to differentiate it from the chores they are expected to do for just being part of the family. We like the name "Home Tasks." Now that you have the Home Tasks list, the fun part begins. Offer your child an opportunity to bid the jobs for a reasonable price. This will make sure they feel a sense of inclusion, which will help later in keeping them motivated. The pay your child receives from Home Tasks could be called "Home Pay." This pay should generally be per task but could occasionally be per minute or hour for very open-ended tasks. You should also negotiate the frequency at which each task should be completed as well as the maximum time allowed. Document these details on the template in the appropriate columns. Imagine having the power to say "Bret, it was your idea to agree to empty the dishwasher for 50 cents. It wasn't mine. You agreed to do it twice a week. You need to follow through on your job." Allowing your child a say in the process will also teach them to improve their negotiation and sales skills. If you don't think young children have sales skills then you've apparently never been on the receiving end of a 4-year-olds' diplomatic negotiation for "just one more cookie, pleeeeeeeeeese?!?" In the end, your child will need to understand that you'll only accept reasonable bids and your say is ultimately final. Just make sure you let it be a discussion and that you do offer a reasonable salary. Kyle remembers when he and his wife Tracy were painting an investment property and they enlisted their kids' help. The boys originally wanted to be paid nearly the same per hour as the professional painter. Once they were shown the huge disparity in what the painter had accomplished in an hour relative to what they had completed, they had no choice but to acquiesce. Depending on what your child bids for each job, you may find yourself paying them less for some jobs than you might have otherwise agreed to and more for others, especially those they really hate. It may take some time to hammer out all the details.

The next step in the process is to come up with a behavioral agreement to make sure your child accomplishes the agreed upon tasks in the way you intend. The behavioral agreement will provide the expectations you have for your child's work. If you don't set expectations up front you are setting yourself up for problems and arguments down the road. This is true whether you are working with adults or small children. The behavioral agreement should include the standard necessary for a task to be considered accomplished, as well as the timeframe. Write the behavioral agreement details in the "additional notes" section of the template. When they first start and are young it will probably take your child some prompting to build the habit of doing their tasks on time. Eventually, as they get older, they shouldn't be prompted at all. If they don't accomplish their tasks, then they shouldn't get paid. When they no longer have money to buy the things they want, they will learn they have to work to get paid. It sounds a lot like adult life, right? The entire process is 3 steps:

1. Create a brainstormed list of age-appropriate tasks
2. Create a prioritized Home Task list with pay for each task
3. Create a behavioral agreement

All that is left is the follow-through. The follow-through includes keeping track of the Home Tasks your child accomplishes on a monthly basis. We have included a template titled "Home Tasks Invoice" for this purpose. When your child is young you will probably have to help them fill this out and keep track of their tasks. Once they are older, it should be their responsibility to honestly fill it out and bill you. After going through all the effort to set up these Home Tasks, make sure you stick to it. If it sounds like work, it is. Don't fall into the trap of just doing everything yourself because it's easier and cheaper than explaining and monitoring the work of your kids. At the beginning it absolutely will cost you more in time and effort than if you did it yourself. Eventually, if you continue the Home Tasks throughout their childhood, they will gradually learn how to be independent and an important contributor to the household. The point is to teach them a skill, the value of hard work, and the responsibility necessary to follow through on their commitments. Additionally, it sows the seeds of entrepreneurism and creates their first opportunity to earn, save, and invest their own money – an invaluable lesson.

In a promotional video for “Never Pay Your Kid an Allowance,” Loral’s son Logan describes his Home Tasks.

Chapter 5 – Ages 6-8

"If one does not know to which port one is sailing, no wind is favorable."
Lucius Annaeus Seneca, famous stoic philosopher

By age six, most children have begun to be capable of expressing themselves well through words and are beginning to understand that actions have consequences. As a result, parents can begin to teach them some more advanced concepts about money. This is the age where, if you began teaching them money concepts early on, they will begin to surprise you sometimes with their understanding. Ages 6-8 is also the point at which they will probably begin school of some sort so they will now be exposed to the influence of school teachers and even other classmates. Not all of these people are as enlightened about money as you, so this is definitely not the time to let up on their teaching. Remember, the traditional school system was created to teach employees but we want to groom future employERS – leaders, entrepreneurs, and business owners. Most of the concepts discussed in this book will almost certainly not be discussed in school, so as parents we have to take an active role in making sure that our children get a proper education on money. After all, it's one of the few things they will have to deal with nearly every day of their life.

Your Child's Money Goals

As a former pilot, Kyle likes to use an aviation-based variation on Seneca's quote at the beginning of the chapter. As Kyle says, "It's really hard to plan a flight if you don't know where you're going." Goal setting helps you learn where you're going and discern the destination. This is just as important for kids as it is for adults. In the previous goal-related section titled "Goal Setting foundations" we helped build the framework for building the goal setting habit in your child. In this section we will first make sure you understand how we recommend that you as an adult set your goals. Then we'll show you how to do so for your child.

Loral and Kyle both have educational backgrounds in psychology. For years the psychological community and nearly all successful people have recognized the importance of goal setting. Goal setting is not just about wishing. It's about clearly defining an intention and a plan. Former first lady and esteemed diplomat and activist Eleanor Roosevelt said, "It takes as much energy to wish as it does to plan." When we set a goal, we create a plan to make that intention come true. It's also important that we understand the underlying reason for our goals. One of the best ways to figure this out is what we call "The Underlying Why Test."

The Underlying Why Test gets down to the true reason for your goal. It includes stating your goal then asking why 3 times. Here's an example: Kyle remembers mentoring a woman who wanted to be rich but hadn't really set a goal for how she would accomplish that. To preserve

the innocent, we'll call her Mary. Kyle asked Mary to think for a few minutes about a specific financial goal she had for 20 years in her future. After sitting silently for a few minutes to think about it, Mary replied that her goal was to be rich. Kyle then asked her "Why?" After some thought, Mary responded that she really wanted to quit her job. Kyle persisted and again asked her "Why?" Taken aback a bit, Mary responded that she really hated the structure at work and wanted to do something that gave her more freedom of her time. She looked pensively at Kyle, hoping he was done interrogating her. "Why?" Kyle queried with a calm persistence. "Because I really want to spend more time with my family," she blurted. Kyle smiled as the realization swept over her. At last they had uncovered the core reason for Mary's goal and could construct a new goal that was more specific and in true alignment with her underlying *why*.

We've found some important characteristics of goals. These characteristics are the same characteristics that Kyle used before every flight as a fighter pilot and instructor pilot when discussing objectives for the upcoming mission. All goals should be:

1. Specific
2. Measurable
3. Attainable but Ambitious

Let's talk about each of these requirements in turn. First, goals need to be specific. Broad goals like being happy or rich can't be easily defined, and it's impossible to know if they've been accomplished. Breaking down these vague terms into more detailed and distinctive parts will help them be more easily defined.

This leads us to the second criteria, that goals should be measurable. This usually means they can be counted or otherwise quantified. Goals aren't just some nebulous star on the horizon that we dream about or hope to go toward. We want to be able to know when we've reached that destination. The only way to do this is to ensure it is measurable so that we can objectively assess and calculate our progress toward the goal. This also requires a time or duration component so that we can measure our progress on that timeline.

Finally, goals must be attainable. We could say we want to land on that distant star by next week but if the technology doesn't exist yet, this may be a bit too lofty a goal. No matter how much we profess that we will reach that star, our brain won't truly believe it, and we won't take any action. Many people make the opposite mistake and make their goals too easy to achieve. It is for this reason that Kyle added the "but ambitious" part to the commonly used Specific, Measurable, and Attainable criteria. We'll call this new goal criteria the SMAA criteria. He found that people tended to not think big enough. Oftentimes, big goals are actually easier to meet because their big rewards inspire more action. Remember, inspiring action is the entire point of creating goals. We've also found that people tend to underestimate their ability to reach wealth. Our discussion of compound interest in the "Investor mindset – Compound interest" section of Chapter 2 of this book should make it clear that real wealth is attainable for anybody. Keep those goals ambitious.

Let's revisit Mary and her goal. She stated that her goal was to be rich. This goal wasn't specific or measurable at all. It's hard to even know whether it was attainable because there is no way of knowing when it has been reached. After going through the Underlying Why Test we found that what Mary really wanted was to spend more time with her family. One could argue that this could be attained without being rich, but let's assume the best way to accomplish her Underlying Why was to ensure she could replace her job with passive income to cover her expenses. This would allow her to dedicate the time she was previously working to be with her family instead.

The first step would be to figure out how much income she needed to replace. In this case, Mary made about $40,000 per year, and this amount could cover her expenses. There are a thousand ways Mary could replace that income with a business that would allow her to spend more time with her family, but Mary didn't want to work at all. For simplicity's sake, let's say that a wealth account that produced that $40,000 annually in a passive way would work best. To ensure Mary could grow her wealth account sufficiently to replace what was pulled out annually, we recommended a goal of 1 million dollars. One million dollars invested in a conservative portfolio of investments would feed her $40,000 needs even if it was conservatively invested and only grew at 4% per year. If she was willing to let her account slowly be depleted, it would even account for increasing expenses or allow for an even more conservative portfolio. We've now established that, for Mary to achieve her Underlying Why, she should aspire to reach 1 million dollars. This is much more specific than just "being rich" but it doesn't meet all the criteria for a good goal yet. When does she need that 1 million dollars? If she doesn't achieve it until she's on her death bed it didn't really meet the intent of her Underlying Why because it would be too late to spend time with her family. Until there is a timeline it isn't truly measurable.

Mary would have liked to be a millionaire instantly, but this wouldn't have been attainable outside of winning the lottery. She was 28 years old and only had $50,000 in savings so it was going to take some time, hard work, and discipline. Although she wasn't sure she could ever be a millionaire, Kyle assured her that an ambitious but attainable goal would be "to have 1 million dollars in net worth by the age of 43." This was a goal that was specific, measurable, and attainable but ambitious. It would also lead to her achieving her Underlying Why.

The good news for Mary is that she now has a long-term, well-defined goal that will help her achieve her Underlying Why. The bad news is that her goal is so far out on the horizon that it will be difficult to take daily action toward it. To do so, we'll need to break that goal into shorter term goals. Loral calls these One-Year Freedom Day Goals. The one-year goal can be further broken down into a 120-day plan. Now at last we have something that can guide our daily actions. This plan should include specific actions you will take to accomplish your one-year goal, and ultimately your long-term goal.

If Mary wanted to focus on her assets this year, her one-year goal might be to purchase an income-producing asset and grow it from $50,000 to $70,000. Alternatively, Mary might choose to make her one-year goal the creation of a Cash Machine business that would provide her

$2,000 per month in cash flow. Her 120-day plan might be to create an online presence for that business. This could be further broken down into weekly activities to set up a website, Facebook page, and LinkedIn account for the business. Daily activities might be getting headshot photos of herself or creating a logo.

The more granular and detailed you can be with your plan, the easier it is to follow. Think of it this way. Imagine you wanted to take a trip to a friend's house several hundred miles (or kilometers) away. If you were given a map that was taken from outer space, you would have a tough time figuring out the details of the route. The global map would be handy to give you a general direction, but you would need something more to know what to do when you reached the stop sign on Main Street.

We discussed this goal setting topic at length because even many adults haven't taken the time to set appropriate goals. Even though your kids may not think much about the future, it's important that you begin to nurture in them the habits of setting goals for the future and striving to achieve them. We would recommend that you use the exercise with Mary as an example for how you should help your child create their own goals.

In the space below, write down your child's goal – for now this can be a short, intermediate, or long-term goal. For most kids we wouldn't recommend that you set the goals out too far into the future – probably no more than a year or two. The point is to get them in the habit of setting goals.

Your child's initial goal:
_____

Now go through the Underlying Why test to find out what they really want. Remember to follow the process of asking why 3 times to reach their Underlying Why. After each "Why" right down their answer below:

Why _____
Why _____
Why _____

Now help them come up with a goal that better suits their Underlying Why. Make sure it is Specific, Measurable, and Attainable but Ambitious (SMAA).

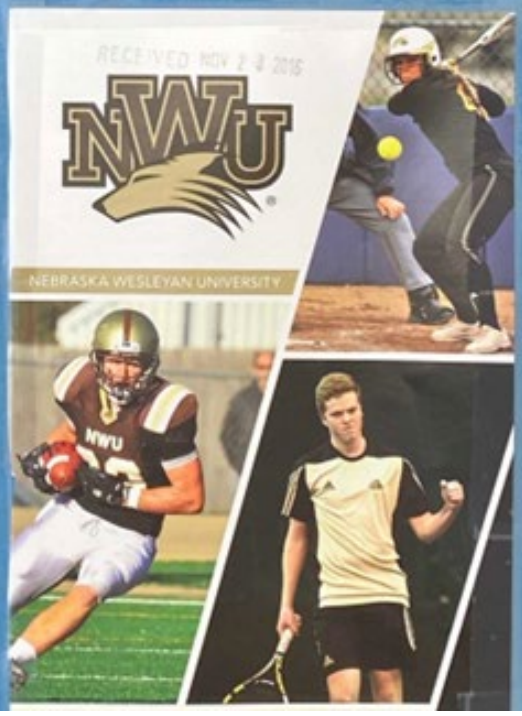
Your child's revised goal:
_____

You might be surprised how enlightening it is to get a glimpse into what your child finds important. At the very least you'll get to know them better. You'll also be creating a goal setting habit that helps inspire action so your child will learn how to work toward their goal instead of just dreaming of it. Now that you've written down your child's goal here, have them write it

down on a notecard, post-it, or small piece of paper. Have them display it in a place they will see every day. Constant reminders of our goals breed constant action toward those goals and ultimately, lead to their achievement.

Another idea that can cement a goal into our brain and bring it to life is to use pictures. Loral has found that one of the most successful and fun ways to engage children in goal setting that they get excited about is to have them create a vision board. Both of Loral's kids, Logan and Tristin, used these vision boards to inspire them to reach their childhood goals. To create one for your child, help them find and cut out pictures of things they'd like to purchase or achieve and have them paste these pictures onto a piece of cardboard. Remember, these don't have to be only items. The vision board is for all their goals in life. For example, they may wish to include a picture that represents your family having fun together on vacation, a special trip with their friends, or them nailing that perfect score at the dance recital. Things that cost money are only ever a part of the picture of a great life! Encourage your child to be resourceful in finding pictures for their vision board. They may use magazines, catalogues, the internet, or simply draw pictures of what they want. Below are a few examples of vision boards that Tristin created when she was around 7 years old.

GOALS & VISIONS



When your child selects pictures for their board, have them explain to you why they chose them and what it will do for them once they've achieved each goal. Before gluing the items onto the vision board, ask them which things they want most and which things they want first. If their goals are things they want to buy, check that they have a realistic price for the item and add that as well. Remember the Underlying Why test. The more interactive this process is between you and your child, the stronger their connection will be with their goals and the better you'll get to know your child. If they change their mind about an item they want, they can simply paste a new picture over the previous one. It's okay to create the entire collage digitally as well but make sure you print it out so they will have a constant reminder. Just like the written goal you created before, the vision board should be placed somewhere they will see it daily. The point is that the pictures will help them check in with their subconscious mind and envision the achievement of the goal.

Tristin poses with her mom Loral as she proudly shows off her vision board folder on the set of a TV show where they discussed it

Family Financial Goal Setting

Now that your child has their own personal goals, it's time to include them in some of your family's goals. What better way to cement the habit of goal setting in your child than to show them that your family has goals as well? Talk to your children about goals the family has set that they can relate to. They probably won't appreciate your goal of saving for your own retirement, but if you explain how you and the family are striving to save money for a vacation to Disneyland, you can bet they will be interested. Letting them be a part of the goal planning can be educational and even fun for the whole family. It will also teach them the value of goal setting and the excitement when, after hard work, you achieve that goal. We'd recommend having a family goal setting session where you go through the steps described in the previous section "Your Child's Money Goals." This could be during Christmas, like Loral does when she has her Christmas stocking exercise, or any other time that makes sense for your family. Write down your goals in the space below:

Your family's initial goal:

_____

Now go through the Underlying Why test to find out what your family really wants. Remember to follow the process of asking why 3 times to reach your Underlying Why. After each "Why" right down your family answers below:

Why _____
Why _____
Why _____

Now come up with a goal that better suits your family's Underlying Why. Make sure it is Specific, Measurable, and Attainable but Ambitious (SMAA).

Your family's revised goal:
_____

Just as before, learning what your child is interested in and what their perspective is for the family's goals can be illuminating. This would be the perfect opportunity to begin talking about the similarities and differences between your child's goals and adult goals, or those of the entire family. Consider discussing how each of you will do your part in working for the goal. This would be an ideal opportunity to show them that if they want something extra, they have to put in extra work. If a vacation is the goal, tell them that if they help save and make extra money, they can use that money to buy extra souvenirs or special treats while on the vacation. Now might be a good time to encourage an entrepreneurial endeavor like a lemonade stand, raking leaves, or shoveling snow. At the very least they should have the opportunity to make extra money through their Home Tasks as discussed in the last chapter in the section "Never Pay Your Kid an Allowance." A carefully chosen family goal should be a motivator to inspire action in both you and your child. It can also bring you together as a family. Think of the times when you were involved in an organization that achieved a goal. Maybe this was a sports team or community organization. Remember how the hard work brought you together? Recall how incredible it felt when, after months of hard work, you finally achieved that goal. Were there times when you lifted each other up and achieved a strength greater than the sum of your parts? Even if you didn't achieve the goal, the mere act of pulling in one direction helped you come together as a team. It created bonds of comradery that endured well beyond the time spent working toward the goal. Take a moment to close your eyes and try to remember how you felt when you achieved that goal, and how you felt about your teammates. Isn't that the type of emotional bond you want to cultivate with your family? Family goal setting and the requisite hard work to achieve each goal can foster that family bond.

Hunger for Dreams but Contentment for Things

Scottish professor, philosopher, and historian James Mackintosh once said, "It is right to be contented with what we have, but never with what we are." The line between staying hungry for your dreams and content with your things is a fine line to walk. We believe that big dreams are absolutely achievable, and we would never want to stifle a child's desire for grand things by saying they should be content with their current status. That's why we spent the last two sections talking about goals. In fact, we are both huge believers that money can be abundant if you have the right mindset about it. That being said, we also believe that the incessant desire for more things is a path that will never lead to happiness. Social media and targeted advertising can now reach right into your child's phone and tell them they aren't good enough

unless they have the latest toy/gadget/game. Trying to keep up with the Joneses, as they say, is a recipe for disaster. For many, living in the Lifestyle Cycle like this will lead to a lifetime of debt where they are kept in chains by their consumer debt – never able to achieve the independence that comes from financial freedom. This is a very difficult lesson to teach because children (and often even adults) only see the outward trappings of what they think is wealth – the fancy toys, the new car, etc. What they don't see is the underlying debt that many people have, and the resultant shackles. One way to help your child understand this might be to give an example from your past of an item you purchased which you thought would provide happiness, but you later learned it could not. For example, you may have bought a new vehicle or an extravagant piece of jewelry because you were feeling down and thought that purchase would make you happier. It may have worked for a week or two, but after that the buyer's remorse set in. This is when you realized that you bought something for all the wrong reasons and all you really did was delay your ability to reach your financial goals. This regret almost always lasts longer than the initial joy of the purchase. Your kids may still have to experience this regret to fully learn the lesson, but warning them about it will hopefully keep them from making the mistake over and over. As with most of the lessons in this book, the other best way to teach them this concept is through leading by example. Just because you could afford a new car/house/boat/RV/motorcycle doesn't mean you need to buy one. It's okay to be content with the things we have.

Conversely, the same people who have a huge appetite for things sometimes seem to have an underdeveloped hunger for pursuing their own dreams. This seems backwards to us. Big dreams are what drive us and get us out of bed every day. We should always try to improve ourselves and keep dreaming and setting larger and more ambitious goals. Kyle likes to say, "A life pursuing your passions is far more fulfilling than filling it full of possessions." Teach your child to dream big instead of spending big and they will be well on their way to happiness.

Set Up a Bank Account in Their Name (and Yours)

Your child needs to have some place to put all that money they are making doing chores or perhaps other income-producing activities. That place is often a bank. It's okay to keep small amounts of money around the house or in a traditional piggy bank but the sooner you can teach them about financial institutions like banks the better. If you've begun playing games like Monopoly with your child, they may already understand the basic concepts of a bank. One way to describe a bank is that it's a very safe building for keeping money. The truth is a little more complicated, and it's worth beginning to explain some of the basics of how a bank works. Explain to your child that banks have two main functions:

1. To provide safekeeping for money put in the bank
2. To provide loans for people that need money

Banks don't do these things as a public service or just to be nice. They are a business just like any other business. Teach your child about checking accounts, savings accounts, money-market accounts and CDs, and the differences between them. Describe how the bank will provide

money in the form of interest as payment to the people willing to put their money in the bank, fulfilling function 1. The reason the banks pay people to keep their money is because that money doesn't just sit in the bank. The banks use your money so they can perform function 2, to loan out to other people at a more expensive interest rate. The difference in interest rates, sometimes called "the spread," is how banks make money. Here's an example you can relay to your child that may help them understand:

Bret at age 7 in full safety gear helping sand during a home renovation

Seven-year-old Bret was excited to earn some money. As evidenced by the picture on the previous page, he worked hard to earn his cash. After spending several days helping to sand and stain the countertop at his parents' house, he was excited to make $100. He deposited this $100 into a savings account which promised to give him 1% interest per year. After a year his $100 grew by $1 and he then had $101 in the bank. But the bank didn't keep Bret's money in the bank the entire time. They loaned $80 of it out to Deen. They charged Deen 5% interest on the loan. As a result, Deen eventually had to pay back the entire $80 plus an addition $4 in interest. When we take the $4 the bank made from Deen and subtract the $1 they had to give back to Bret, we find out that the bank profited $3 from using Bret's money. Multiply this transaction times millions of dollars and this is how banks can make so much money.

Obviously, the previous example was simplified. Still, it should be sufficient at this age to give your child a basic understanding of how banks work. This will be an important foundation that will help later when they learn about mortgages, promissory notes, and bonds. For this age, explain to your children that money in the bank account is generally for special things you need to save up for. Discuss ideas of long-term expenses they will eventually incur, such as college or a car. We don't recommend they have to keep all their money for goals that far out. Kids this age seldom have the patience for extremely long-range goals, so let them have shorter term goals for a portion of the money. For example, they may want to save up for a video game they've been wanting, a new bike, or perhaps even a gift for a sibling or friend. It's never too early to teach them the value of giving. We highly recommend at this point that you put the money in an interest-earning savings account or money market account. As they get older and have a business that has expenses, you may need to open an additional checking account, so they have a means of easily making payments. For now, keep it simple. It's not hard to set up an account. Just contact the bank your family uses and tell them you want to set up an account. They will be all too happy to do so. You will need to be the custodian with your name on the account, but they should be able to put your child's name on it as well. When the first statement arrives (or when you check it online) show them their name on the account and explain what an important step they have taken. Congratulate them on how proud you are of them for putting money away and having their own bank account. This account will form the foundation for what will eventually be their wealth account.

Interest Makes Your Money Work for You

To be wealthy you must learn to make your money work for you. Show your kids how interest works in the savings account or money market account you set up in the last section. Remind them that even the tiny interest they are receiving in their savings account is helping their money work for them. "But what if you could make even more interest?" you might ask. "The great thing about interest is that it grows at a compound rate."

Now is the time to use the miraculous "Rich Neighbor Example" from the section titled "Investor mindset – Compound interest" in Chapter 2. Don't just read the example to them. Ask them the quiz. Kyle was given this quiz when he was this age. The same example usually blows the minds of Kyle's adult students. Just think how impactful it will be for your kid. It was so

impactful for Kyle that he remembers it to this day, and it literally altered his thoughts and understanding about investing.

After completing the "Rich Neighbor Example," go ahead and explain the 10X, 100X, and 1,000X rules. The math for these rules was intentionally made very simple so it could be calculated quickly. If your child doesn't fully get it then you can set it aside for a year or two and introduce it later.

Understanding these formulas and how to use them will make it easy to calculate compound interest and investment growth. Even better, give them some examples. When your child makes some money (not *if* but *when*), quiz them on what that money could become if invested for 25 years. What about 50 years? What if it was invested every year? The more you can ingrain the growth potential of their earnings, the more likely they will be to invest their money in the future instead of spending it on the Lifestyle Cycle.

Again, the idea is to get our money to work for us, not to work for our money. With his military background, Kyle likes to think of his money as soldiers. He wants to keep his soldiers working toward his mission. The more they work, the more soldiers he gets and the bigger mission he can accomplish.

Active Income Versus Passive Income

Simply put, active income is money you must work for. Passive income is money that comes in automatically without having to work for it. Many types of income are somewhere in between and are mostly passive, but do require a little work overseeing them. We sometimes call these "pactive" income to differentiate them from income that truly requires zero work. Although pactive income isn't completely hands off it still generally qualifies in our minds as meeting the criteria for passing the PI≥E and giving you financial freedom. For example, a pension would be completely passive income whereas real estate or stocks that you occasionally checked on would still qualify as passive income by most people's definition, even though we may technically call those pactive. Let's look at where some common investments would fall on the passive vs active scale.

Passive	**Pactive**	**Active**
pension	rental properties	job
annuity	Hands-off/side-hustle business	Active business
CD	Buy-and-hold stocks/dividend stocks	Day trading
Money market or savings acct	Network/Affiliate marketing	
bonds	Write a book	

Note that many of the passive or pactive income categories require quite a bit of work on the front end. A pension takes years of active effort to earn. As we can attest, even writing a book

takes lots of active work on the front end before you can reap the passive income associated with ongoing sales. Also note that, depending on the investment, many of these could move more toward one side or the other of the scale. For example, investing in rental property can vary from fully active to fully passive depending on how much you participate in the management of the properties.

Another common example would be stocks. Even if you don't "day trade" stocks, if you are watching them throughout the day, then your investment leans more to the active side. If, however, you put your money in an ETF and check it only once a year, then your stock investment leans much more to the passive side. Speaking of stocks, if you don't own dividend stocks that provide a quarterly income, how can these be considered passive income? They really can't be considered income at all unless you sell them. However, if your total wealth in stocks grows to a point that you could easily sell off a percentage of it each year and still have enough to last your entire lifetime, we think this fits the criteria of passive income and making you eligible to Pass the PI≥E. The same could be true of any investment, as long as it is liquid enough that you could sell it to cover your expenses.

One example of money that probably wouldn't meet the criteria would be funds that are tied up in a trust or IRA that can't be accessed until you meet the dispersal requirements or reach a certain age. In this case you would need some way of bridging the gap until those funds became available. The chart above lists only a few of the ways to create income. In reality, there are dozens of variations on these options, and thousands of other income-generating options we didn't mention.

Now that your child is working for active income and also generating some passive income in their bank account, it's time to show them how their account can earn interest income for them without them doing anything. Even though the interest from their bank account will probably be extremely small, emphasize how appealing it is that they earned that money without having to do anything at all. If you show them your excitement for this concept, they will be excited too. If you haven't opened or discussed the opening of their IRA or education fund, this may be their first opportunity to witness the power of passive income – the key to financial freedom and passing the PI≥E! As soon as you can, you'll want to get some of that money invested into their Roth IRA. It is here that you will be able to demonstrate the true power of passive income. If they don't have much passive income themselves yet and you have an account statement you are willing to share with your child, you can show them how your account has grown (hopefully) over the last year and how you didn't have to work for it. Explain to them that the goal is to get your passive income to replace your active income. Once it does, you will have reached financial freedom and the whole world opens up to you.

Now would be a good time to review the beginning of Chapter 1 with your child to remind them how we reach financial freedom by "Passing the PI≥E." It won't be hard for them to recognize that PI≥E sounds a lot easier than sanding all day.

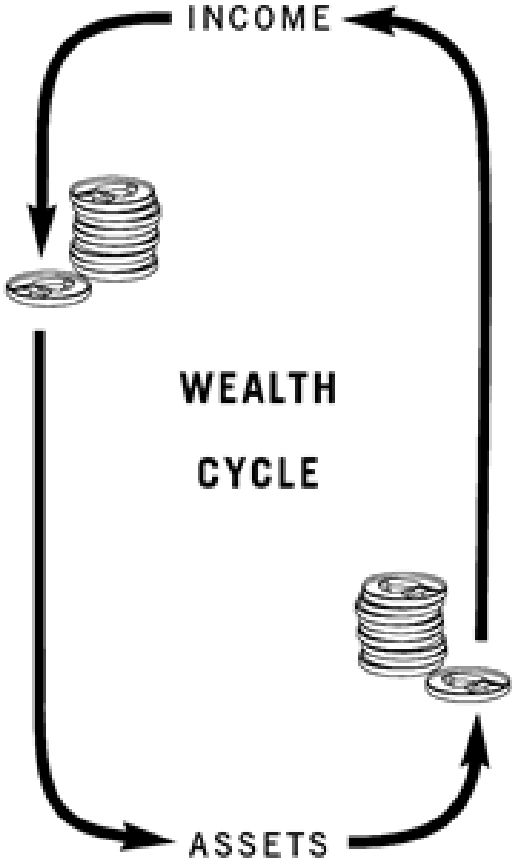
Pay Yourself First

Paying yourself first means setting money aside toward your savings goals before you spend it. When we say "yourself" we are really referring to your future self, because that is who will receive the benefit of the investing you do with the money you paid yourself. The quote could just as easily be "Pay your future self first." At this age your child probably has no necessary expenses at all since you as the parent are providing for them. This should make it easy for them to get into the habit of putting a portion of their money into a Wealth Account for investing it before they spend it. In fact, we would recommend you encourage your child to put at least 50% of their planned earnings into their Wealth Account. This will help them to turbocharge their Wealth Account while they have the incredible advantage of time for that account to compound and grow. Remember the incredible power of compounding we showed you in the Chapter 2 section "Investor mindset – compound interest"? Paying yourself first makes those incredible compounded growth numbers possible.

Although we had you set up a bank account in this chapter, it might still be a good idea to initially use the time-honored method of using jars for your child's savings so that they have a visual aid to help hammer home the concept. Here's how it works. In the last chapter we asked you to never pay your kid an allowance, but to instead give them Home Pay for Home Tasks they do in the household. Every week (or month) when your child receives their Home Pay, they should place it into at least three separate jars. Jar 1 would be their Wealth Account jar. Since we pay ourselves first, this jar gets a deposit from our Home Pay no matter what our income was for that week. As we said a moment ago, we recommend they put at least 50% of their planned income into their Wealth Account since they basically have no required expenses. The exact percentages are up to you but 50% should probably be the minimum. Since your child is putting 50% of their planned income into the jar, and we know from our Home Tasks list what your child is forecast to make each week, they can actually plan to put a set amount each week into their Wealth Account jar. That way, even if they didn't get their full income for the week, jar 1 would get paid no matter what. For example, if their weekly forecasted pay was $10 then jar 1 would always receive a minimum of $5. If they failed to complete all their Home Tasks for the week and only earned $5 then that Home Pay would all go into jar 1 and they would have zero spending money for that week. The next jar, jar 2, would be their charity jar. This would include money they planned to give either to the church, charities, or perhaps could even include gifts for friends or family. We recommend at least 10% for this jar but again, the percentages are up to you. Jar 3 would be the spending jar. Jar 3 would only get filled if the other 2 jars had already received their allocation of the Home Pay. You could also break it down into an additional 4th jar if you wanted, with one jar being for short-term spending money and another for longer-term purchases. It's up to you and your child to set up the rules how you see fit. The most important thing to drive home is that jar 1, the Wealth Account jar, always gets paid first and without fail.

After a month's worth of deposits into their jars, you could pull the money out of jar 1 and/or their long-term spending jar and place it in their bank account. We would recommend you continue with the jar method for at least a year or until you feel your child has ingrained the

pay yourself first mentality into their psyche and habit patterns. After that, if you would like, feel free to deposit the money electronically without the temporary visual aid of the jars. However, never let them alter from the practice of always paying their Wealth Account first. Remember the Wealth Cycle that we first introduced in Chapter 2, Millionaire Mindset?



In the Wealth Cycle, we pay ourselves first to buy assets, which then provide even more income, which we pay ourselves first to continue the cycle. If you can drive this point home to them, the math of compound interest that we demonstrated in Chapter 2 will make it almost inevitable that they will eventually become millionaires. It's that important. The key is to make contributions to their Wealth Account so automatic that they believe them to be mandatory. Their future self will thank them for it.

Basics of Credit and Credit Cards, ATMs, Checks, etc.

Broaching this conversation is easy. When your children are out with you buying something, show them that you are paying with a credit card. Ask them, "Do you know what this is and how this works?" Explain that credit cards, debit cards, and ATMs are a tool of convenience, so we don't have to carry around cash. They aren't magic money. Explain the similarities and differences between the different payment services and how they work with your bank account. Point out how other more modern payment services like Apple Pay, Square, and

PayPal work in a similar fashion. Make sure to highlight the difference between credit cards versus checks, debit cards, ATMs, and other money transfer services. Point out which ones only take out money that you already have in the account. Ensure you call attention to the fact that credit cards, in contrast, are basically a loan from the credit card company that you DO have to pay back. As a result, make sure your child understands that you shouldn't spend money you don't have. Further, you should always pay them off fully every month to avoid paying interest. You can remind them that when they put money in their bank account, they get to earn the interest. Conversely, if we don't pay our credit cards every month, we must pay interest to the credit card company, but at a much higher rate. As exciting as the interest is when it comes in, it's quite frightening how quickly it can go out if you hold a credit card balance. If they are ready for the math it might be worth explaining the difference between gaining and paying interest with a fictional $100 account. Make sure to use realistic interest amounts for the bank account vs the credit card to show the stark interest rate disparity. Here's a simple example:

The average interest rate on a savings account is currently approximately 1%. This won't provide much interest for our $100 account but at least it won't lose it like the credit card will. Credit cards today are charging on average over 15% in interest. These interest rates are the annual rates so they would assume 1 year of accrued interest.

Saving account at 1%	Credit card at 15%
$100 x 1% = $101	$100 x 15% = $115

As you can see, the credit card is growing interest against you 15 times faster than you can make it in the savings account. You could never keep up if you didn't pay off your credit cards. An even better lesson to teach your child is to never accrue the debt in the first place. When your child is older you can eventually explain the exceptions to having a credit balance and when buying investments with credit might make sense. For now, keep it simple and emphasize the dangers. The idea is to give them an overview of the different payment options so they are familiar with them and can gain comfort in hearing them discussed before they use them.

Frugality (Even If You Don't Have To Be)

While both Kyle and Loral believe that people need to keep their spending under control, they do differ a bit on the importance of frugality. Perhaps some of this comes from Loral's earlier path to entrepreneurism. Recall the discussion in the first chapter where we showed the equation I>E where I represented income and E represented expenses. As an entrepreneur, Loral was able to create a surplus on income by making her business produce more income and keeping the expenses relatively stable. With this surplus income she could buy assets. Recall that Kyle, however, was tied to a demanding 12-hour-a-day job (W-2 income) that left little opportunity to increase income. In fact, due to the 24-hour nature of the job, officers in the military must receive special permission to have another job (or business). This permission is usually denied. Thus, to create the same surplus of income that allows one to buy assets at a rate necessary to become a multi-millionaire, Kyle had to reduce his expenses significantly

more than most people of a comparable income. He was only able to increase his income by acquiring assets. Fortunately, his parents were excellent teachers of frugality and did a great job giving him the tools and mindset necessary to do so. This is why Kyle believes so strongly in teaching frugality to his kids. Even though he is simultaneously teaching them how to improve their income, he knows they may choose to chase a passion that doesn't provide large amounts of income. By having the skills to keep their expenses low, your children can still achieve the income surplus necessary to purchase assets and achieve great wealth.

So how does one teach their child to be frugal? The first step is reminding them that it is more important to BE wealthy than to LOOK wealthy. It doesn't matter what others think of your financial situation. An excellent book that talks about this concept is *The Millionaire Next Door* by William Danko and Thomas Stanley. In it the authors describe how many millionaires wouldn't appear so from the outside looking in. In fact, Kyle believes that looking like you are rich is a serious impediment to actually being rich. It's likely that most of Kyle's friends and family had no idea about his wealth until reading about it in this book.

The next major way to help your children be frugal is to set the example yourself. That doesn't mean you can never enjoy your money and buy nice things for yourself. It does mean that you do so very thoughtfully and with great consideration for the value you are getting for your money. Why buy a new car for $30,000 when you can buy a slightly used one that looks and runs exactly the same for $20,000? Then you can use the remaining $10,000 as a down payment on an asset like a rental property that can provide a steady stream of income for life. Frugality can also be displayed with smaller items like clothing and furniture. Just make sure you don't spend 20 hours researching or shopping the best price just so you can save a mere $20. Your time is worth WAY more than that.

The next way to promote frugality in your children is a tough one. In this day and age when the media and everyone around you equates showing that you are a good parent with providing your child everything he or she desires, remember this. You should shower your child with love, not gifts. Kyle recalls having the conversation with his son Bryce about one of his friends whose father had bought him a $50,000 truck for his 16th birthday. Kyle asked Bryce what he thought of that. Bryce said "Well, it is a really nice truck but I guess it seems like a waste to spend that much on just a vehicle." Kyle agreed but continued, "It's more than that though. When your friend goes out on his own and has to make his own living and that truck gets old, what will he likely do? He'll almost certainly feel like he has to go out and buy an even nicer vehicle because it's really tough to take a step down in life, whether it be with a house or a vehicle. People psychologically need to feel like they are stepping up in the world. If your friend isn't making really good income when he buys that next vehicle he won't be able to afford a truck like that and he'll probably go into debt and take out a huge loan he can't afford, just to prove he's better off than he was when he was 16. Your friend's dad thought he was giving his son a wonderful gift. What he likely did instead was to doom him to a life of consumption addiction and consumer debt – constantly trying to make just enough income to keep his head above water and feed his ever-growing consumerism." Bryce nodded and responded, "I might get a vehicle that nice someday, but not until I'm a millionaire." Kyle nodded quietly in agreement,

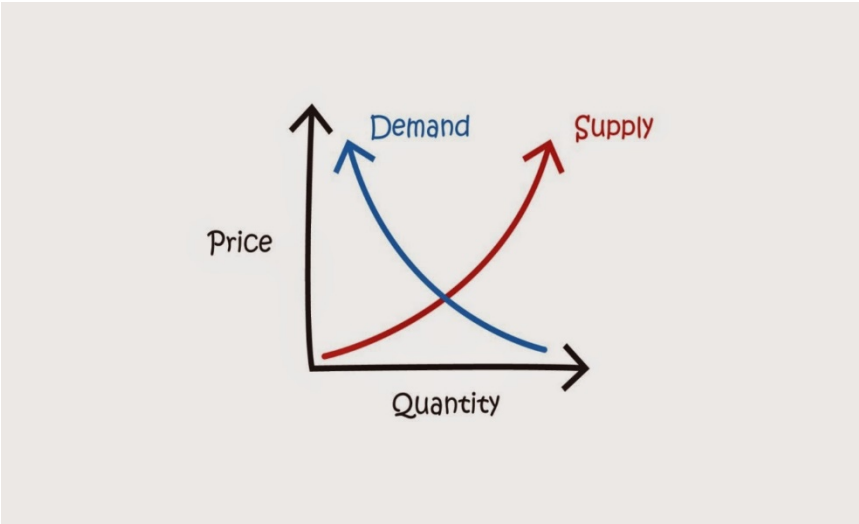
but inside he was beaming. His lesson was hitting home. We'll talk more about car buying and the problem with spending too much on a vehicle in the Chapter 7 section titled "Buying a Car."

In her book *The Millionaire Maker*, Loral describes this consumer debt trap as the Lifestyle Cycle. In the Lifestyle Cycle, wealth can never be built because money that comes in goes right out again to support perishable, one- time-use consumption. And in many Lifestyle Cycles, money is spent, thanks to credit cards, even before it's earned. Conversely, in the Wealth Cycle, money coming in supports assets – that is, money-making resources that will generate cash flow and create wealth. The difference between having wealth and not having wealth is the difference between living in a Lifestyle Cycle and living in a Wealth Cycle. A person earning $14,000 a year who understands the concept of a Wealth Cycle has a 100 percent better chance of building and sustaining wealth than a person who makes $1 million a year and lives in a Lifestyle Cycle.

We are all about having money to buy yourself things. Achieving the wealth necessary to do that is what this book is all about. However, we believe in using money primarily to buy yourself freedom and time so you can give those things to the loved ones in your life. In the end, they will appreciate those gifts from you much more than any expensive trapping of consumerism. If you absolutely must shower them with physical gifts, then at least make sure they understand that you are only able to do that because you first used your money in the Wealth Cycle before ever considering the Lifestyle Cycle.

Supply and Demand

The law of supply and demand is one of the most basic tenets of capitalism. The law states that the price of goods is linked to both the availability (supply) of a given product and the desire (demand) that consumers have for that product. If a product is low in supply or high in demand, then the price of that product should rise. If the opposite factors are in play (high supply and/or low demand) it will lead to a drop in the price of that product. Note the graphic below.



It's a simple concept but the intricacies and implications of this simple relationship have filled tomes of books and been the subject of debate amongst countless economists. When your child is this young, it's probably easiest to describe the basics using an example business they are already involved in and can understand. Here's a story about a business Loral's son Logan started when he was only 8 years old, and how he learned about supply and demand.

Logan's smoothie store

Loral glanced to the back of the room as she had done so many times before. Her 8-year-old son Logan was still sitting quietly at the back of her financial seminar. As a single mother, she often had to bring him to these seminars. "At least he's listening and being quiet," she thought. But she could tell he was getting restless. At the next break she walked to the back and gave him a high-5 as recognition for being such a good kid. "I'm getting thirsty," she stated. "How about you?" Logan nodded vigorously. "What I could really use," he exclaimed, "is one of those fruit smoothies you make for me!" Loral agreed. "But if you are back here drinking a smoothie then everybody else will be jealous and want one too." Logan's eyes lit up. He had a brilliant idea. "What if I made smoothies for everybody and sold them?" Loral practically glowed with pride. "That's a genius plan!" she declared with another high-5.

The next day, Logan brought in Loral's blender. He then had one of Loral's employees walk him across the street to get fresh fruit, yogurt, and juice. Combined with the ice they already had, he was able to make delicious fresh smoothies that the seminar attendees were happy to pay for during the breaks. Loral explained to Logan that the reason he could make such a good profit is that he had no competition. With no competition he controlled the supply. As long as the supply of smoothies was low the price would stay high (demand being equal).

"But what if your sister or somebody else came in and also supplied smoothies?" she queried. "There would be plenty of smoothies for everybody and you would probably have to lower your price to make sure people bought your smoothies instead of hers." Logan's furrowed brow made it clear he wasn't excited at the prospect of his younger sister moving in on his business.

Loral then asked Logan, "What would happen if you brought in extra fresh and juicy strawberries that were so delicious that everybody here wanted a smoothie, maybe even two smoothies, but you still only made a small amount of those smoothies for the entire room?" Logan shook his head knowingly and responded, "If I did that, then I bet I could sell them for even more!" Loral smiled and responded "Supply and Demand. You just increased the demand so…" But she wasn't able to finish. Logan had already absorbed the lesson and was sprinting off to get more strawberries.

How You Do One Thing is How You Do Everything

Consistently exhibiting attributes like hard work and attention to detail may not seem directly related to making money but they do influence a person's success in money matters like having a job, starting a business, or even investing. It's easy to slack off on these traits when one

doesn't think a task is important, or when nobody is watching. However, it's during these times that these traits are so important in order to have integrity within ourselves. Novelist Charles Marshall said, "Do the right thing, even when no one is watching. It's called integrity."

By doing things the right way even when no one is watching, we also create habit patterns that will carry through in all aspects of our lives. When your child does a chore or job for you, make sure they work hard (and smart) at it, and with attention to detail.

Kyle remembers passing on to his kids this lesson learned from his father while sweeping out the garage. He wasn't allowed to be finished until every bit of dust had been swept up. Nor were his kids. Why? Did it really matter? In the big picture it probably didn't matter that the garage was swept perfectly, but "any job worth doing is worth doing right" was always the answer.

Later in life Kyle passed that lesson on to his student pilots as well. Early in their training they would be severely chastised if they did not line up perfectly with the other jets at the end of the runway before taking off (even though it didn't seem necessary). When a confused student would ask why it was so important, that student would get a variation of the following response from Kyle: "In about four months you will be flying solo in formation in this jet with my aircraft a mere 3 feet away from you and occasionally upside-down or at 550 miles per hour. If you can't even line up on the ground with precision and attention to detail how in the heck can I depend on you to not kill me!" That seems pretty clear. How you do one thing is how you do everything.

Teamwork is Fundamental

In Chapter 3 we explained that teamwork is one of the twelve building blocks of the Wealth Cycle. We went on to explain how even single-seat fighter pilots like Kyle don't complete the mission alone. They work with a team. Building wealth is the same way. There is rarely such a thing as self-made millionaires. Instead, as Loral likes to say, they are Team-Made Millionaires. For example, fighter pilots usually employ in flights of several aircraft, or wingmen, to help provide mutual support.

The wingmen of the financial world would include a cadre of field partners. These are people in the field, who know the industry, the region, and the players in the arena you want to invest in. They provide the connections, legwork, and oversight, while you provide the cash, the credit, or the network of investors. Field partners include such people as realtors, chamber of commerce members, business brokers, and regional financial planners. Additional wingmen on your team might be other investors or business owners that you can collaborate with, affiliate with, or mastermind with to help one another reach your financial goals. A fighter pilot also has team member support on the ground from crew chiefs, maintenance personnel, air traffic controllers, intelligence officers, medical personnel, security forces, comptrollers, and a host of other support personnel. In the financial world this would be the professional advisors, lawyers,

accountants, and even the house cleaners, gardeners, tutors, or childcare specialists, all of whom free up your time so you can focus on what you do best.

You cannot and should not try to be an expert in all the fields asset generation requires. You just need to find the experts, get them on your team, and lead them to your goal. Contrary to popular opinion, you don't want to be the smartest or even richest person in the room. You want to be with people who have bigger brains and more experience. Motivational speaker Jim Rohn has said, “You are the average of the 5 people you spend the most time with.” Wouldn’t you want those people to be the type of teammates who make you smarter and richer? Finding the best people for your wealth team is crucial to your success. Once you've voiced your vision and taken action to move toward it, others will be compelled by your leadership to join your pursuit. In the Wealth Cycle Process, it is your job to direct a team of professionals that helps you to develop and execute your strategy for building wealth and reaching your PI≥E.

Now that we’ve hopefully convinced you of the importance of teamwork, how do you convince your child, and foster an environment for them that creates an appreciation of teamwork? Like always, it starts at home. Even at a very young age, your kids are part of a team. They are part of the family team. As team members they play a role in helping the family move toward its goals. Just as we discussed in the section “Never Pay Your Kid an Allowance” in Chapter 4, your child should have some chores that they do that are just a part of being in the family – part of the team. Let them know that just as families work together, they also play together and stick together. This should extend to siblings and extended family members as well. Set a good example by not trying to do everything yourself, but rather by bringing in the team members we described in the paragraph above. When you do have a transaction involving money, make sure to point out to your child the team that was involved. For example, if you buy a house, quiz them on who was involved. You might ask, “Who was included in the team to make that happen? Dad and mom don't just buy a house by themselves. There was a broker, a lender, a title company, an inspector, and an appraiser, just to name a few.” Talk to your child about the role each of these members play in the process, and how important they are. This is just a continuation of the theme we have discussed throughout this book, of constantly talking with your child about money. We are also big proponents of getting your child involved in sports, or at least other team-based organizations. These will help them understand how to work with others and to socialize and develop the people skills that will be necessary to lead and be a part of teams later in life. Remind them during these activities of the importance of collaboration. As a parent, remember to celebrate their team, not just individual accomplishments. It may seem like these activities are just for fun, but they are much more. They are practice for life. If your child’s life is to include great wealth it will be as a Team-Made Millionaire.

Leadership is Vital

We described in the last section the importance of a team. Somebody has to guide and pilot that team. This leads us into the next topic we believe you should teach your child – leadership. Teaching your child leadership may seem unrelated to the subject of money. We assure you it’s not. There is absolutely a correlation between one’s leadership ability and their wealth. As we

described in Chapter 3, leadership is a key part of the Wealth Cycle. We must effectively lead our financial team to create the wealth we deserve. If we create a business, we must lead our employees to meet the objectives of that business. Even as an employee, those who display leadership will rise to higher and better-paying positions in their company. As adults we can lead our family to achieving its vision and financial future. Finally, personal leadership will drive us to continually improve ourselves and develop the money muscles we need to achieve our goals.

Wealthy people take a leadership role in their wealth plan: they literally lead their wealth. Though you may, and should, choose to delegate the activities that support your wealth building, no one can drive it like you can. If you do not keep consistent and constant pressure on the aircraft throttles, the wealth engine will sputter to a stop and your flight will come to an abrupt end. No one cares as much as you do about your wealth, and your leadership is crucial to your success. You, and only you, must assume the leadership role to create the wealth you desire.

It can't be overstated how crucial leadership is to becoming a millionaire, achieving financial freedom, and passing PI≥E. But can leadership really be taught? We believe it can, especially if you start at a young age. If it wasn't possible to teach leadership then there would be no reason for the military academies like West Point and The United States Air Force Academy where Kyle attended.

Legendary NFL coach and leader Vince Lombardi is known for saying, "Leaders are made, they are not born. They are made by hard effort, which is the price which all of us must pay to achieve any goal that is worthwhile." If you began teaching your child integrity and hard work, as described in the section "How You Do One Thing is How You Do Everything," you are already on your way to teaching them leadership. Integrity is an important aspect of leadership. Unless they are forced by virtue of your position, people will only follow you if they respect you. Integrity goes a long way toward that respect. Another aspect of a leader is that they are willing to step forward, even when no one else will. Former British Prime Minister Margaret Thatcher said, "Don't follow the crowd, let the crowd follow you." This too can be taught. Lead your child by example, by letting them see you step up to meet the challenge in your profession, church, or community. Tell them stories about times you are proud of when you were willing to show initiative and take on a leadership role. Encourage them to do so, even if it's among their playmates or siblings. You might say things like, "Sam, I know you don't want to apologize to your friend, but you need to be a leader and be the first to say you're sorry." Most importantly, when your young child does display moments of leadership, shower them with compliments. Tell them how proud you are of them when, for example, they don't hang their head and instead motivate and lead their entire baseball or softball team to keep battling despite long odds. As your child grows older, encourage them to take on leadership positions in their classroom, teams, or clubs. As Vince Lombardi said, leadership takes hard work. The more practice your child gets and the more you encourage them to do so, the better the leader they will become. The better your child is as a leader, the more easily money will flow to them to make them wealthy.

Play Games With Your Kids That Involve Money

Even though learning about money is a serious matter and we're going to ask you to teach your kids a lot in this book, remember to always keep it fun so that they become addicted to a lifetime of learning. This won't happen if your child feels like the learning is being shoved down their throat. One of the best ways to do this is to make the learning a game. After all, money is like a game; you just have to figure out the right way to win it. For example, you could have a stock picking contest or a challenge to see who can save or make the most money or in the most creative ways. You can also play board games or computer games that teach people about money. We can think of several reasons why playing finance games is helpful. First, it helps kids to get comfortable with the terminology of money in a non-threatening environment. When your child is having fun, they will retain information without even knowing it. Games also serve to reduce fear about money. One can take risks and try new things without the permanence associated with real life. In this respect, games can be considered like the simulator portion of the pilot training example where concepts are practiced in a safe and simulated environment before taking them on in the real airplane or real life. Math can also be less intimidating when it's done involving money in a game. Your child may even forget they are doing math when they count up the money they won in "Free Parking." Many financial games also involve deal-making and the art of negotiation. These skillsets are vital to success in real life business. Finally, playing games is a great way to replicate the fun and competitive nature of money in real life. It can be incredibly gratifying to be successful with finances. Games can help cultivate the competitive edge necessary to realize this financial success.

If you are already playing games involving money with your kids, that's a great start. What better way to do get started than by using games that have already been created? Most adults at some time or another have played Monopoly. Monopoly is a great way to introduce your child to the basics of finance while recapturing the nostalgia many of us have associated with playing the game when we were kids. Here are some of the money lessons you can learn from monopoly:

- The value of money
- How to count money
- The basic concept of banking
- Being paid a salary
- Buying and selling properties
- Value of being a property owner
- Frustration of paying rent to owners
- Basics of a mortgage interest
- Negotiating and finding win-win deals
- Asking for the cash
- The importance of location with real estate
- Weighing risk versus reward for an investment

- Balance between having some cash and overextending yourself
- Getting started investing/purchasing properties early
- Overcoming bad luck and playing the long game

When you were playing as a child you may not have realized all the financial lessons you were being taught. Another excellent game is Loral's game, The Millionaire Maker. Like Monopoly, the purpose of this game is to increase your net worth. However, one of the key differences is the introduction to the concept of entrepreneurialism and building wealth through owning and growing businesses. Playing The Millionaire Maker teaches many valuable financial concepts including:

- Having regular cash flow
- Paying yourself first
- Owning and managing your own Cash Machines
- Having wealth accounts to allocate toward investments
- Buying real assets that generate income
- Reading and understanding a balance sheet
- Reading and understanding an income statement
- Building teams
- Allocating money resources appropriately
- Protecting your assets and businesses with entities and insurance
- Paying yourself first
- Understanding different asset classes other than just real estate
- Forecasting taxes, income, and expenses

Any of these lessons learned through real life experiences would take a long time to absorb and could be incredibly costly. We all know that making mistakes can be one of the best learning tools. However, financial mistakes in real life can be devastating and take years to recover from. Games make financial learning fast and entertaining, while letting you learn from your mistakes without jeopardizing your future. They serve as a great simulator for your child's Flight To Financial Freedom. Make money games a regular part of your family routine and your child will be better prepared for the game of life.

Chapter 6 – Ages 9-11

"Opportunity is missed by most people
because it is dressed in overalls and looks like work."
– Thomas Edison, inventor of the light bulb

During the ages of 9 – 11 your child is getting more and more independent. Their growing independence will lead to them to seek relationships outside the family and they will begin to be more influenced by friends. This may make them more susceptible to peer pressure. It's imperative that you establish their values about money now so they don't fall victim to the pitfalls of addictive consumption brought on by peer pressure and the barrage of ads they'll be seeing on their phones, tablets, or computers they probably now possess. The good news is they're still willing to listen to you and their intellect is growing quickly. As a result, they can learn more and help around the house more, providing them ample opportunity to earn income and start learning how to use their money to work for them.

Only Spend What You Have

It's important to teach kids at a very early age that although money can be abundant in the long term, the amount of money we have at any given time is finite. Good luck using that term with them. Instead, we'd recommend explaining to them that money is something you only have a set amount of. If it runs out, you can't buy what the family needs. "The reason money is important is so Dad and I can make sure we have food to put on the table and a place to live. Plus, the things you like to do cost money, so we have to make sure we make enough to have fun." It's important that children understand that their parents don't have an endless supply of money, so they can only spend what they have. If you as a parent have a consumer problem with credit card debt, you might need to take a hard look at yourself now to consider your understanding of this concept and the lesson you are teaching your kids. This is one area where Loral and Kyle differ a bit. Kyle is a much bigger proponent of limiting your spending, especially because he spent much of his life as a military member without a large salary. However, Loral and Kyle do agree on one thing. They both deviate from some financial advisors when it comes to the implications of the concept "Only Spend What You Have." You should only spend what you have but that doesn't mean you can't work to make sure you HAVE more. This is where the power of being an entrepreneur comes in. It's difficult for a salaried employee to simply turn on the money spigot and make more money. When Kyle was in the military, he had to do so primarily with investments. A savvy business owner, however, can sometimes do this by opening additional revenue streams. We don't think the lesson for teaching your kids to only spend what they have should be "We can't afford that" or "Do you think I'm made of money?" Instead, focus on saying "We don't have the funds to buy that right now, but how can we create

more income so that we can?" Recall in Chapter 2 we talked about the concept of keeping your income greater than your expenses. We used the equation:

Income > Expenses
or
I > E

Note that this equation could just as easily be flipped to say that we should keep our expenses less than our income, or E < I. Expenses and income might be concepts that are too advanced for kids this age so it would probably be best to use terms like "spend" and "have." Therefore, if we replace the previous equation with these simpler terms, we will have the following:

Spend < Have

The difference between us and many is that rather than lowering the left side of the equation (the Spend side) to match the right side (the Have side), we recommend teaching your kids creative ways to grow and increase the right side (the Have side) to meet your desires on the left side (the Spend side). Depending on how mathematical your child is, they may or may not understand the equation itself. That's okay. The main reason we throw this equation out there is for you. We want you to understand the difference between traditional teaching and ours. Even though you still need to teach your children about overspending, you can simultaneously start them early with using positive language and vocabulary about money to help them think of money as an item of abundance, not scarcity. Loral has written several books on this concept alone. If you are looking for ways to implement this strategy, look no further than the following story where Loral silently reminds her daughter Tristin about this important concept.

Tristin's triumph

Tristin was famished. She had been hanging out in the back at her mom's financial event for an eternity – which in ten-year-old time means at least thirty minutes. She had spotted a snack machine and could feel herself beginning to salivate. Unfortunately, she had accidentally left her money at home. Because she had been earning income from small businesses for a few years already, she normally carried at least a little spending cash. "No worries," she thought. "I'll just ask my mom for some." She walked up to Loral, who was deep in conversation and had three clients hovered around her. After waiting for a pause, Tristin queried, "Mom, can I have some money for a snack?" Loral's lips pursed, she looked at her daughter, and she dropped her chin with a look that silently pleaded, "Seriously? How many times have we had this conversation? If you don't have money you have to earn money!" Loral then made an exaggerated, lateral sweeping motion with her arm as if to say, "There are 50 people in this room that you can get money from!" No words were necessary. Tristin dropped her head in admission. Her mom was right. She did know how to earn the money necessary for the snacks she so desperately desired. Tristin reached into her backpack to make sure what she needed was still there. Fortunately, one of her businesses had been selling single-serving teeth whitening paste. As her fingers fumbled through the pocket of her backpack, they clasped on

the packaged whitening paste she had intended to use for herself later that day. “Time to make some money!” she uttered under her breath as she strode confidently to the soon-to-be owner of whitening toothpaste. Mere moments later Tristin walked by her mother and with a fling of her hair flashed a cheesy grin as she waved her newly earned ten-dollar bill in the air and made a beeline to the snack machine. Loral let a proud smile briefly escape her lips as she continued uninterrupted with a sale of her own.

Ensure Your Child Has Income

Hopefully the last section helped motivate you toward enforcing the idea of money abundance in your child. Loral’s daughter Tristin understood this concept at an early age. If you want more, you must earn more. If you haven’t yet ensured your child has income, you need to do it now. The first way we recommended creating income was using Home Tasks and Home Pay. We’re now going to recommend they create a Cash Machine, one of the 12 building blocks of the Wealth Cycle. We warned you that making your child a millionaire would require effort. It does, and not just from you.

As Thomas Edison said, don’t let your child miss out on opportunity because it requires them to work. Edison also said, “Genius is one percent inspiration and ninety-nine percent perspiration.” Your child is old enough now to perspire a bit and do a variety of jobs that would enable them to earn a salary or start a small business. But don’t worry. It doesn’t have to be all sweat and no fun. When encouraging your child to be an entrepreneur, remember to emphasize the strengths of the child. If they are good at drawing consider having them sell their art. If they are good at writing have them sell short stories or poems.

When Kyle was in junior high, he was good at writing and rhyming so he would sell his friends personalized poems that they could gift to their girlfriends. The sky is the limit. In the space provided, brainstorm some of your child’s strengths and things they like to do:

_____
_____
_____

Next, write down all the things your child already has experience with. These would generally be things they have done for your household as Home Tasks or possibly at school or in another organization they are a part of. For example, they may have already babysat a younger sibling so they could also babysit other kids. Alternatively, they may be used to caring for your pet so they could pet-sit for others. Write down their job experience here:

_____
_____
_____

In a perfect world, your child's best Cash Machine would be ventures that are listed in both their strengths/likes and experience lists. If you can't find something that falls in both lists, we've found it is usually best to focus on their experience. This isn't a forever job. It's a Cash Machine. The point is to create cash using something they can already do. Later in life they can pursue what they enjoy and are naturally gifted at.

Loral and Kyle's kids have done all of the following things to make money at this age:

- mowing lawns
- raking leaves
- shoveling snow
- car washing
- sweeping garages
- babysitting
- house-sitting
- elderly assistant
- walking/dog-sitting dogs
- running lemonade stands
- smoothie bars
- helping paint investment properties
-

Other common ideas would include:

- tutoring
- gardening
- computer/phone tech support
- selling baked goods
- pet grooming
- delivering newspapers
- reselling items on eBay or Facebook
- making greeting cards
- house cleaning
- social media or YouTube star
-

In fact, if they have an interest in starting a YouTube channel, you should encourage them to do it. It's our opinion that having YouTube and social media skills will be as important for young teens now as having computer skills was for teens of 20-30 years ago.

If your child uses the excuse that they can't think of anything they want to do, have them flex their internet skills and do a quick search for "business ideas for kids." If they need additional motivation you can explain the numerous advantages of being an entrepreneur that are discussed in the section "Entrepreneur Mindset" in Chapter 2.

Even for their business ventures at this age, try to teach them about as many of the aspects of running a business as you can. If they have a lemonade stand, make them create the signage to advertise for it. Make sure they understand that the costs of the lemonade supplies will come out of their revenue. Explain the difference between gross and net profit. Most of all, try to make it fun and profitable. Having income gives kids money. They need money so they can start learning how to earn, save, manage, and invest it. Having an income also allows kids to contribute to an IRA. By helping them start this IRA 15 years earlier than most people (30 years earlier than many) you are not only teaching them the valuable lesson of putting money aside for the future, but you are also giving them the opportunity for their investment returns to double at least two extra times. Recall and review the section "Open a Roth IRA For Your Child" in Chapter 4 if you are doubting the importance of having your child start investing while they are young.

Below is a story about how Kyle's son Bryce started his lawn mowing business.

Bryce's push-mower push

Bryce's mind was made up. He'd heard his dad's talks about businesses for years and he finally had a great idea for one. Bryce had even spoken to his uncle who had started a similar business when he was a teenager. He marched up to his dad with the undaunted resolve that only an incontestable 10-year-old can muster. "Dad, I want to start a lawn mowing business," he stated matter-of-factly. Kyle matched Bryce's serious tone and tried to conceal his excitement that his lessons had been taken to heart and that Bryce wanted to try his hand at being an entrepreneur.

Suddenly, Kyle's inner enthusiasm was dampened when he realized that he wasn't really comfortable with Bryce using a normal lawnmower when he was only 10 years old. At the time, in addition to being a flight instructor, Kyle worked in the safety office at Vance Air Force Base. As part of his safety job he had to pore over numerous reports of not just flying incidents, but also ground safety incidents, including those about people having foot or eye injuries while mowing. Kyle was even in charge of briefing the entire base populace that year on the dangers of Spring and Summer outdoor activities, amongst them lawn mowing. Furthermore, Kyle had a friend who was missing two toes from a lawn mowing accident when he was a kid. This was a difficult problem. Kyle didn't want to stymie Bryce's enthusiasm, but he just wasn't comfortable with the idea of his son operating a lawnmower at such a young age.

Kyle closed his eyes and was contemplating how he would break the bad news to Bryce when he suddenly remembered an article he had read about "reel mowers." For those who don't know, reel mowers are a type of mower that have no engine at all. They are powered strictly by pushing them, which turns gears that spin the cutting blades which cut the grass. Though the blades are sharp there is no danger of a runaway lawnmower cutting off toes or even throwing projectiles across the yard at unsuspecting eyes. They are known for keeping grass healthier by making a sharper cut and are environmentally friendly since they require no gas and are only powered by sweat and "elbow grease." Kyle remembered that his neighbor down the street

used a reel mower and his lawn looked, quite literally, like a putting green. It was the perfect solution!

After approval from his wife Tracy, Kyle told Bryce the plan. Bryce nodded his head slowly, gave an earnest look of resolve, and said, “Let’s do it!” Since Bryce had already had a few small forays into entrepreneurship, Kyle wanted him to get the full experience of starting his own business this time. This meant Bryce had to pay the business start-up expenses. Kyle had learned this valuable lesson from his own father. When Kyle was a child, he had a banner printing business and made a healthy profit (for a 12-year-old anyway), until his father wisely informed him that he would need to replace the printer ribbon on the family printer. Although this cut Kyle’s profit in half, he knew it was fair. For Bryce this meant he had to pay the start-up cost of the lawnmower. The local stores didn’t carry reel mowers, so Kyle and Bryce set to work researching them on the internet. Kyle knew they had to find one that was easy to push since Bryce was only 10, and the difficulty in pushing reel mowers is one of their potential disadvantages. Kyle found one for $120 that had great reviews and even had one reviewer who said his 10-year-old kid could push it. Kyle and Bryce were sold.

When the mower arrived, Kyle helped Bryce put it together, and without a glimmer of hesitation Bryce gathered his undeposited savings from his room to pay back his father. It was still early Spring, and the grass hadn’t begun to come back from its Oklahoma winter hibernation, but the reel mower seemed to work great! Bryce was prepared to make his millions once the Spring had finally sprung!

Bryce with his new reel mower – For those not familiar with Bermuda grass – it's dormant not dead

The first moment their yard's grass had ended its dormancy and grown enough to be cut, Bryce was out the door. Fifteen minutes later he was back in the door. "Dad, it's too hard to push," Bryce declared. But Kyle wasn't having any of it. He fed Bryce one of his favorite lines. "Son, you'll just have to cowboy up. We knew it would be harder to push than a regular mower but just think, you won't have to spend money on gas. Plus, it will make you stronger for football and wrestling," Kyle coaxed. Bryce begrudgingly trudged back outside. Twenty minutes later he was back again. "Dad, it's really hard to push," he pleaded, "can you please come take a look and make sure it's working right?" When Kyle ventured outside, he was disappointed to see Bryce had cut only about four rows from the yard – approximately one fourth of what should have been accomplished in that time. When Kyle gave it a shot himself, he could see what Bryce was talking about. Even for Kyle it was difficult – not impossible, but difficult. Father and son lubricated the gears and sharpened the blades. These alterations made it easy enough for Bryce to complete the yard, but it took forever. Kyle was concerned. The next time Bryce mowed the yard he was able to complete it, but it still took 3-4 times as long as a normal mower. After Bryce's fifth time mowing a lawn even Kyle had troubles pushing it. Their

attempts to try again to sharpen the blades and lubricate the gears were not helpful. It was becoming clear this wasn't going to work. Bryce was frustrated. Kyle tried not to reveal it, but he was even more so. He was afraid the debacle would stymie Bryce's enthusiasm for entrepreneurship. After some thought, Kyle and Bryce sat down and discussed what went wrong and what lessons could be learned from the endeavor.

The first thing they learned was that a reel mower doesn't work very well in Oklahoma because of the specific type of thick and tough Bermuda grass that covered nearly every yard in their area. That's probably why no local stores sold them. For it to work on this Bermuda they would have had to cut the grass 2-3 times as often, a prospect neither Kyle nor the other customers were interested in paying for. The lesson learned here was that they both should have done more research and due diligence before investing capital in the business. In their excitement to get started they had jumped the gun. Maybe they could have tried out the neighbor's reel mower first. Bryce also learned that starting a business is hard work, and they don't always succeed. In the end, Kyle was able to unload the reel mower, but at a discount to what Bryce had paid. Between that and the money he had earned mowing the lawn five times, Bryce ended up with only a small profit. After all the extra hours of labor he had put in, you might say it was almost a push on the push mower business (pun intended). Of course, the alternative was that he wouldn't have made any money at all so Bryce wasn't too upset.

Fortunately, the lessons Bryce learned didn't dampen his enthusiasm for future entrepreneurial ventures, as his other anecdote later in this book will demonstrate. Not every business works out. The world is full of people and businesses that failed many times before making it big. Henry Ford founded two automotive companies that failed before turning Ford Motor Company into a multi-billion-dollar company and one of the 10 largest automotive companies in the world. Thomas Edison purportedly failed over 10,000 times before successfully making the light bulb. Even Walt Disney was reportedly once fired by a newspaper editor for not having good ideas or imagination. The important thing is that you learn from your mistakes and keep trying.

Taxes

Up until now, your child's entrepreneurial endeavors may not have produced enough income that they were required to pay taxes. Whether their business requires it now or not it's time for your child to learn about taxes. The Merriam-Webster dictionary defines taxes as "a charge usually of money imposed by authority on persons or property for public purposes." For the purposes of this lesson we are generally talking about taxes imposed by the government on the income we make.

To help your child understand the reason behind taxes it might be best to start by first asking them why they think taxes might be necessary. If they aren't sure, ask them how things like our public schools, roads, police forces, fire departments, trash services, and other publicly used facilities get paid for. Continue by asking them what other things taxes pay for. They get bonus points if they can recognize that things like our military, Medicare, and social security are paid

by federal taxes as well. Since we can't all provide our own police, fire, and military services it makes sense that we should each pay our own part.

Now ask your child if they think anybody should pay more than their fair share. They will most likely say that would not be fair. This is where you can describe that we should all pay our taxes but it's important to make sure you understand the rules behind taxes and make sure you don't pay more than your fair share. Use their business to explain how much taxes they would (or will) be required to pay. Make sure to explain the concept of graduated tax brackets and the fact that higher levels of income are taxed at higher rates, but only for those amounts that are above the lower tax bracket.

Another concept to discuss with your child regarding taxes is the fact that the government wants to encourage people to do certain activities that help the country, like buying real estate, running businesses, and even having kids. As a result, the government incentivizes these activities by giving tax deductions or credits for these activities. Thus, taking advantage of these tax breaks and making sure you pay only your fair share of taxes is not only not wrong, it's actually patriotic because it means you are doing the activities the government desires and has incentivized you to do. If your child doesn't have to pay taxes on their income yet, then just bringing up the concepts is probably sufficient for now. At a later age we'll discuss more details on taxes, and specific strategies on how to pay the lowest fair share you can.

Assets Versus Liabilities

In the financial world, an asset can be generally defined as something that is owned which provides economic value. For the purposes of teaching your children, the simplest way to explain economic value is that it means something gives you money. In other words, an asset is something you own which gives you money. Examples of this might be a savings account, stocks, or rental properties. Now let's talk about a liability. A liability is something that is owed which takes away economic value. Using the same definition for economic value as before leads us to the conclusion that a liability is something you owe which takes away money. Examples of this would be credit card debt, loans, and promissory notes. If you take the value of your assets minus the value of your liabilities, you will get your net worth.

Assets – Liabilities = Net Worth

Unfortunately, many families have more liabilities than assets. The assets they do own are often depreciating assets that are going down in value each year (think cars, tools, electronics, toys, etc.). Though accountants may technically define these as assets because they have value, they don't give you money. These aren't the type of assets you should teach your child to accumulate. The assets we recommend either go up in value or provide cash flow. Therefore, we define real assets as those that give you money. The only way to grow your net worth and overall wealth is to grow your assets faster than your liabilities.

Because your child won't have many assets, and hopefully has zero liabilities, the best way to teach them this concept is through examples. Quiz them about different things and ask them if they are an asset or a liability. Start with obvious things like credit card debt or an investment account, then work your way into more ambiguous items like your personal home or a personal car. Talk about ways these items have characteristics of both an asset and a liability. Though they are both something you own which has value, they do not provide cash flow. The car also generally depreciates in value. Even the personal home often takes away more economic value than it provides in appreciation, due to expensive home insurance, property taxes, and maintenance expenses. This doesn't mean we don't recommend owning a home. You have to live somewhere. It just means it is not the ideal asset to accumulate your wealth. Other assets provide both appreciation and cash flow without the draining expenses. Talking through different examples of assets and liabilities, including some you own and some you don't, will help your child understand the differences between things they can spend their money on and the opportunity cost for those purchases. Understanding assets and liabilities is also foundational to understanding the next concept, good debt versus bad debt.

Good Debt Versus Bad Debt and Your Credit Score

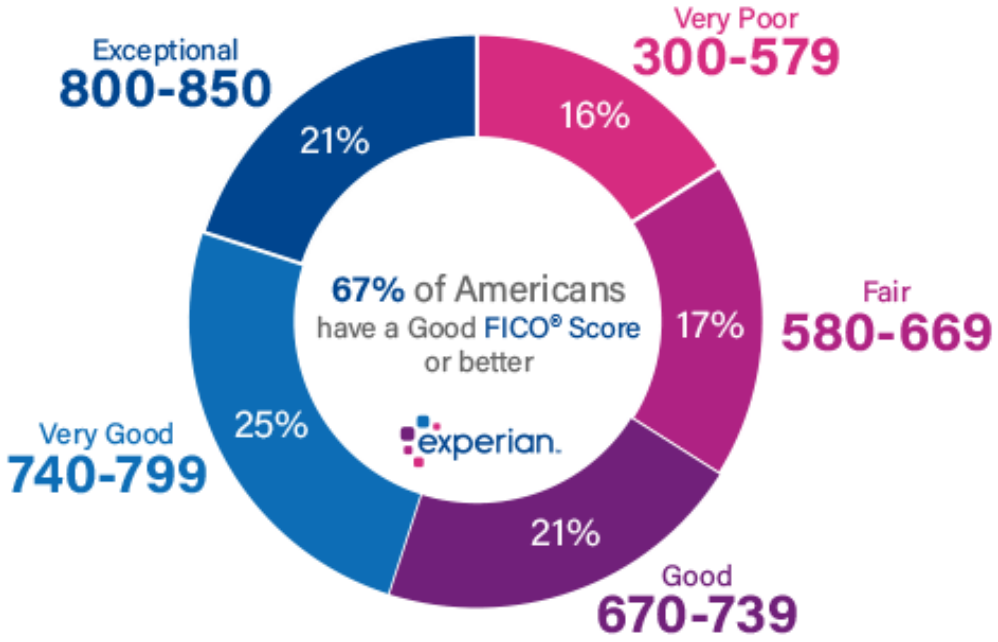
Loral talks about the concept of good versus bad debt in her bestselling book *The Millionaire Maker*. She describes bad debt as consumer debt that purchases liabilities or depreciating assets. This usually takes the form of credit card debt used to support a lifestyle. Good debt, on the other hand, is used to buy assets that appreciate and make you money. In reality, the topic is more nuanced than this and you could always come up with exceptions to this general rule. For the sake of teaching your kids at this age, we'd recommend you keep it simple. Bad debt = consumer/liability debt. Good debt = appreciating asset debt. For example, debt on an investment property that is appreciating or providing you income would be considered good debt. Debt on credit cards that was used to buy toys and trinkets would be considered bad debt.

Talk to your child about different examples of debt you have incurred over the years, and what category they fell into. As we've said before, this isn't the time to be proud and hide things from your children. Now is the time to help them learn from your bad or good examples and experiences. Nobody is perfect when it comes to money decisions so airing your dirty laundry just might be the necessary catalyst to one day lead them to not be afraid to seek your advice when they need financial guidance.

Bad debt is the one of the greatest barriers to wealth. When you take on bad debt you lose precious dollars that could be used to invest and make more money. The same compound interest that works for us with our investments can work against us if we purchase bad debt. In a way, spending money on bad debt is like stealing from yourself. In the same way that paying yourself first equals paying your future self first, bad debt could be even more accurately described as stealing from your future self. Even worse, because of the high interest rates associated with most bad debt, it can grow very rapidly. We give an example of this high interest debt in a later section titled "Advanced Credit Cards – Friend or Foe?" People who have

bad debt often get stuck in the vicious cycle of not being able to fully pay off that debt, which leads to even more debt. This might be an even worse form of theft.

Not only does bad debt steal from you, it also ruins your reputation, or at least your credit reputation. Failure to pay one's debts on time, often due to bad debt, is the most influential factor toward determining your credit score. A person's credit score is a number that indicates to lenders that person's creditworthiness, or likelihood of repaying a debt. When people talk about your credit score, they are usually referring to your FICO score. Fair Isaac Corporation (FICO) developed a proprietary algorithm that scores borrowers numerically from 300 to 850 on their creditworthiness. There are three credit reporting agencies which report info which goes into your FICO: Equifax, Experian, and TransUnion. According to Experian's website www.experian.com, your FICO score can be categorized as follows:



The lower your score, the riskier you are to lenders. As we'll discuss later in this chapter in the section "Risk Versus Reward for Investments," people want a higher reward if they must take on higher risk. This means the creditors will charge you a higher interest rate for loans. Therefore, even when you purchase good debt, you will be punished by having to pay more interest than those with a higher credit score. Worse yet, if your credit score is very low, you may not even qualify for a loan at all. This means you may not be able to purchase a home. Additionally, because negative information generally stays on your credit report for seven years, it can take a very long time to atone for financial mistakes you have made in your life. Explain the concept of credit score, and how difficult it is to fix once it's been damaged, to your children. You've probably taught them how important your family's reputation is and what it means for people to respect and trust you. Your credit reputation, as reflected by your credit score, is almost as important and perhaps more influential on your financial life. Advise your child that avoiding bad debt is one of the best ways to ensure you keep a good financial

reputation. It's hard not to fall victim to a culture that practically exalts immediate gratification, the urgency of consumption, and the accumulation of bad debt. But fall victim we must not. Teach your kids to avoid consumption and the addiction of bad debt. Instead, teach them to get addicted to good debt and buying assets. We call this asset addiction. It can create a vicious cycle of wealth as powerful as the cycle of debt if you'll embrace it.

Your Money Isn't Their Money…or Is It?

If you do have some wealth, this is the age when your kids may begin to realize it. If you haven't already decided, you need to begin to decide now whether you will spend all your money or plan to give much of it to your kids. How you manage and teach your kids will change based on this decision. If you do have wealth but don't plan on giving it to your kids, make sure your kids understand that the wealth you have accumulated is yours and not theirs, and that you worked very hard for it. Here's how the conversation went for Kyle and his two boys:

"Boys, by now you have probably figured out that your mom and I have some wealth. It's true. We are wealthy – but that wealth is ours. We may be able to help a bit with your college costs but you are not wealthy. You are dirt poor. By now you've heard this phrase a thousand times but I'll repeat it again to make sure it's clear. Give a man a fish and you feed him for a day. Teach a man to fish and you feed him for a lifetime. Boys, I'm not giving you our fish. I will, however, do everything I can to teach you everything I know about fishing. I'll spend all day every day if that's what it takes. I take great pride that I made my own wealth and I want you to have that same pride. If you are willing to listen and put in the work, I will give you all the tools you need and I have no doubt you will achieve your own wealth. Do you understand? Do you understand that your mother and I plan on spending our wealth and you probably won't get anything other than the roadmap on how to get there yourself? Not leaving you money doesn't mean we don't love you. In fact, we're doing this because we love you."

What if you don't have wealth but your kids think you do? It won't be easy, but it's time you let your kids know that as well. Make sure to share your lessons so they aren't in the same boat when they are your age. The result for your child is basically the same as the parents who have wealth but don't plan on giving it to their children. The children need to understand that they will be expected to fend for themselves. The earlier you set this expectation, the better.

Thankfully, you are reading and (hopefully) teaching your child the concepts in this book so they will have a much better chance at creating wealth for themselves. If you can't or don't want to give them fish, at least teach them how to fish.

What about those of you who do have wealth and plan to pass it on to your children? If you haven't already, you need to be setting up the financial instruments necessary to protect that wealth. We introduced several of these instruments in Chapter 4. At the very least you should have a trust and probably life insurance. You should also have set up an IRA and education fund for your child. If you have a business, it should be protected with at least one incorporated entity like a corporation or limited liability company (LLC), and possibly several. If it's been a

while since you reviewed the discussion in Chapter 4 on these topics, it's probably a good idea to do so now. Which entity and financial instruments you choose will be based on a multitude of factors that would include the amount of wealth you have or hope to have one day, your liability risk, your familial situation, your tax circumstances, and how much you want to leave to your heirs. You absolutely must leverage your team and get advice from a lawyer and accountant to help balance the intricacies of your personal situation. The larger your fortune, the more costly the errors could be if you don't seek the right professional help.

If you do plan on passing on a large portion of your wealth to your kids, you need to think about when you will explain to them how that transition will happen, and how much you want them to know. Will you tell them how much money they expect to inherit? Do you let them in on the details of your trust or life insurance? The advantage of telling them early is that they can play a larger role in the planning and may have a better understanding of the structure and responsibility that will be placed on them when they do eventually receive the money. This goes back to the concept of setting expectations for your child. The disadvantage is that you will be susceptible to potentially creating entitled and lazy kids. They may not be willing to make their own fortune if they know one is already headed their way. This shouldn't happen if you work hard to teach them the concepts discussed in this book, such as delayed gratification, frugality, teamwork, and giving back.

It's been said that 70% of all wealthy families lose their wealth by the second generation. A stunning 90% lose it by the third generation. By the third generation, the kids are often so spoiled that they no longer have the work ethic displayed by the first generation that created the wealth. It doesn't have to be this way, of course. If you teach your child how to manage money and raise them to be financially responsible, your hard work and wealth can be a legacy for many generations to come. Deciding what you will do with your money and how you will tell your kids is one of the most important decisions you can make in your child's development, so we would encourage you to put great consideration into the ramifications. You don't have to make the decision alone. We are building an expanding array of content at makeyourkidsmillionaires.com and the Facebook page by the same name, where you can get in touch with a community of other parents who have already faced or are currently facing the decisions you have in front of you. As we've said several times already in this book, millionaires are made with a team.

Risk Versus Reward for Investments

Believe it or not, by the end of this age group, your child has learned most of the math they need to know to be able to evaluate investments. It doesn't take graduate level calculus or a degree in mathematics to be able to assess the strength of an investment. In fact, probably the most important metric is quite simple to calculate. We are talking about Return On Investment, otherwise known as ROI. ROI is a measure we can use to calculate the reward associated with an investment. We will be using this acronym throughout the rest of this book so it's worth looking at how it is calculated.

ROI = (Net Profit/Cost of Investment) x 100

ROI is usually reported as a percentage. For example, if an investment cost $100 to buy and we expected it to have a net profit of $10 the ROI could be computed as follows:

ROI = 10/100 X 100 = 10%

It just so happens that 10% ROI approximates the historical ROI of the stock market throughout its history. We often will use this as the baseline ROI we want to achieve. The beauty of ROI is that it doesn't just look at the return or reward only in terms of the money we will make (the numerator in the equation), but also in terms of the money we will have to invest or put at risk (the denominator). This distinction allows you to gauge the effects of using other people's money to leverage your returns. What if we used the example above, but you could lower your cost of investment by half while keeping the same net profit? Let's take a look.

ROI = 10/50 X 100 = 20%

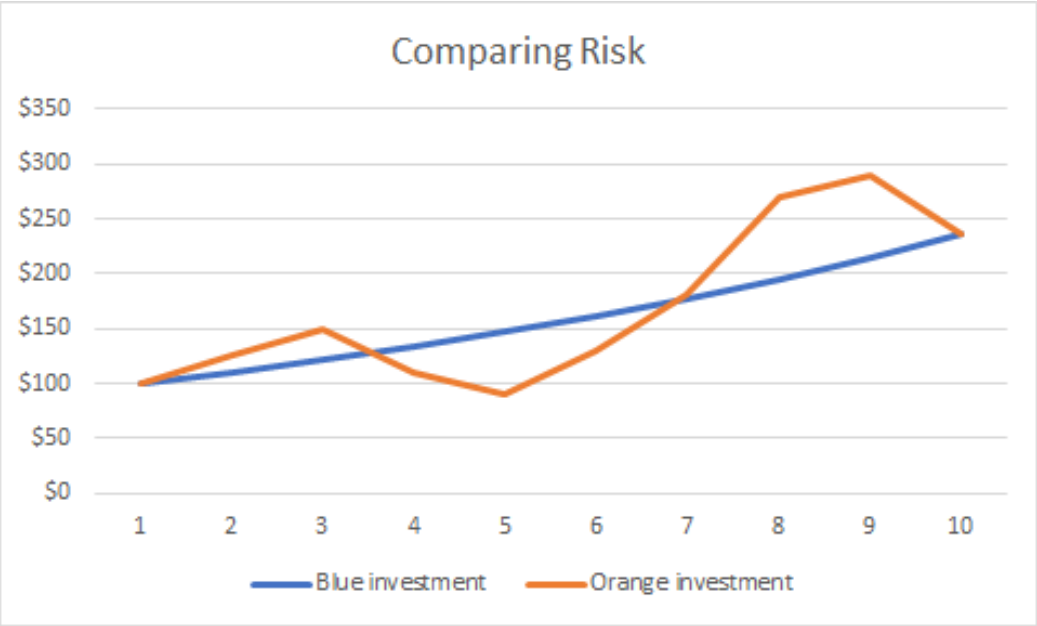
As you can see, we were able to double our ROI by reducing our cost of investment. "But we're still only making $10," you might say. This is true, but we have avoided the opportunity cost of the other $50 (reference the "Basic Opportunity Cost" section if you need a refresher). We still have $50 from our original $100 to spend on other investments. If we wanted, we could put the other $50 into the same investment and we would then yield $20 in returns. The other advantage of using ROI is that because it does consider the cost of the investment, it is a good metric for comparing different investment alternatives. Of course, we would be remiss if we didn't consider that ROI isn't a perfect metric. For instance, if we could get 30% ROI, that would seem to be a much better investment than the others. The problem is that, what if that ROI was only available for a very small investment amount? Consider this example.

ROI = .3/1 X 100 = 30%

30% ROI is great but if it isn't replicable across the entire investment amount of $100 it still only amounts to 30 cents. If the other $99 we invest only makes 10% ROI, then we would have been better off with getting 20% ROI for the entire amount. For simplicity's sake, we'll generally assume the ROI that we calculate could be repeated for all of the investment dollars.

ROI is one of the best metrics for comparing two investments, but it doesn't tell the whole story. If it did then nobody would ever invest in anything that had an ROI below the 10% average of the stock market. Yet they do. The reason, of course, is risk. Even though the stock market has returned an average of 10% per year, there is no guarantee it will do so in the future. Also, it has fluctuated significantly from its average in many years. Depending on your timeline, you could achieve much higher or much lower returns than 10%. This uncertainty of your returns is called risk. One definition of risk would be that it is the chance that investment's actual gains will differ from the expected gains. Even if it does meet your expected gains in the long term, a risky investment may oscillate significantly along the way. This oscillation is similar

to standard deviation and is sometimes called volatility. Since it's difficult to quantify the risk of an investment not meeting your expectations, we'll talk mostly about the type of risk that involves volatility and standard deviation. Depending on your child's progress in math, they may or may not have covered this subject yet. If not, you can put them ahead of their class by introducing the basics of it now. Don't worry. We won't be calculating it. We'll just talk about the concept. Have your child review the chart below.



Both the Blue investment and Orange investment had the exact same overall returns of 10% per year over the 10-year period. Thus, the ROI for both was 10%. If you owned the Blue investment it was a smooth, predictable climb from $100 to $236. But what if you owned the Orange investment? Your ride would have been a little more adventurous and unpredictable. Some years you made more than 10% returns, but others you lost money. What if you sold in year 5? The value of your investment at that time had actually dropped to $90. If you needed the money then, you would be wishing you had invested in the Blue investment. You might have even given up on the investment and sold it that year due to its underperformance. Of course, in year 9 you would have been thinking you were pretty smart, as you were sporting much better returns than the Blue investment. The higher deviation of the Orange investment from its long-term average returns means it has a much higher Standard Deviation. When evaluating stocks, they use a similar evaluation called Beta (β). Beta measures the volatility of an investment and how much it deviates from the overall market. Whether you use the term volatility, standard deviation, beta, or risk, the message is clear. Some investments are more unpredictable.

Which investment would you rather own? The answer you give says a lot about your risk tolerance. Some people don't mind risk and would be perfectly fine with the Orange investment. Others can't stand risk and would never even consider the Orange investment. It's important to understand your own risk tolerance and make sure you invest in a way that

doesn't cause you to make poor long-term decisions. If you would have given up on the Orange investment when it was losing money in year 5 then you probably never should have invested in the Orange investment in the first place. This leads us to another factor when considering the risk of an investment – what is your time horizon? If our time horizon was short, we may have needed to sell in year 5 of the Orange investment when we actually lost money. The longer your time horizon, the more likely you will receive the actual ROI of the investment and the less concerned you are about risk from volatility.

If we knew with 100% certainty that the Blue and Orange investment returns would match the chart above and both investments would end up with the same returns, would there be any reason to invest in the Orange investment? The simple answer is no. The risk of the Orange investment was unnecessary if it had the same long-term ROI. This is why assessing risk relative to ROI is so important. Nearly every investment has risk, but we want to get the maximum returns for the minimum risk. The only reason to accept higher risk is if you expect it will bring you higher returns. The only reason to accept lower returns is if you expect it will bring you lower risk. This is the reason many people will put their money in much more conservative investments. They are willing to accept the lower returns to make sure they don't lose their money. Oftentimes ROI and risk are correlated. To properly evaluate an investment, we must consider what ROI we will get in the context of whether we are willing to accept the risk that will come with that ROI. The person who knows their own risk tolerance and time horizon, and can best weigh the risk versus reward of an investment, will win at the game of investing.

In the Chapter 5 section titled "Play Games With Your Kids That Involve Money," we discussed the numerous benefits of playing Monopoly. One of these is learning how to weigh risk versus reward for investments. When you are playing with your child, talk with them about the risk and reward for the decisions they make. For example, early in the game, some Monopoly players will buy properties until they are completely out of money – possibly even to the extent of having to mortgage the properties they do own in order to buy a new one. Since the game is all about getting properties and monopolies, buying as many properties as possible could have a high reward. However, it also carries the risk that you will land on somebody else's property before that reward pays off and you could end up broke and out of the game. If you and your child play Monopoly enough, you'll get a chance to see this tactic have both results – the thrill of victory and the agony of defeat. Other Monopoly players like to take a more conservative approach. They buy as many properties as they safely can, but they always reserve enough cash to make sure they can land on other players' properties. The reward of this strategy may be lower, but it also carries much less risk of going broke early in the game.

While playing Monopoly or similar games, talk to your child about the balance of weighing this risk/reward ratio. From this discussion, it's easy to steer the talk to real-world risk/reward decisions. Explain some of the decisions your family has made to balance risk and reward, such as buying insurance, keeping an emergency fund, incorporating a business, or avoiding highly risky investments.

Other decisions inside the game of Monopoly that might inspire these discussions would include a similar decision about how many houses to buy for your properties. Again, you could leave funds aside in case you land on somebody else or you could buy enough houses to break your opponents and hope it doesn't break you. I guess that's why they call it the "go for broke" strategy. Either way, somebody's going broke. Some Monopoly players don't even like to buy the actual properties where you can buy houses because they are too risk averse. They prefer the dependability of the railroads and utilities. They may never win the game, but they are seldom the first to go bankrupt.

As your child gets older you will begin to see patterns in their willingness to take risks in the game. This can give you a glimpse into their risk tolerance. A person's risk tolerance is a huge factor in determining what investments are best for them. Investing should be fun and shouldn't keep us up at night. What one person might consider a conservative investment might be so volatile and risky that it drives another person crazy. The sooner you and your child can recognize your own risk tolerance, the quicker you will be able to find investments which fit that risk category. When you combine this risk balance with the ROI you need to meet your goals, you will be able to make informed decisions about where you should invest.

A Stock is Ownership in a Business

Many people who purchase stocks treat it more like gambling than investing. They buy ticker symbols without even knowing what the underlying company does, much less understanding the ins and outs of the business. This isn't the way we should invest in stocks. We should always remember that every stock ticker symbol is associated with an actual business with actual products and employees. Make sure your children understand this. To get them interested in thinking like a business, ask leading questions to get their business minds going. When they want to buy a toy that is popular among their friends, ask out loud, "I wonder who makes that toy? I wonder if investing in that company would be a good idea? If you could make that toy even better how would you do it?" Then have them follow up by finding some answers. Talking to your kids about money can benefit you as well. Your conversations will help you learn from your kids what people their age are into. Remember, they are the future adults of the world and they are often the first ones to grasp onto concepts that will eventually be huge.

Many years ago, Kyle's kids' love for the video games Guitar Hero and Skylanders led him to buy Activision Blizzard (ATVI). A few years later Kyle bought more when he learned that almost all teenagers were playing Call of Duty, another ATVI title. When Fortnite took over the gaming world and Kyle learned from his kids that almost nobody was playing Call of Duty anymore, he sold a large portion of his ATVI position months before Wall Street realized it. As a result, Kyle was able to avoid a short-term price drop of nearly 50% in the stock. When he learned of upcoming game titles that were forthcoming and decided he still liked the company long-term, he was able to get back into the company at a 30% discount to what he had sold it at. This is just one example of several other timely investment decisions that Kyle was able to make, at least in part, on information gleaned from his kids.

We're obviously not recommending you buy every stock your child likes and sell the stock of everything your child sours on. Any investment decision should involve plenty of due diligence and an evaluation of numerous factors, but the information you learn from your child may be one of the factors that tips the scale. Children are usually much more connected to social media and can sometimes see trends changing quicker than adults. Sometimes these trends bring about long-term changes in the behavior of the masses, as was the case with YouTube, Twitter, and Instagram. Engaging your children in conversation about things they and their friends enjoy gives you a chance to be on the front end of what could be a tidal wave. It's then your job to put their perspective through the lens of your wisdom to figure out which trends are short-term and which trends and businesses have a model with long-term staying power.

One of the biggest advantages an individual investor can have versus the market in general is that investor's ability to evaluate the long-term prospects of the business one is investing in. If you've been following our guidance up until now, your child should be beginning to understand the basics of business. Explain to them how the actions of businesses affect the stock price. If Apple creates a great new phone that everybody likes it will usually result in the Apple share price going up (at least in the long term). If they create a new phone that nobody likes, then one can expect their stock price to take a hit. Reiterate the concepts we discussed in the section "Basic Opportunity Cost" in Chapter 4, or if they're really interested and advanced maybe even discuss a few ideas from the "Advanced Opportunity Cost" section in the next chapter. Make sure your kids understand that even though short-term stock movement can seem random (trust me, even long-term stock experts feel this way), in the long run, choosing businesses that execute well, put out great products, and have great futures will result in investment gains. Just remember to make sure your kids understand that the long term is measured in years, not days or weeks. This is a tough thing to understand when a few years represents one fifth of your life, but the sooner they can learn this investing lesson the better.

Don't forget to make sure the company you are investing in has a long-term focus as well. Sometimes even the management that runs a company makes decisions that are short-sighted so they can appease their stock investors or analysts. One example might be cutting back on research and development costs so they can make a quarterly profit. This isn't the type of company that long-term investors should be interested in. Kyle made a significant amount of money off what used to be a relatively small online bookseller that had big dreams and continuously sunk its profits into growing for the long term instead of taking a profit to appease short-term investors. Even though Wall Street and many of their investors lambasted them for focusing too much on growth over profitability, Kyle loved their penchant for thinking long-term and knew they had an opportunity to grow and capture market share.

You might have heard of this company – it's called Amazon. Believe it or not, it wasn't obvious or inevitable 15 years ago that Amazon would become the powerhouse it is today. Many investors missed out. Similarly, many businesses missed out on the opportunity to capitalize on internet retail because they failed to recognize its long-term prospects. These businesses, many of whom were more concerned about short-term profitability, are now fighting over the scraps

of Amazon's online market share. Take a tip from Amazon and make sure you teach your kids the importance of focusing on the long term, both with their businesses and their investments.

Start a Stock Simulator for Your Child

Think back to the theme we first discussed in Chapter 1 of this book regarding how teaching your kids about money should be like pilot training. With that theme in mind, the previous section provided some of the academics, or ground school, of stocks. The next step we will propose would be like letting your child start flying the simulator, except this time it is a stock simulator. A stock simulator is sometimes called a paper trading account, play account, or practice account. These accounts let you make trades without using real money so you can get practice trading stocks and testing your performance without the normal consequences of potentially losing money. One of the few times that Kyle actually learned about investing in school (other than the compound interest lesson) was when his 5th grade math class had a stock trading competition using paper trading accounts. Back then, a paper trading account consisted of just writing down on a piece of paper when you wanted to simulate buying that stock and how many shares you wanted to purchase. The process for finding out what you would have paid for the stock, unless you already had a stockbroker you could call, consisted of checking the newspaper the following morning to see what the closing price from the previous day had been. It's incredible how far stock trading has come. Now, paper trading accounts are much more advanced and no longer require any paper at all. A quick internet search for "paper trading account" would reveal dozens of options you could set up for your child to give them their first attempt at simulating the experience of buying stocks.

The simulated account lets you start with play money and buy whatever stocks you desire, including trying more complicated strategies like options if you really wanted. After a set period your child could check their performance to see how they did. This is a great way for your child (or you) to begin feeling comfortable investing in the stock market. You could even set one up with the same amount of simulated money for every member of the family and set up a contest to get everyone's competitive juices flying.

This is yet another example of how playing games with your child can make learning about money interesting and exciting. Just remember, if you have real money to invest, you won't want to delay investing that money since stock market investing is generally about time IN the market, not timING the market. Consider investing that money in an ETF while your child practices their individual stock trading in a paper trading account. After proving their acumen in the simulated account for a while they will have the confidence to eventually transition to actual money.

If your child is itching to put some real money into stocks, we recommend combining the tactic of a simulated account with the idea of selling your child a few shares from your own stock portfolio. In the pilot training analogy, this strategy would fall somewhere between a simulator and letting your child fly just a bit. Although it will be with real money, the amounts will be very

small so they can't get hurt excessively by losing too much money. Here's how Kyle accomplished this:

After talking to his son Bryce about stocks and how the value could compound, Bryce wanted to buy some stocks. Of course, Kyle had already explained in detail that what Bryce would be buying was not just some certificate or ticker symbol but an actual part of a business. They discussed all the factors described in the previous section, "A Stock is Ownership in a Business." After much deliberation on the merits of different businesses, Kyle and Bryce finally decided on a few companies that Kyle already owned. Kyle decided to sell his son 1 share of Disney and 1 share of Activision Blizzard. Bryce was interested in Disney because they had been to Disney World and he was fully aware of the movies and other aspects of the brand. Bryce wanted to buy Activision Blizzard because, as we mentioned before, it was the maker of two of his favorite video games at the time – Guitar Hero and Skylanders. Since Kyle already owned both stocks through his discount brokerage, the transaction made sense.

You could still sell your child a share even if you don't own it if you are willing to give them the value of that stock when they are ready to sell it. In this case, Bryce bought these two stocks for a grand total of $55.80 that he had saved up in money from doing chores. It doesn't have to be a formal transaction. Kyle simply wrote on a piece of paper "This paper entitles Bryce Boeckman to 1 share of DIS stock, purchased from his dad at the price of $45 on this date." After both Kyle and Bryce signed it, Bryce stored it in his piggy bank so he would never lose it.

Bryce was excited to track his stock's progress, and when the occasional dip happened it was the perfect opportunity to talk about the long-term nature of stocks and when a person should or should not sell them. The stocks Bryce bought are now, 10 years later, worth nearly 4x what he paid for them. This won't always be the case, of course. Although it's unlikely if you choose carefully, it's possible your kid's stock could even lose value over a 10 year time period. Even if so, this creates a great learning opportunity to talk about what went wrong with the company over that time period.

A few years after Bryce's initial stock purchases, Kyle was describing to him his reasons for repurchasing another batch of shares of Amazon. As a fan of the company himself, Bryce decided to purchase a share of Amazon from Kyle for its then-current price of $450. Only 8 years later the stock is currently worth 7x what he paid. The only downside for Kyle is that he now owns one less share for himself – a price he will happily pay for a positive and educational lesson that will inspire a lifetime of future investing for his son!

A few years later, Kyle's younger son Bret saw the success his brother was having and entered the investment game as well. Now he also owns shares of Activision Blizzard as well as Tencent Holdings Ltd. (majority owner of Epic Games, maker of his new favorite video game, Fortnite). If you don't know much about investing or stocks, make it a family affair to learn more. The more you know, the more comfortable you will feel investing.

The Value of Real Estate Investing

Real estate investing can be a great way to grow your net worth. The fact that it's real and can be touched can also sometimes make it easier for children (and parents alike) to understand. Both Loral and Kyle have made a large amount of their wealth through real estate. In fact, for most wealthy people, real estate plays a significant role in their accumulation of that wealth. Why is that? The answer lies in leverage and the tax code.

First, let's discuss leverage. In investing terms, leverage is the use of debt in order to magnify the returns of an investment. Notably, although leverage can multiply your returns to the upside, they can do the same to the downside if things don't pan out. Since the purchase of real estate is such a large transaction for most, it often must be purchased with leverage. Most people don't have the funds to buy a home or condo outright. The power of leverage and debt allows these people to purchase and control much larger properties than they otherwise could. As a result, real estate investments provide one of the best ways to use other people's money to make yourself money.

The next advantage of real estate involves the tax code. Governments give tax breaks to things they want to incentivize. Real estate is no different. Like other businesses, real estate investments let you deduct your rental expenses from the rental income you earn, thereby lowering your tax liability. Rental property expenses like repairs, maintenance, home office expenses, insurance, and even mortgage interest and property taxes can be deducted in the year you spend the money. But perhaps the biggest tax advantage is the ability to depreciate your property. Real estate depreciation is a tax deduction based on the perceived decrease in the value of the real estate. Real estate depreciation assumes that the rental property is actually declining over time as a result of wear and tear. In the United States, for example, commercial real estate is depreciated using the price of the property, less the value of the land (since land cannot be depreciated) divided by the 27.5-year life of the property. Therefore, after 27.5 years a property would be fully depreciated. Even though most real estate investments appreciate over time, the government lets you depreciate these properties for tax purposes.

Let's look at a practical example of a $100,000 property. Since it depreciates over 27.5 years, each year it depreciates 3.636%. If the underlying land were worth $4,000 then this would leave the depreciable property at $96,000. Since $96,000 /27.5 is $3,490, you could subtract approximately $3,500 from the property's income for each year you own it, up to 27.5 years. This can often be the difference between a taxable income and a paper loss even though you had positive cash flow.

To recognize the full power of the leverage and tax advantages of real estate let's look at an example of one of Kyle's first real estate investments. For the sake of math simplicity, let's use the same $100,000 price point we used before with that price including all the closing costs. In this example, the investment was a single-family home that Kyle bought to rent out. We can't

promise the assumptions in this example will work out in your area but they are actual returns that Kyle received for a property at a very similar price point.

Since 1928 the annualized return for housing nationwide has been 3.7% per year. Kyle's investment was in Oklahoma. After doing considerable research and talking to several real estate agents, he learned that appreciation in his area was closer to 3%. If he had purchased the house outright with cash his return on investment (ROI) would be $3,000 or 3%

- $3K/$100K = 3% ROI

Instead Kyle chose to take advantage of leverage. The bank required that he make a minimum down payment of $20,000, or 20% of the purchase price. Since appreciation applies to the entire house and not just the $20,000 he paid, his ROI is significantly higher using leverage.

- $3K/$20K = 15% ROI

15 percent returns beats the historical stock market return and would constitute a nice investment, but Kyle did his research and made sure he bought a property that was cash flow positive as well. In this case, the property generally makes Kyle approximately $3,500 in cash flow even after all expenses. When this $3,500 is added to the $3,000 in appreciation, it results in an overall return of $6,500. Let's look at the updated ROI.

- $6.5/$20K = 32.5% ROI

Now we're talking. This alone would be an excellent ROI but we still haven't considered depreciation. Recall that earlier we found that the $100,000 property would depreciate each year by approximately $3,500. On paper, this completely wipes out the $3,500 in cash flow and makes it appear that this property only broke even for tax purposes, even though we still get to keep the $3,500. We are receiving that $3,500 completely free of tax. If that income had been added to our wage/business income then we would be taxed at our marginal tax rate. Let's use a 25% tax rate for simple math.

- $3,500 x .25 = $875

Granted, we don't receive this money in any measurable way, but that $875 is money we saved versus a comparable income. If we add this $875 to the previous $6,500 we get $7,375.

- $7,375/$20K = 36.87% ROI

If this was the entire ROI Kyle would be very happy, but we've not yet addressed another form of value – principle paydown. When Kyle is paying off the mortgage, a portion of the payment goes toward mortgage interest which we have already expensed. The other portion goes to principle, or equity, in paying off the home. Although Kyle can't access this principle or the appreciation on a yearly basis, when Kyle sells or refinances the property it still adds to the

value of his investment. Given a 30-year mortgage at 4%, Kyle's monthly payment for the loan would be $381.93. Of this, $115 each month would be principle, with this amount going up each month. Therefore, each year Kyle's tenants would be paying approximately $1,500 off of the mortgage. If we add this $1,500 to the previous $7,375 we get $8,875.

- $8,875/$20K = 44.37% ROI

Now do you see why Kyle describes real estate as the surest way to get rich slowly but surely? We can't promise you'll be able to match these returns, but the example shows how real estate offers several built-in advantages that make it an excellent potential investment.

Now that we've watered your eyes with the benefits of real estate, let's talk about some of the downsides. Kyle spent dozens of hours searching out the best market and property to invest in. Then he spent dozens more making renovations to the property after he bought it. Finally, he spent even more time managing the property himself. What's the point? Real estate requires work and time. You may be able to find a team to help you with these tasks, but it takes time and experience to find that team. Once you do find a good team you still have to manage them to keep them on track. Hiring that team also bites into your profits. Kyle's cash flow wouldn't have been the same if he had to hire people to do all those things.

Real estate also isn't without risk of loss. Properties don't always appreciate, and you sometimes must deal with vacancy or terrible tenants. Economic downturns, neighborhood deterioration, demographic shifts, and even natural disasters are just a few of the other potential risks. Finally, when you own a real estate property you always open yourself up to liability and potential litigation. That's why it's vital that you own your real estate in an entity like a Limited Liability Company that allows you to protect your personal assets from litigation associated with your real estate investments. This concept is discussed more in the section on incorporation. In the end, real estate can be a great way to get started, and it can become a valuable part of your portfolio. Just make sure you do your homework.

To teach your kids about real estate, we'd first recommend you walk them through the above example. One of the best ways to learn about real estate is to start crunching numbers of real estate properties in your area to see how the returns look. If you as the parent are already involved in real estate, it's a great idea to take them with you when you investigate a new property. Show them the things you look for when inspecting and evaluating a property. Even if you aren't involved in real estate, you live somewhere. Walk them around where you live and teach them about what you've learned. Talk to them about your experiences as a renter, homeowner, and landlord, if applicable. If you already own properties, have them join you in making the repairs. By the time Kyle's kids were teenagers they could already lay tile, paint, do basic carpentry, and even some plumbing. Even if your children don't aspire to do these things themselves when they buy their first rental property, the experience will help them when they hire other people to do the work.

Have Your Child Create a Car Account

In Chapter 5 you set up a bank account for your child. Part of the reason for doing this was so your child could begin saving for some longer-term purchases. Especially if you live in rural America, one of the purchases that is almost essential to getting around is a vehicle – whether it be a car, truck, or even motorcycle. Whether you plan on letting them borrow the family car for a while or not, eventually they will want their own "wheels." Don't make the mistake of buying their car (or yours) with a loan. This is the definition of bad debt. A car is a depreciating item that does not bring in cash flow – in fact, the more expensive it is, the more it produces negative cash flow via loan interest and more expensive insurance rates. We don't use debt for these types of items. Getting a loan is probably just going to trigger you to get more car than you need, causing you to lose even more money through negative cash flow. Please do yourself and your child a favor and plan to never buy a car with debt. Instead, earn and save more money so you can afford to pay in cash and buy a vehicle you can afford without having to go into debt. If you can't afford to buy a car with cash then you can't afford it at all.

Now that you've decided your child's car will be purchased outright, it is time to designate an account, or portion of an account, for your child to begin saving. You might be tempted to save the money in a safe place at home, but we always recommend using interest-bearing bank accounts whenever possible. This is safer and more reflective of how your child will handle money as an adult, and eventually a millionaire. The "Car Account" could be a traditional savings account, a money market fund, or even short-term bonds or certificates of deposit. Since you know approximately when the money will be spent it doesn't need to be as "liquid" (immediately accessible) in the short term as other spending accounts might need to be. Ideally, your child would set up a different account than their regular checking or savings account to ensure that they don't mistakenly spend some of the money that is supposed to be set aside for the car. Does this make their banking more complicated? Yes, it does. They might as well get used to it. The wealthy usually have multiple bank accounts. It's not complication for complication's sake. These separate accounts are necessary to ensure you don't mix money between different business entities, an accounting error known as "comingling." The sooner your child gets used to being able to manage multiple accounts, the better.

Who should pay for your child's car? We believe your child should, at the very least, pay a significant portion of the costs for their car. Kyle makes his kids pay for the entire car. Since he warned them of this early in their life, this provided greater incentive for them to start earning money at an early age. Loral used a different technique for her kids. She agreed to pay half the price of the car but only up to a total of $20,000. This way she was able to help her child afford something a bit more expensive but still incentivize them to make money and work hard enough to get something they wanted. Another technique might be to pay a set amount like $5,000 to get them a basic car but require them to pay for the rest if they wanted to get something nicer. Now is the time to put great thought into what your plan will be, and to communicate that plan to your child. You need to set the expectation for them so they can set a goal and know how much money they will need to save. At this age they may not yet comprehend the importance of a car, and why they should begin saving for it. Explain to your

child how important that car will be toward freeing up your time and stopping the parent taxi service that has been hauling them around from event to event for years. Better yet, approach it from their perspective and describe the freedom it will provide them.

Even if you can afford to pay for your child's entire car, we think you should resist the urge to do so. Here are some reasons. First, recall the example where we compared teaching your kids about finance to teaching people how to fly. We slowly let them take the controls and try to fly for themselves. Fully implementing this approach requires your child not only making money, but also saving and spending that money. While they are still under your roof, they need to learn the lessons of saving and making large purchases with their own money. Telling them upfront when they are young that they will have to buy their own car will also incentivize them to work and save more than if they thought a car would be gifted to them. It will also allow them to flex their goal setting muscles and feel the pride and success of reaching their goals. As always, we are trying to foster an attitude of independence and hard work, not one of taking handouts.

This also leads to another reason your child should pay for at least some of their own car. They will take better care of it. When your child has spent hours and hours of their own time earning the money for their car, they will be much more likely to be more careful with it. This means they will be more likely to follow the required maintenance necessary to maintain its value. More importantly, they will be safer drivers because they won't want to wreck it. Safety alone is probably reason enough to make your child buy their own car.

Speaking of safety, some of you may be thinking that safety and reliability are the very reasons you want to buy your child a car. You don't want your child driving something likely to break down or get in an accident. We agree wholeheartedly, but the safety and reliability you seek can be obtained for less than $5,000. It may not be the prettiest car ever, but there are plenty of cars under $5,000 that can safely and reliably get your child wherever he or she needs to go. Further, if your child started earning income at an early age and faithfully saved their money, there is no reason they shouldn't have more than $5,000 available to spend. They may want something flashy but what they need is something functional. If you realize later that they made an honest effort to earn money but couldn't afford what you consider a reliable car, only then should you ponder supplementing their funds more than you had previously agreed. You might be surprised to see that your child can earn and save more than you thought. If you do consider paying for more of your child's car than originally agreed, just make sure they had a good reason for not earning enough and that you don't let them get away with avoiding work. This isn't the time to get soft. Your child needs to understand that life has consequences. If they end up having to drive around a clunker because they didn't put in the work, they will learn a valuable lesson for later in life. You might want to peak ahead into the section "Buying a Car" in the next chapter to get a better idea on our thoughts on the car-buying process and how much your child should plan to spend on a car. For now, these three steps are the most important:

1. Decide your plan for who will pay for your child's car – a loan is not a plan.
2. Have your child create a Car Account.
3. Motivate your child to get started working and saving for their car.

The Importance of Giving Back

The primary purpose of this book is to help teach you how to make your child financially free by making them wealthy. However, wealth alone won't bring them fulfillment. Fulfillment comes from giving back. We've talked about the freedom that can come from having enough wealth to not have to worry about working and to be able to do what you want to do with your life. Another benefit of wealth is that it allows you to give to others on a greater scale. The more money you have – the more you can give. The more freedom you have of your time – the more of your time you can give. Winston Churchill may have said it best when he said, "We make a living by what we get, but we make a life by what we give." We couldn't agree more. If you teach your children to be rich in money but not rich in life you are robbing them of true fulfillment. It's important to teach them in their childhood about the importance of giving back.

Giving back comes in many forms. If you don't have much money yet, that's OK. Give of your time. Teach your child to do so. Have them get involved in volunteer activities. Show them how great it feels to help others before they get tainted by a consumption-based society that espouses the value of the latest and greatest gadget over the greatest gift – helping others. Children can often get involved in volunteer activities through their church or school.

One volunteer activity we liked for our children at this age was spending time at nursing homes. The residents loved spending time with children and were happy to play games or read books with them. It was truly a mutually beneficial arrangement. The children were able to benefit from the wisdom of the elderly residents, and the visits helped alleviate the loneliness of the residents while giving them a sense of community and purpose. One shouldn't volunteer only for the benefits for oneself, but it's a bonus when it's a symbiotic relationship.

At a later age, Kyle's children also volunteered through charities like Habitat For Humanity. This charity brings families, volunteers and resources together to build simple, decent, and affordable housing in low-income areas. We especially like Habitat For Humanity because, not only does your child get to give of their time, they can also learn and practice a home construction/repair skill that may prove useful later in their life. For example, Bryce was able to use and practice his skill at laying tile floors that he first learned while helping Kyle and his wife Tracy renovate one of their investment properties. He ended up spending several hours at Habitat For Humanity laying the tile floor for the home they were building for the community. Later in life he'll be able to use that practice to help him renovate his own investment properties.

Loral and her family often give back during Christmas by adopting a needy family. She and her kids would help decorate their house, give gifts, and provide donations of food, coats, and hats. What Loral and her children decided to do each year would usually be decided in large part on

what her kids wanted to do. Loral also played a large part in helping during the creation of Lifeschool, a program which has helped thousands of young teens get outdoors to learn life skills, financial literacy, team-building and leadership. As a child, Logan helped fundraise for the organization and even sat as an honorary board member. Loral's family has always been involved in the charity work of her business. Getting them involved in the decision-making helps build the habit of giving.

It's also important for your child to see you set an example of giving not just your money but also your time. For example, both Loral and Kyle have donated time toward their children's teams and organizations as well as for outside causes. Amongst other things, Kyle has given free financial education at his local base and to other Air Force members. Loral has created Serve Out Loud, a program aimed at providing discounted education in financial literacy to United States Veterans. When we show our children that we care about giving back it sets an example that can create a cycle of charity for others to follow as well. In our opinion, the world could use a little more selflessness.

The Value of Challenging Their Comfort Zone

As Timothy Ferriss noted in his book, *The Four Hour Work Week,* "A person's success in life is directly related to the number of uncomfortable situations they are willing to put themselves in." This couldn't be more true. So many people stay in their comfortable cocoons and never take the uncomfortable actions necessary to bring them success. These new and unpleasant actions, once accomplished, help us to grow and expand our skillset and experiences. Recall in Chapter 2 when we discussed money muscles and the way our body's muscles work. When pushed to their limits through uncomfortable exercise, our body's muscle fibers undergo trauma and break down. Our body repairs these fibers by fusing them, which increases their mass and size. The next time you work out, the muscle is stronger. Similarly, after undergoing uncomfortable situations, our minds grow stronger and better able to handle future situations. Circumstances that were once uncomfortable are no longer so. When we are no longer uncomfortable, we can be confident. Confidence breeds success. The more you can encourage your children to take on unpleasant challenges, the more their confidence will grow. Below is a story in which Kyle's son Bret, as well as his cousin Nick, challenged their comfort zone.

Bret's leaves business leaves him a profit

My 9-year-old son Bret and his classmate and cousin Nick approached me with a walk of determination and a grin. I was a bit worried what these two might be up to since the most recent time they had approached me like this it was to report they had added dish soap to our front fountain and turned it into a mountain of bubbles. This time their intentions were much more productive. Bret and Nick had decided they wanted to make some money and were going to rake leaves to do so. I concealed my sigh of relief that it wasn't something more disturbing and congratulated them on their wonderful idea. They said they wanted me to pay them to rake the leaves at our house but wanted to start with the neighbors first since they knew the neighbors would pay better than I would. Clever boys. Wanting them to succeed and knowing

their leave-raking experience was minimal I knew I had to give them a hand. I convinced them to rake a small portion of our yard first so I could teach them the basics of raking techniques and how best to get the leaves in the bags. “How are you going to find your customers?” I queried. “Um, you can call them I guess,” answered my son. “Not a chance,” I replied. “The most important part of this business is that you learn to find your own customers.” We live in a great neighborhood and I knew most of our neighbors so I pointed out several houses they should try first. I explained that they would have to knock on the doors themselves and try to get the customer’s business.

At first Bret was apprehensive, but the peer pressure of not wanting to seem weak in front of his cousin helped me persuade him. We went over a basic script for what they should say, and figured out some fair pricing options. After a few practice runs, I was impressed at how adeptly they made their sales pitch. I gave them a clap on the back and sent them off to make their millions. To my surprise they found two customers that afternoon and spent over four hours raking leaves with three trips back to our house for extra leaf bags. One of the two elderly gentlemen they had raked leaves for had even given them a $5 bonus for their efforts. Bret and Nick were visibly exhausted and bedraggled when they came home. They hadn’t realized raking leaves was so hard. They could barely walk but their sunburnt faces lit up when they announced to me they had made $30 each in profit. “Well, not exactly all profit,” I reminded them. “You made $30 in revenue, but you used practically my entire box of leaf bags. That means your business had expenses. You have to subtract that out to get your profit.” Their brows furrowed. “How much do those bags cost?” asked Nick. Seeing their extreme fatigue, I didn’t have the heart to discourage them and charge them too much. “I’ll tell you what,” I bargained. “Do you have any one-dollar bills?” They did. “I’ll just charge you one dollar for all those bags you used and you two can split your revenue however you want.” They agreed and sauntered off to figure out how they would spend their new wealth. I tried to remind them that they still had me as a customer for their leaf-raking business but they muttered something about the back-breaking labor and fact they were already rich with the $29.50 they had each earned. I tried to remind them of how I had walked to school uphill both ways in the snow, but it was to no avail. At least they learned some valuable lessons. The first was the value of hard physical work and how tiring it could be. The second lesson was the difference between revenue and profit – the same lesson I had learned in my first entrepreneurial endeavor.

The final lesson was the most important and the one I was the proudest of them for. They were willing to put themselves in the uncomfortable situation of knocking on doors and asking for their customer’s business. Embrace every opportunity to encourage and celebrate your child’s attempts to face their fears and meet their discomfort head-on. Confidence and success will be their reward.

Chapter 7 – Ages 12-15

"Do not save what is left after spending, but spend what is left after saving."
Warren Buffett, legendary billionaire investor

Psychologists have found that much of a child's overall belief systems are set by the time they are 14 or 15. Teaching the financial concepts in this chapter while your children are still under this age is pivotal because we absolutely must ensure they have the right belief systems about money. Recall the chapter on the millionaire mindset and review it if necessary. If you haven't already, commit to talking to your children regularly about the differences between the negative and limiting mindset about money, and that of the positive mindset of financial abundance. You still have a few years to hone your child's money skills, but you need to get their mindset right very soon. This age category is also the time period when your child is finally able to start taking the controls a bit on their Flight To Financial Freedom. It's important that you give them that opportunity but keep a close eye on them so you can course correct when necessary.

Forecasting

Hopefully by this age your child has some sort of income, whether it be from their own business, an employer, family employment, or even occasional chores or odd jobs. Now that they have money, they need to learn how to responsibly spend it. This age is the perfect time to teach them about forecasting. It's very similar to the idea that many of you have been introduced to, called "budgeting." The problem with budgeting is that, like a diet, it is very limiting and unappealing. As a result, just like diets, hardly anybody sticks to it and it seldom works. In the Wealth Cycle Process we do not think only about what you can't do, which is what budgeting forces you to do, but instead challenge you to deliberately and purposefully plan how you will both earn and spend your money. Recall in Chapter 2 when we discussed the ridiculously simple formula for wealth, which was keeping:

Income > Expenses
or
I > E

If you'll remember, we explained that we recommend working on both sides of the equation. The problem with budgeting is that it only addresses the E or expenses side of the equation. Forecasting is more comprehensive than just budgeting because it addresses both sides, the income and the expenses. If you want to eat, drink, and be merry, that's fine, but then you need to "learn to earn" more income to keep up with your expenses. This means you need to plan, or forecast, for what your earnings as well as your expenses will be. That's the way

businesses and millionaires manage their money. In addition to projecting your income and expenses, forecasting also evaluates what your future assets and liabilities will be. We'll talk more about how to track and assess income, expenses, assets, and liabilities in this chapter in the upcoming sections titled "The Balance Sheet" and "The Income Statement." The earlier you can get your children to start thinking and planning like a business, the better. Just like businesses, individuals should be mindful of what money comes in, as well as what they spend their money on. Kids need to be taught, as well as shown, that frivolous purchases won't help them achieve their long-term goals. If you don't control your expenses, your expenses will control you. In the next several sections we will talk about several topics related to forecasting, as well as give your child the tools they need to do their own forecasting.

Advanced Pay Yourself First

By this age most children are plenty old enough to fully understand the concept of delayed gratification. A good way to hammer this concept home is to teach them about paying themselves first. As discussed before, this means setting money aside toward your savings goals before you spend it. Paying yourself first is just one aspect of forecasting. The quote at the beginning of this chapter by Warren Buffett deserves repeating: "Do not save what is left after spending; instead spend what is left after saving." Where would your spending habits fall on the following chart?

Predictably Poor	Income – Expenses = Play money
Methodically Middle-class	Income – Expenses = Savings
Reliably Rich	Income – Investments = Expenses

If you are like the Predictably Poor, any money that makes it to your bank account after expenses gets spent as play money, otherwise known as Lifestyle Cycle spending. This is assuming you don't spend the money even before the expenses are paid and create bad debt for yourself. The Methodically Middle-class are better because they at least save the money they have left over after expenses. The problem with this strategy is the "savings" often don't get invested, or they justify lifestyle purchases as necessary expenses and don't end up with any savings at all. The way to ensure you are in the Reliably Rich category is to move the money into your wealth account and investments before you have a chance to spend it. Expenses are only paid for with what remains. This means your expenses stay small and are limited to only what are necessary expenses. In the last "Pay Yourself First" section in Chapter 5 we focused on helping your child to pay themselves first by using a jar system. If you missed or forgot that chapter, it might be worth reviewing the content. Now that your child is older and hopefully understands the mechanics of paying themselves first, we will move to more advanced ways of doing so.

The best way to ensure that you and your teenage child will pay yourselves first is through "automatic investment plans." Automatic investment plans are programs that automatically contribute funds toward an investment. Don't be worried. Despite their official-sounding name,

they are incredibly easy to set up. Automatic investment plans can usually be established in less than 5 minutes by simply going to your brokerage or investment account and setting up automatic deposits that will be transferred electronically at whatever frequency and amount you desire. Nearly every investment account has this as an option. The only information you need is usually the bank name, account number, and routing number for the bank you are pulling the deposits from. We recommend aligning this with right after your income arrives in your bank account, if possible, to make sure the money is sent to your investment account before you have a chance to spend it. This acts in the same way that placing the money in your Wealth Account jar did, except it's automatic. If you haven't already set this up for yourself, we highly recommend you do so now. After you're done, set one up for your child. We promise it will be time well spent – debatably the 5 minutes with the "most bang for your buck" toward their financial future. If you set up an automatic investment plan for your child, then even if they aren't great at delaying gratification, they will still contribute at least the monthly amount you set up. You just need to make sure they contribute their weekly Home Pay or other income into their bank account soon enough to have funds in their account to transfer. Depending on what type of investment account you are using, you may still need to allocate those funds on a monthly basis into whichever investment you prefer, but at least you have kept your money out of your child's bank account where it could potentially get spent. Another advantage of the automatic investment plan is that it provides dollar-cost averaging.

Dollar-cost averaging is a strategy where the investor divides up their overall investment into multiple smaller and equal-sized purchases at regular intervals. The advantage of doing this is that it can reduce some of the risk of mistiming the market, particularly if the investment has high volatility, or Beta (β), as we discussed in Chapter 6 in the section "Risk Versus Reward for Investments." People often like to dollar-cost average when buying stocks. Since you invest the same amount of money every time, if the stock price is high, you would buy less shares. However, if the stock price went down, you would be able to purchase more shares with the same amount of money. Therefore, you would avoid putting all your money into an investment when it is at its peak. Of course, the downside is that if the stock keeps going up you will buy less and less shares. Despite this downside, especially for people who have a low risk tolerance, dollar-cost averaging can be a smart strategy, especially when it's done with an automatic investment plan.

Recent innovations have created other ways to automatically pay yourself first. One of these innovations is an app called Acorns. Acorns takes the change from your purchases and invests it automatically in an account for you. Although it's only change, the numbers add up over time and you generally don't even miss it. This is the same concept as the automatic investment plan, just with smaller and more frequent amounts.

Whether you choose to use the jar system, manual transfers, or an automatic investment plan, the fact remains that you need to find a way to pay yourself first. We prefer the automatic investment plan because it is the easiest and most, well...automatic. Automatic is good when we all, including your children, have so many things competing for our time. Automatic is also good when you aren't great at delaying gratification, and you need to save your future self from

your present self. Finally, automatic is good if you suffer from indecisiveness and can never decide how much and when to contribute to your investments. There's no "analysis paralysis" when it's done automatically for you. So do your child (or yourself) a favor and set up an automatic investment plan to pay your future self first. The financial reward you receive may be your future freedom.

The Balance Sheet

In order to figure out where we are going financially, we must first know where we are starting from. In Loral's books she calls this figuring out your Financial Baseline. Your Financial Baseline is an overview of your current financial situation in the form of two tools – the balance sheet and the income statement. These are the tools that businesses use to know where they stand financially. In fact, they are two of the main financial statements that all publicly traded companies must report to the Securities and Exchange Commission (SEC) every quarter. As financially savvy individuals we should track the same things. The balance sheet and income statement are important tools for building the foundation for your child's financial plan. These financial instruments bring action to many of the concepts we discuss in this book. In this section and the next one we'll provide an example of both tools so you can help your child read and produce their own. First, some background discussion is required to explain why these tools are so important.

Management theorist Peter Drucker stated in his 1954 classic book, *The Practice of Management*, that "what gets measured, get managed." His point was that when organizations tracked and measured something, it caused them to manage it. The only obvious reason to manage a goal is to meet it. Therefore, Kyle likes to say that "What get measured, gets met." When you measure your progress toward your financial goals, you will naturally pay more attention to them. This added attention will help you make the decisions (like reading this book) that will help you reach your goals. In the book and film *The Secret*, Loral and others also describe how the mere process of continuously thinking about your financial goals can help them come to fruition. Whether you believe in the metaphysical attraction of thoughts or just the practical belief that "What gets measured, gets met," having a Financial Baseline will help you know where you are starting from so you can track how to reach your goals. Creating a balance sheet provides you that baseline. We will discuss the balance sheet now and the income statement in the next section.

A balance sheet is a financial statement that lists your assets and liabilities, and allows you to measure your net worth. This tool shows the Financial Baseline for where we are currently so we can figure out how to get to our goals. Thus, the balance sheet is the starting line or takeoff airport for our financial flight. The finish line, or landing destination, is the goals we discussed in the Chapter 5 sections "Your Child's Money Goals" and "Family Financial Goal Setting." Recall the story about Loral's son Logan and his smoothie store in the Chapter 5 section titled "Supply and Demand." Although this example doesn't depict his actual balance sheet numbers from that time period (to protect his privacy), it's a good representation of how a balance sheet might look for a child.

Logan Langemeier

Balance Sheet

Assets	
Wealth Account	1,000
Car Account	1,000
Charity Account	75
Other cash	63
Total Assets	**$2,138**
Liabilities	
Short-term loan from Mom	20
Total Liabilities	**$20**
Net Worth	
Total Net Worth	**$2,118**

In this balance sheet we can see that Logan had saved $1,000 so far in both his Wealth Account and Car Account. He started saving in both of these when he was 10 and created his car account. He had also saved $75 in a charity account. Finally, he had $63 in other cash that he was using for spending money. Together, he had $2,138 in assets. Thankfully, as a child, he had very little debt. He borrowed $20 from his mother Loral a few days prior to pay for supplies for his smoothies. His total liabilities were $20. When we subtract his assets from his liabilities, we find that Logan had a net worth of $2,118. More importantly, he had a Financial Baseline from which to start his financial flight. In the next section we'll show how Logan can use the income statement to plan the flight from his baseline to his goals.

The Income Statement

In the last section we talked about the importance of the two financial tools of the balance sheet and the income statement. We explained how important it was to track our progress toward our goals since "What gets measured, gets met." We further described how the balance sheet was the takeoff airport, or Financial Baseline, on the financial flight to your goals. Now we will describe the income statement, which helps formulate the flightpath you will take on your "Flight To Financial Freedom." The income statement, sometimes called a profit and loss

statement, shows revenue and expenditures for a company or your personal finances. This tool brings to life the forecasting and *pay yourself first* concepts we talked about earlier in this chapter. It also serves as a tool to do a GAP Analysis. Recall from the Chapter 3 section titled "Wealth Cycle actions" that the GAP analysis is a financial model that will create a map from where you are – your Financial Baseline – to where you want to go – your goals. We figured out where we were starting from with our balance sheet in the last section. We figured out where we want to go in the goals sections in Chapter 5. Now, we just need to figure out a GAP analysis so we can chart the flightpath between the two. The best way to do this is just to figure out the math of how to get there. Once you know the math you just have to create forecasted income statements to get you there. Let's go over an example.

In the previous section "The Balance Sheet" we discussed the story of Loral's son Logan and his smoothie store, which was described in the Chapter 5 section titled "Supply and Demand." We showed a balance sheet for Logan that served as his Financial Baseline, and talked about the GAP between his starting financial situation and the goal he had of buying a car and investing for retirement. Now we will talk about how that GAP analysis can be put to action by forecasting his income statement.

In the scenario we described, Logan was age 12 with $1,000 saved toward his Wealth Account and $1,000 already saved toward his car, since he started at age 10. He wanted to save $7,000 for both accounts before he reached age 16. How could he get there? Logan knew he would be able to earn more as he got older and could start a business that had more cash flow if necessary. He also knew that even though he had a good start, there was no time to waste. Since he needed to save $6,000 more for each account over 4 years, he came up with the following forecast:

Age 12 – $600
Age 13 – $1,000
Age 14 – $1,800
<u>Age 15 – $2,600</u>
Total – $6,000

Logan knew it was ambitious, but he really wanted a nice car and he particularly wanted to get his Wealth Account started early while he had plenty of time to let it compound. He also knew he was a hard worker and that he could meet his goals if he forecast the income he needed each month, paid himself first, and did whatever it took to meet his numbers. Since Logan was older and had been running the smoothie business for several years, he found that he could forecast what his revenue would be for the following month fairly accurately. He also knew what his expenses would be for the most part. By planning these out on a projected income statement he was using pen and paper to put to action the concept of forecasting that was described earlier in this chapter. Since Logan needed to put $600 into both his Wealth Account and Car Account this year, he knew he needed to forecast $50 per month into each account ($600/12 months = $50). The following is an example income statement for Logan's projected month.

Income Statement

Logan Langemeier
Monthly Income Statement

	Forecast	Actual
Revenue		
Smoothie sales	90	
Fruit sales	10	
Total Revenue	100	0
Cost of Goods Sold		
Fruit	8	
Yogurt	6	
Juice	6	
Wages	20	
Cost of Goods Sold	40	0
Gross Profit (Loss)	60	0
Expenses		
Wealth Account	50	
Charitable Contributions	5	
Car fund	50	
Insurance	5	
Snacks & food	10	
Spending cash	20	
Total Expenses	140	0
Net Operating Income	(80)	0
Other Income		
Home Pay	80	
Total Other Income	80	0
Net Income (Loss)	0	0

Remember, this is just a forecast for now – not the actual results. Note that Logan projected he would sell $90 in smoothies over the course of the month as well as $10 in fruit on the side, for a total revenue of $100. Loral made sure he accounted for and paid for his own cost of goods to make the smoothie. As he grew older, she also made him reimburse her for the time he used her employees to help him go get supplies from the store. Between the cost of goods and the wages he had to reimburse Loral's employees, Logan forecast his overall cost of goods sold was $40. This left his forecast gross profit at $60. For the purpose of this income statement, Logan was forecasting not just his business revenue and expenses but also his whole life's revenue and expenses – the business of Logan. Observe that he decided to pay himself first by counting $50 toward his Wealth Account as an expense, rather than waiting to find out what was left over, just like we discussed in the sections "Pay Yourself First" and "Advanced Pay Yourself

First." He also set aside an expense of $5 for charitable contributions, as we also discussed. The next expense Logan projected was $50 for his car fund. We discussed this in the Chapter 6 section titled "Have Your Child Create a Car Account." The insurance expense was another addition Loral added when Logan was a little older, to represent a concept similar to disability insurance. If Logan paid it and ended up unavoidably unable to sell smoothies that month, she would pay him his projected gross profit. The idea was to introduce the concept of insurance so he could better understand different types of insurance later. All told, after adding a forecast for snacks and spending cash to his expenses, Logan had total expenses of $140. This gave him a forecast Net Operating Income of negative $80, which would have been pretty bad except that he also had a forecast for making $80 in Home Pay, as we described in the section "Never Pay Your Kid an Allowance" in Chapter 4. This resulted in a projected Net Income of $0. This may sound bad but remember he paid his Wealth Account, charity, and Car Account first and counted these as expenses. He also accounted for all his expenses, so having a projected Net Income of $0 is fine given how he chose to do his accounting. Of course, he could have accounted for things differently and paid his life-related expenses with the Net Income, but this way Logan made sure he paid himself first.

Note the process Logan went through, which is exactly the process successful businesses go through. He figured out his Financial Baseline via a balance sheet. He decided what his goals were. He then planned the flight to get from one to the other by doing a GAP analysis. As part of that GAP analysis he figured out the income he needed and the amount he would need to "pay himself first" toward each account for each year. He then took those yearly totals and broke them down to monthly forecast totals. If his business operated more regularly, he could have even broken the monthly totals into weekly and daily income goals to make sure he had something to shoot for on a daily basis. The only thing left was to actually execute his plan and see how he did. All the forecasting in the world doesn't mean much if you don't stick to the plan.

In order to see how you are doing, you must track the money to make sure you are conforming to your forecasting. Tracking the money includes following along with all the income coming in and the expenses going out. Some of the most tedious but necessary tasks required to track the money are balancing your checkbook and checking your bank and credit card records. Doing so accomplishes a few things. First, it allows you to check up on your forecast to see if you are complying with what you had planned to spend for that month. It will also alert you to potential upcoming shortfalls in your account or maybe even excess money that needs to be redirected into your Wealth Account. Finally, it makes sure there haven't been any bank errors or unauthorized purchases or withdrawals from your account. Electronic fraud is prevalent these days and there are hundreds of ways for criminals to accomplish it. One of the best ways you can prevent electronic fraud is to keep an eye on your accounts to make sure thieves can't steal from you without your knowledge. Make sure you explain all the above-listed reasons to your child for why they should care about accomplishing these tasks. If you don't talk to them about these reasons, you can be sure they won't do it. As we all know, it's not fun. We've learned that, for kids, if something isn't fun, there better be a really good explanation for why they should do it, or they will do everything they can to avoid it. If you don't explain the "why" while

they are young you can be sure they won't continue it as adults once they are no longer under your watchful eye.

Once your child understands the importance of tracking their money, you'll probably need to walk them through the steps. Even though many people don't use checks very often anymore, it's probably still a good idea to start by showing them how you can keep track of your bank account by balancing your checkbook. Sometimes having something physical in front of them helps things make sense. Having a checkbook that automatically makes a carbon copy of each check inside your checkbook also helps to make sure you don't lose track of checks. Next, show your child how you go through your bank statement, whether it be paper or electronic, to make sure all the deposits and withdrawals make sense and align with your expenses and income. Finally, do the same thing with your credit card statement, paper or online, to show how you double-check all those purchases. As you are doing so, show them the costs of some of the family expenses so they will appreciate them a little better. We'll talk more about this in the next section titled "Real World Cost of Living." If you do come up with a discrepancy in your bank statement or credit card statement, show them how to fix it. If the fix requires a phone call, let them listen to the phone call you have with your bank or credit card company so they will have an idea of what the conversation should sound like. We've found that kids these days spend so much time texting that they are intimidated by talking on the phone with adults, especially those in positions of authority. Giving them an expert demonstration of phone etiquette will go a long way toward easing their apprehension.

Now that you've confirmed all your account transactions and balances are what they should be, there is one last step. This step might be the most important. Show your child how you compare your income and expenses to those you anticipated in your monthly forecast, as represented by the income statement. Did you spend more or less? Was your revenue more or less? Was there a good reason if not? Do you need to adjust your forecast for future months? If not, what will you do to get back on track? These are all questions you need to be asking yourself, as well as teaching your child to ask themselves about their finances. This post-action review is extremely important to make sure you stay on track with your goals.

In the air force flying world, such a review would be called a debrief. When Kyle was a fighter pilot, they would sometimes spend four times as much time in the debrief as the actual flight. In fact, in Kyle's opinion, this is one of the biggest factors that makes the United States Air Force the best in the world. When he would fly with international pilots from some countries, Kyle found that they had no interest in spending time debriefing the flight. They didn't realize what the US pilots knew. Most of the learning takes place in the debrief. If you can't take a close objective look at your performance to see how you can get better, how can you hope to ever actually improve? Teach your kids to do a thorough review of their checkbook, bank account, and credit card statements. Then teach them to do a thorough debrief to see how they did relative to their forecast, and adjust accordingly.

Now let's go back to Logan and his smoothie business. After tracking the money through his bank accounts to figure out his revenue and expenses, he was able to assemble the true

numbers for his business. Here's the income statement showing his actual performance for the month he forecast. Let's see how he did.

Income Statement

Logan Langemeier
Monthly Income Statement

	Forecast	Actual
Revenue		
Smoothie sales	90	116
Fruit sales	10	15
Total Revenue	100	131
Cost of Goods Sold		
Fruit	8	11
Yogurt	6	7
Juice	6	8
Wages	20	20
Cost of Goods Sold	40	46
Gross Profit (Loss)	60	85
Expenses		
Wealth Account	50	50
Charitable Contributions	5	5
Car fund	50	50
Insurance	5	5
Snacks & food	10	7
Spending cash	20	13
Total Expenses	140	130
Net Operating Income	(80)	(45)
Other Income		
Home Pay	80	90
Total Other Income	80	90
Net Income (Loss)	0	45

It looks like Logan had a good month. His smoothie and fruit sales were higher than expected, giving him a Total Revenue of $131. Due to having to make more smoothies, his Cost of Goods Sold did go up but not as much as his Total Revenue. As a result, his profit was $25 over his forecast and resulted in $85 in Gross Profit. As for expenses, Logan kept to his forecast by paying himself first for his Wealth Account, Charitable Contributions, and his Car Fund. He also skipped a few snacks and miscellaneous expenses to save an additional $10 in expenses for a Total Expenses of $130 and a Net Operating Income of $45. Since Logan was tracking his

business so closely, he became even more motivated by its success and decided to do some extra Home Tasks around the house so he could earn $10 extra in Home Pay for a Total Other Income of $90. All told, he was able to earn a Net Income of $45. Since he had already accounted for his expenses, he was free to use that $45 however he wanted. He could invest it in more inventory or advertising for his business or he could contribute more to one of his accounts. If he wanted, he could have even spent a little bit to celebrate how hard he worked. In the end, Logan decided to split the extra $45 between his Wealth Account and Car Account so he would be closer to his goals.

Let's talk about some of the "debrief" items Logan should look at. Fortunately, he beat his expectations on revenue and income. If the business of Logan were a company this would be called "beating on the top and bottom lines." Just as it is displayed in the income statement, the "top line" represents revenue and the "bottom line" represents income. Now when your child is listening on TV to a company's quarterly earnings call, they'll know what this statement means! If Logan had a "miss" on the top or bottom lines he would need to take a hard look at his business and figure out why. If he missed on the top line, then he would need to figure out how he could improve his sales. Maybe he needed more marketing or different pricing. If he "hit" his top line targets but missed on the bottom line, then that would mean his expenses were higher than he anticipated. Could he get the ingredients cheaper elsewhere or by buying in bulk? Could he lower the wages he had to pay Loral's assistants? Given all that he learned, the next question would be how he should adjust for the next month. Should he raise his revenue forecast or was this just a one-time situation? How could he try and drive his revenue numbers even higher or his costs lower? Does he need to adjust his goals higher to account for the extra contributions? These are just a few of the questions Logan could ask himself in order to do a thorough debrief of his monthly performance.

Hopefully it's clear from this exercise the multitude of lessons your child can learn from creating an income statement. If it didn't work, then Fortune 500 companies and all publicly traded businesses wouldn't do it. The combination of the balance sheet and the income statement provide the perfect tools to take you from your Financial Baseline, through your GAP Analysis and Forecasting, and to your goals. With some hard work and these tools at their disposal, your child can fly themselves from takeoff to landing on their Flight To Financial Freedom.

Real World Cost of Living

As your child begins to grow their wealth and accumulate some money at this age, it's not uncommon for them to think they don't have to work so hard anymore. After all, they have enough cash to buy some snacks and the occasional electronic gadget. What else could they possibly need? Why are these adults always so stressed out about money? This game is easy. If you start to sense these attitudes from your teenager, it's time to snap them back to reality. They probably have no idea how expensive life can really be.

Now is the time to break the bad news to your child and show them some of the real costs of living. Show them your bills and how you go about paying them, even if they are on automatic

payment (which they probably should be). Show them the electric and water bills. Show them the insurance and medical bills. Show it all to them. There's no reason to be secretive at this point. Your child needs to know what it really costs to live independently or support a family. It might even be worth showing them a sample income statement for your expenses to compare it to theirs. Not only will this teach them how to handle these bills when they are on their own, it might even help them appreciate your efforts at saving by making them appreciate the cost of things.

Kyle remembers his child's amazement the first time he saw the electric bill and how expensive it was just to run the household. The next time he was reminded to turn off his lights before leaving his room he had a greater appreciation for why that was important and was much more willing to pay attention to it. For the full heartbreaker show them their own cell phone bill. How many months' worth of cell phone bills could they pay if they had to pay it themselves? This might also be a good time to talk about the pay differences between different jobs or professions. Even if they want to eventually be an entrepreneur they may have to work at a job for a while. The sooner they learn that all jobs have limits to the level of income they can earn, the quicker they will be open to learning how to run their own businesses as Cash Machines so they can generate larger cash flows.

Talking with teenagers about what it means to be an adult usually generates a list of fun adult things they will get to do once they come of age, such as driving a car, eating out at restaurants, or attending a sporting event or movie. Talk about the costs of these activities and how quickly they can add up. It might also be a good idea to talk about the future cost of these activities as well as far as the opportunity cost of what they are giving up in future investment profits by instead spending the money on entertainment. We don't want to depress them into not wanting to grow up but it's a good idea to temper their expectations of how much discretionary income they will have. It's better to slowly ease them into the realities of being an adult than to wait until they are on their own, and letting them get slapped in the face by the harsh realities of bills they didn't expect and hadn't even thought about. It might even make them a little more understanding of your perspective when they don't get to spend and party like teenage rock stars.

Advanced Opportunity Cost

We first taught our children about opportunity cost in the 6-8-year age group. Review the definition and description in that section if you need to. Hopefully, along the way you've continued to reinforce this pivotal concept. It's now time to talk more specifics. Kyle has stated that whenever he is considering a large purchase he always like to abide by the following rule:
Everything you buy must be one of 2 things:

1. **A need** – truly necessary – don't trick yourself into thinking you "need" a new car if the one you have works just fine.
2. **The value of having the item now must exceed the value of what the expense of the item could buy in the future when compounded over time.**

Number 1 is fairly easy to understand but what about number 2? Let's use an example.

Let's say your 12-year-old son wants to buy a gaming computer with his hard-earned lawn mowing profits. The computer he's looking at costs approximately $1,000 but it's much faster than his old computer, and will help him be much more competitive versus his friends online. Here's how the analysis for this purchase would go. First, is it a need? The answer to this one is a no. It would help him be a better gamer, but he doesn't need it to play games since his old computer plays the games he likes (albeit at a slower speed than desired) and is plenty adequate to complete his homework. He may try to convince you that playing games at the highest frame rate is a "need" but unless he's a professional gamer this qualifies as a want. Don't be too judgmental though. The new TV you are considering buying probably isn't a need either. That's OK. We're not saying everything you buy must be a need – that would be quite a boring life. That's why there's a second criteria.

Will the value of having the item now exceed the value of what you could buy in the future with that money if you invested it and allowed it to compound? The easy way out is to let your child jump to the conclusion that he really wants the computer and doesn't care what that money could buy in the future. In fact, we don't introduce this concept until this age because a younger child will rarely care or even be able to think about what they may want in the future. Sadly, some adults still struggle with this concept. To be fair, though, we need to try to figure out what that future value would be so we can understand the opportunity cost of buying the computer. To do so, we'll revisit the compound interest concept you learned in the section "Investor mindset" of Chapter 2 of this book. Specifically, we'll use the rule of 72 and the 10X rule to quickly approximate what the $1,000 (to buy the computer) would equal in the future if invested with 10% returns.

Using the rule of 72, if your son were willing to not buy the computer and invest the $1,000 for just over 7 years, he would have $2,000 when he is 19 years old. He could buy a computer twice as expensive when he goes to college. A little more than 7 years after that he would have $4,000 at age 26.

Using the 10X rule, if your son were willing to not buy the computer and invest the $1,000 for 25 years, he would have $10,000 when he is 37 years old. This could be a down payment on a small house or a good portion of at least a used car.

Now that we know the future value of that $1,000 it's time for the hard part – deciding which you would rather have. Try and to think about what your future self would think. Would he rather have the $10,000 or would he be glad he bought the computer 25 years ago? What if he could get higher investment returns (quite possible) and have the $10,000 in only 15 years? In the end, the answer might be that your son would rather have the computer now. If so, good for him. At least he will have made an educated decision with the full knowledge of exactly what the opportunity cost of that computer was. Often, the mere act of thinking through this process can help a person avoid an impulsive purchase that doesn't make sense.

The High Cost of Borrowing

In the previous example your child wanted to buy a $1,000 computer. What if he "really, really, really" wants the computer but doesn't have the funds yet. Should you pay the difference yourself? Should you make him wait? These decisions are why you make the parenting big bucks. What if there was another choice? Have you ever learned a lesson the hard way? What if you gave your child a loan? The idea is counter to much of what we are teaching in this book so take it on at your own risk. If your kid was younger, we would definitely say that he should just do without. However, if you were going to give in anyway, and especially at this age, a learning point might be accomplished by giving them a loan. One intent of this loan would be to teach them the ways in which loans and borrowing work. The secret intent would be to teach them a relatively inexpensive lesson about the high costs of consumer borrowing. If you are going to do this, we insist that you have them draw up a formal promissory note to record the date, amount and repayment schedule. The more accurate you make the process the better the learning experience will be. This absolutely must be accomplished before you give them any money and before they buy the item. If they are borrowing for bad debt (see "Good Debt Versus Bad Debt and Your Credit Score" section), we also highly recommend that you charge a large interest rate, just like they would receive from a credit card company. Remember, the intent is not to give them a good deal. The intent is to give them a realistic experience of what can happen when they have consumer debt. Continuing with the previous example, let's assume your child has $500 to buy a $1,000 computer but is short the other $500. You could give them a loan for the $500 at 15% annual interest. This may sound high but it's actually the average US credit card interest rate at the time of this writing. If the payments were split up over a year, then the total amount your child would have to pay back would be $575. If this were paid the simple way, in 12 equal monthly installments, then each payment would be $47.92.

$500 X .15 = $75
$500 + $75 = $575
$575/12 = $47.92

When they see that they will end up having to pay an extra $75 by the end of the loan they may back out altogether. This wouldn't be a terrible result and would get the point across. If they do take on the loan, they will learn about being responsible for making payments and will experience first-hand what they will have to earn or give up in order to buy the item immediately. The more painful the lesson is for your child, the more vividly it will be remembered. It's also worth pointing out that if this was a credit card transaction and they only paid the minimum balance on the card then the 15% interest would continue not just for the first year but continually until the balance was paid off. This could cost them $75 or even more every year! Hopefully, after this experience, your child would more clearly understand what they were getting themselves into when taking out a loan or when taking on credit card debt. This may prove to be a valuable lesson that will later keep them out of that debt. Learning the lesson now to NOT take on bad debt and borrow for the purchase of consumer or luxury items that quickly go out of fashion or functionality can save your child large amounts of money over

time. Note also that if we went back to last section on "Advanced Opportunity Cost" we would find that the opportunity cost of the computer was even higher. Since the computer is now costing $1075, the future value of the investments your child is foregoing would now be $10,750 – $750 more than before!

Begin Relinquishing Control of Their Investments

Recall the pilot training model for teaching your kids that we discussed in Chapter 1. We recommended a similar strategy for teaching your child about their investments. Much like pilot ground school, we recommended you start talking to your child about stocks at an early age. In Chapter 6 we recommended you discuss the fact that buying a stock is actually buying a small part of a business. We then encouraged you to have your child try out a stock simulator. Next, they had their first opportunity to touch the flight controls when we encouraged you to sell a few shares to your child so they could learn first-hand the value of investing in stocks. If you need a refresher on those topics make sure to reread the sections titled "A Stock is Ownership in a Business" and "Start a Stock Simulator for Your Child." Now that your child is older and capable of grasping more complicated matters, it's time to begin relinquishing more and more of the flight controls to their investments. It's the perfect time to begin letting them help make some choices on what stocks or other investments are owned in their IRA and college fund you faithfully set up for them when they were a baby. We're not suggesting you fully hand over the controls. Just let them fly for small segments of the flight until they prove they are proficient.

The first step toward letting your child take a more active role in their own investments is to discuss your own investments. If you've been following along in this book and talking with your child about money and investing for years, they can probably now understand most adult concepts related to money. It is pivotal that you begin talking to them like an adult. Explain to them why you make the investment decisions you make. Not only will this help your child, but discussing it out loud and having to explain it will make sure you understand your own methodology. We always understand things better when forced to teach them. Sometimes explaining something to our child can even make us realize a flaw in our original thinking. If you can't clearly teach why you made an investment decision, then maybe you should have given that decision some extra consideration. When your child hears your reasoning behind an investment it will help them learn not just what to do but how they should do it. For example, you might say, "Son, I bought shares of Disney today. One of the reasons I did so is because I was thinking about how powerful their brand is and because I was so impressed with the operations at Disney World when we were there." You may be shocked at the conversations this might create. We've often been amazed how much our kids have retained and how well they will ask intelligent questions when we instigate a conversation in this way. As your child gets older, they may even be a good springboard to bounce investment ideas off. When Bryce was 18, Kyle visited a private financial technology company he was considering making a venture capital investment in. He brought Bryce along, not just to teach him, but also to get his thoughts on the company. Bryce listened intently throughout the meeting and was even able to ask the CEO some very insightful questions, as well as provide some feedback to the company founder regarding the app they had developed. Who better to get app feedback from than a

tech-savvy teenager? On the drive back to the hotel Kyle and Bryce discussed their thoughts on the merits and future of the company. In the end, when Kyle decided to invest, Bryce even purchased some shares from Kyle so he could have a stake.

The next step toward relinquishing some of the control of your child's investments is by initiating a conversation about what sort of things they are into. We used a similar tactic when we first sold our kids a few shares of our stocks. Legendary investor Peter Lynch is known for saying, "Invest in what you know." Find out what your kids know. While Kyle's kids were still into video games, they were also interested in being on their phone. What were they doing specifically? Often, they were on their Apple iPhone watching YouTube videos. It became clear that Apple and Alphabet (formerly Google and the parent company of YouTube) would be investments they could understand and could follow. Knowing and understanding the products of a business is important, but Peter Lynch knew that you also needed to dig deeper to really know the company. Before, when we recommended your kids buy a few shares of stock from you, the monetary amounts were small, and the idea was to get your kids interested in the idea of stocks. Now that they are beginning to take the controls of larger amounts of money it's important that we advise them to be serious and deliberate in how they invest that money. This leads us to the next step in slowly relinquishing control of your child's investments – due diligence. The next section will discuss how to accomplish due diligence to make sure your child knows some of the things they need to investigate before purchasing an investment.

Due Diligence

The first step in conducting due diligence on any investment is not whether the investment you are considering is a good one; it's whether the investment is a good one FOR YOU. In order to know this, you need to understand yourself. The first step in this process is understanding your own psychology. As we mentioned in the section "Risk Versus Reward for Investments," one of the most important things to know about yourself is your risk tolerance. Investing shouldn't make you afraid, stressed out, or keep you up at night. If it does, the risk profile of your investments is probably too high for your risk tolerance. This isn't to say you should keep your money under your mattress. Hopefully this book is teaching you how important it is to keep your money invested and working for you. You just need to find your balance. That balance may not be the same for you as it is for your child. That's OK. Your job is to be the wise one and help your child understand their own risk tolerance. As we mentioned before, you can figure this out through games like Monopoly or through other life situations you witness your child experiencing. Although it's not a perfect correlation, even non-money-related situations can tell you a lot about your child's risk tolerance. When considering an investment make sure your child weighs the reward of the investment versus the risk, and ensures they are comfortable with that risk. Just as we talked about before, if a greater reward is possible one might be willing to take on more risk, but it still needs to be risk they are comfortable with. Therefore, the big questions would be the following.

- What is my risk tolerance?
- What is the investment's potential reward?
- What is the investment risk and is it within my tolerance?

The next factors you need to know about yourself are related to your current financial situation. In her books, Loral calls these factors your Money Rules. Here's a list of a few of the factors.

- Time horizon – short-term vs long-term?
- Liquidity need or not?
- Active vs passive?
- Tax-advantaged or not?
- Cash flow vs appreciation?

For example, how quickly will you need the money? Children generally have a very long time horizon for when they need the money, but they might need some money available to buy a car or pay for college. It wouldn't make sense to put their money in an investment that couldn't be pulled out for five years if they need it in two. Also, investments with a high volatility, as we also described in the section "Risk Versus Reward for Investments," are better suited for long-term time horizons because, even though they may have good overall returns, they may lose money in the short term. A similar question would be how much liquidity is needed for the investment. In other words, do the investment funds need to be accessible while they are invested or not? Could they be pulled out in an emergency? An additional question you should ask yourself would be how much time and activity you would like to dedicate to the investment. Are you looking for an active, passive, or "pactive" investment? Recall the discussion in the Chapter 5 section "Active Income Versus Passive Income." Kids are often quite busy with school and activities so they probably can't invest in something that is quite active. Another question to ask would be is the investment best served in a tax-advantaged account or not? Different investments serve different tax strategies, so you need to consider if your child plans on buying the investment with their IRA or a non-tax-advantaged account. Finally, are you looking for cash flow or appreciation? Cash flow will help provide you money now but may raise your taxes. If you need money to live off of, then you'll need an investment that provides cash flow. Appreciation won't necessarily give you money immediately but may have a better overall return, and may save you money in taxes. Your child probably doesn't need immediate cash flow from their investment so they can probably choose an option that provides the best ROI. All these factors play a large role in determining what kind of investment is best for you or your child.

Once you know what you are looking for in an investment and you can find an investment that meets your needs, you can begin to look at the merit of that individual investment. An extensive course on investment analysis is beyond the scope of this book but we can give you some pointers to teach your child so that they can begin taking more control of their

investments. Here are some of the questions we like to ask when performing due diligence on stocks:

- How is the leadership of this company?
- Do I believe in the future growth of the industry this company is in?
- Do I believe in this company and its future growth?
- Do I understand what the company does and how they make money?
- Do I use the product or know others who do?
- Do the numbers look good on the balance sheet and income statement?

In our opinion, the most important factor influencing an investment is the leadership team. Whether we are talking about businesses or even sports teams, leadership is often the common thread of success. Not only does good leadership perform better, it also attracts better team members. There's a reason that coaches like John Wooden, Bear Bryant, Vince Lombardi, Pat Summit, Phil Jackson, Bill Belichick, and Nick Saban win championships over and over. Likewise, CEOs like Bill Gates, Steve Jobs, and Jeff Bezos produced consistently strong results for their companies and even outpaced the growth projections of the analysts. If you stick with winning leaders and leadership teams for your investments, you can seldom go wrong in the long term.

Speaking of growth, another question we recommend asking about an investment is what is the future growth of the category or industry? If you are trying to be Blockbuster in a digitally streaming world you won't have much success. It's great to be in a growing industry but you also need to ask yourself what success you think the company will have within its industry. Does it have a competitive edge that other similar companies don't have? Does it have a first-mover advantage to help it gain market share?

Next, you need to know what the company does and how they make money. We discussed this in the last section when we recommended you "invest in what you know." Remember, stocks are companies not lottery tickets. If you don't know the model for how the stock makes money, you probably shouldn't invest in it. This factor alone may eliminate certain investments for your child. It's also very helpful if you or at least someone you know uses the product that the company makes. It's a lot easier to tell if a company is trending up or down if you use its product regularly.

So far, all the questions we have asked about our potential investment have been fairly subjective and simple. The last question is the toughest because it involves looking at the investment's numbers. The good news is that your child already knows how to review many of the numbers they should evaluate for their investments. They learned it in this chapter in the sections "The Balance Sheet" and "The Income Statement." We don't expect your child to spend days combing through these statements for every company they invest in, but they can look at a few numbers from the balance sheet and income statement. One would be the debt the company has relative to its cash. In general, the higher the debt to cash ratio, the greater the risk. Recall Logan's balance sheet example. If he had more liabilities than assets wouldn't

you feel less comfortable investing in him? It's also important to see revenue growth unless there is a valid reason for a decline. Companies can sometimes skew the bottom-line Net Income with temporary savings measures or accounting tricks, but the actual sales as reflected by the revenue often tells the truth. Think about Logan's income statement. If Logan had lower and lower revenue each month then we should be concerned that his smoothie business was failing. As this example demonstrates, sometimes the numbers in a given quarter (for quarterly reports) aren't as important as the trend they show when compared to other quarters. The last thing we recommend your child do is quickly read through the summary of the company's latest quarterly report. This summary is public information and can easily be found for free via an internet search. It only takes a few minutes to read the summary and it will give a good picture review of what the company experienced in the last quarter and often what it expects for upcoming quarters.

If the list of questions and items we just described seems long and thorough, that's because it is. It's important to teach your child that investing in anything, including the stock market, is not gambling. It requires careful consideration. If you ask the questions above to your child you will find that it will lead to all kinds of stimulating educational conversations, probably for both of you. As we've said so many times, the challenge for you as the parent is to not let the process of due diligence be so cumbersome that they don't ever want to invest in anything. Keeping it light and conversational is the key. Analyzing the actual financials of the company might be best saved for when your child is a bit older, but showing them a few examples might help. It might even assure that you are doing better due diligence on your own investments. Finally, remember that most of the questions above don't apply to only stocks. Many of the same questions could be asked about a variety of investments. Just think how proud your child will be when they see that they made money off an investment they researched themselves. You may have to hold them back from wanting to take the flight controls of their investments sooner than you had anticipated.

Buying a Car

The day is quickly approaching. Whether you dread it because you can't protect them or you are looking forward to not being a taxi, soon your child will be driving. Depending on your circumstances, they may or may not need a vehicle. Perhaps they could borrow the family vehicle when necessary. For many, though, particularly if you want to quit your second job as your child's personal Uber driver, this means they will need a vehicle. How will they acquire that vehicle? The answer could have long-lasting effects on your child's financial well-being. Your child will probably remember their first car forever. What will their memories be of that car? If your first reaction to this question was to go out and buy them a brand new Ferrari, then you haven't been listening along the way. As we see it, there are 2 main questions you need to address when considering a vehicle for your child:

1. Who will pay for it?
2. How much should be paid for it?

We addressed the first question extensively in the Chapter 6 section titled "Have Your Child Create a Car Account." If you haven't read it or are having second thoughts about buying your child's car for them, please read it now. If you followed our advice before, your child began setting aside a significant amount of their income earned toward a Car Account. The reason they needed those savings was to help pay for their own car, or at least a significant portion of the costs. The only question remaining then is how much should your child pay for their car? The answer will be determined in large part on how much they saved. This is by design. Isn't this how it works in the real world? If your child sat on the couch all day and ate bon-bons, then they shouldn't get a very nice car. If they worked their rear off making money so they could afford a nicer car, it's okay to let them have a nicer car – with a few caveats. There are four main reasons we think you should avoid letting your child purchase an expensive car, even if they can afford it.

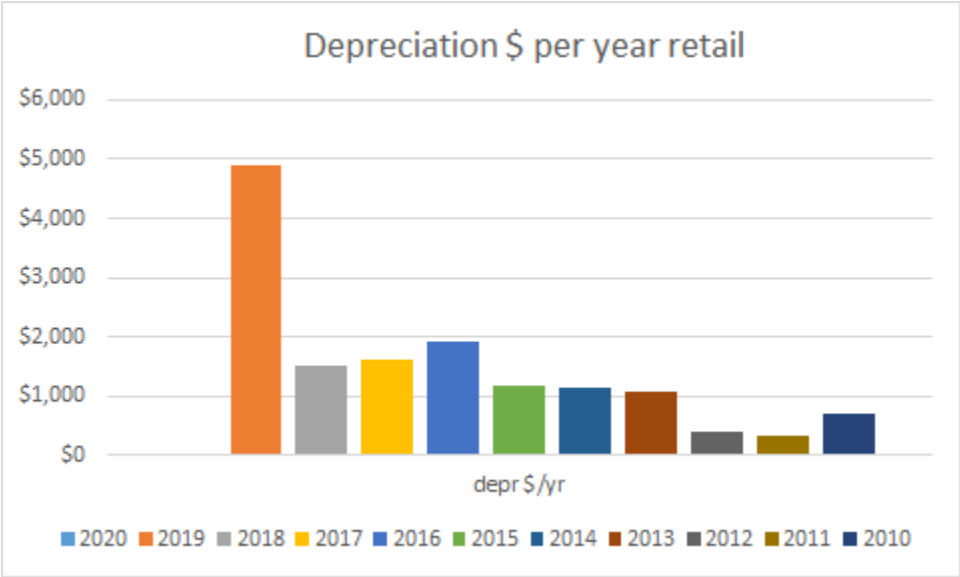
1. Insurance will be more expensive
2. Depreciation will be larger
3. You may be tempted to get a car loan
4. The "Regression Rejection Effect"

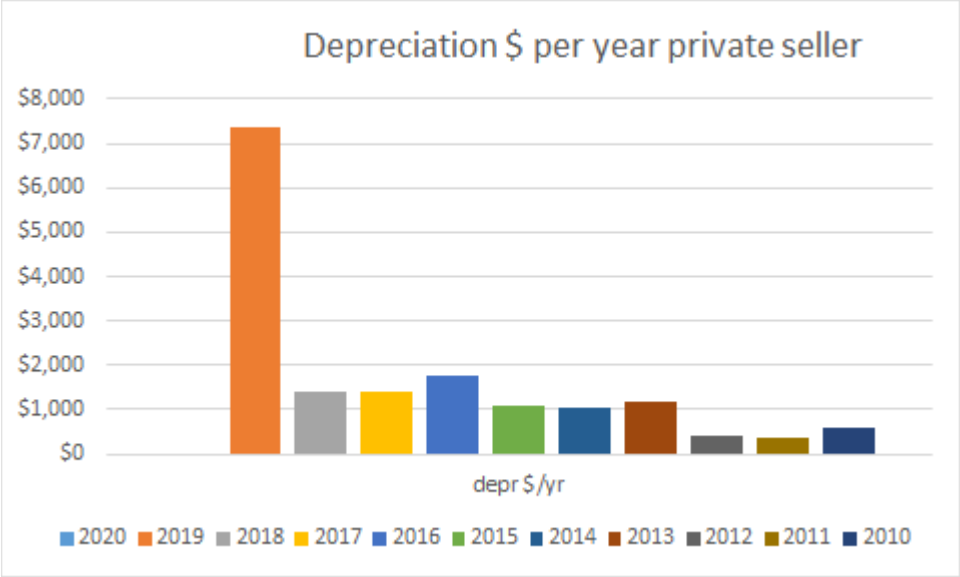
We'll discuss each of these in turn.

1. It's no secret that insurance rates are much higher for 16-year-old drivers than adults. In many cases the insurance for a 16-year-old will be five times more expensive. Since insurance rates go up relative to the cost of the car, each incremental increase in car value creates a huge increase in insurance rates. Also, if they buy a very inexpensive car, it may not even make sense to purchase comprehensive or collision insurance, especially if they have saved up extra for repairs.

2. Although there are some rare exceptions, more expensive cars usually depreciate faster than less expensive cars. In large part this is because more expensive cars are often newer. Newer cars depreciate very quickly in the first several years. In many cases a new car will lose 25% of its value in the first year. After three years they have usually lost 40% of their value. This despite the fact that with normal mileage usage that 3-year-old car has probably used less than 15% of its serviceable lifespan. Let's look at an example of the depreciation for a 2020 model of the world's best-selling vehicle of 2019, the Toyota Corolla. The price estimates below came from the National Automobile Dealers Association (NADA) and are accurate at the time of this writing. A new 2020 Toyota Corolla LE would cost $21,005. A 3-year-old Corolla would cost $12,975 in retail price at the dealer. However, since pre-owned cars don't have to be purchased from dealers, you could buy it from a private seller and the NADA estimates it would cost you on average $10,775. That's a savings of either $8,030 at a dealer or $10,230 from the private seller. By buying a pre-owned car only 3 years old you miss out on at least 38% and up to 49% of the depreciation! Additionally, using the 10X rule from Chapter 3 we know that this $10,230 in savings would grow to approximately $102,300 in 25 years. Just think how much money you could have if you did this every time you bought a car. Since car companies often only change their models every four or five years, it is quite possible to buy a 3- or 4-year-old vehicle that

looks exactly the same as a new car. Only true car aficionados could tell the difference. See the charts below for the retail then private seller price depreciation year by year.





This depreciation pattern is similar for nearly every vehicle and every year. We didn't cherry-pick this one for high depreciation. In fact, because of their popularity, Toyota generally and the Corolla specifically are known for their low depreciation rates relative to other vehicles. For more expensive vehicles the overall depreciation is often even higher, though the percentages are usually similar. Note that, according to NADA, you could buy an 8-year-old 2012 model from a private seller for $5,275 if that is more in your child's price range. As the chart shows, this would limit your yearly depreciation to only around $500 per year. That's still a depreciating asset but at least it's not depreciating as much as the newer versions. Older models would

suffer from even less depreciation. The lower your price point, the less depreciation you will have to endure. A pre-owned vehicle may not be new, but it's still new to them.

3. The most sensible way to buy a car is nearly always to pay in cash. A car loan is the definition of bad debt because, as we just described, it is on a depreciating asset. If you let your child buy a car with debt, not only will their net worth be drained by depreciation of the car and the insurance for the car, but it would be further depleted by the interest they would have to pay on the loan. Because of the depreciation, people often end up owing more on the loan than their car is worth. Please don't put your child in this predicament. If they don't have enough to buy an expensive car with cash, then they certainly don't have enough to buy it with debt. The finance department is one of the top ways car dealerships make money. If they can convince you to buy a more expensive car with debt, then they win twice. There's nothing inherently wrong with car dealerships. They are just businesses trying to make money. But you shouldn't enrich their coffers by completely emptying yours.

4. Letting your child purchase an expensive car for their first vehicle, even if it is paid for in cash, may be setting them up for a lifetime of Lifestyle Cycle debt. Here's why. Psychologically, it is difficult for people to be willing to go backwards and to take a step down in life. We always want to feel like we are progressing, getting better things, and stepping up in the world. Some might call it "leveling up." We talked about this concept earlier in the section titled "Frugality (Even If You Don't Have To Be)." People will go to extraordinary lengths to not regress in life, including rejecting the prospect of doing so, even when it makes logical sense. This effect is so pervasive that Kyle has even created a name for it. He calls it the "Regression Rejection Effect." The "Regression Rejection Effect" can make normally prudent and thrifty people go into Lifestyle Cycle debt even when they know better. They just can't help themselves. If you buy your 16-year-old child a $50,000 Porsche, what will happen 5 years later in life when they tire of their "old" Porsche? They'll feel like they need to "step up" to a $60,000 vehicle. Do you know many 21-year-olds who can afford a $60,000 vehicle? They would probably have to take out a large car loan of bad debt. Even if they could afford a car this expensive or make the payments, what would that do to their saving rate? In the years they should be investing and taking advantage of the compounding effects of time – the main advantage young people have – they'll instead be trying to pay off a car loan on a depreciating vehicle. Unless they happen to be Mark Zuckerberg you are practically dooming them to a life of battling the Lifestyle Cycle and burgeoning debt. If you haven't figured it out yet – almost all kids think they will be the next Mark Zuckerberg. Most won't. The "Regression Rejection Effect" is real. Don't set your child up for it by letting them get a first vehicle that is too expensive.

Once you've decided the price of the vehicle to buy, it's time to decide what type of vehicle your child will want to purchase. The type you will buy is largely a matter of personal preference, but you should definitely consider how it will be used. Note that the following criteria are not unlike the money rules we use as precursors to our due diligence on investments. If you will expect your child to drive their 3 sisters to school, then a 2-seat vehicle obviously isn't a great idea. If you live downtown in a city with small parking spots, then a giant truck probably isn't in the cards. If, however, you live out in the country on dirt roads that

sometimes get muddy, a truck might be just what is needed. The age of the vehicle is another factor you should consider. If your child has a long commute, then a small economical car with good mileage that is reliable and not too old might be the best choice. If, however, your child has a painting and lawn care business like Bryce did then an older truck that can get beat up a bit is practically required.

Now that your child has decided exactly what type of car they want, they need to find one and evaluate whether they should buy it. This is where the due diligence we talked about in the last section comes in. Although questions about leadership and growth trajectories don't really apply, the overall theme of learning everything you can about the car certainly does. You can check online to find out the reliability and safety of the make and model you are interested in, as well as any applicable safety recalls. Numerous sites online will also allow you to compare prices for the vehicle you are interested in so you can make sure you are getting a good value for your dollar. Finally, looking under the hood of a vehicle is a lot like investigating the income statement and balance sheet for a company. It's the things that aren't on the outside that can sometimes bite you. If you or your child aren't mechanically inclined, you should probably have a mechanic help you look under the hood and help you accomplish your due diligence. The other question would be where to buy. Though dealers provide an array of options and sometimes offer pre-owned warranties, you can often get the same vehicle for 10-20% less from a private owner. However, this may make due diligence even more imperative because they don't have their business reputation at stake. The choice is up to you and your child. Either way, spending the time to figure out as much information as possible about the car purchase will reinforce to your child the importance of due diligence with all major purchases, not just investments.

Overwhelmed yet? In summary, here are our recommendations:

1. When your child is young, decide what portion of their vehicle they will have to buy themselves. They should pay a significant amount, if not all the costs.
2. Communicate your decision to your child by the age of 10 so they will have several years to earn the money for the car they want.
3. When they reach age 16, follow through and only let them spend what they have earned or what was otherwise agreed upon when they were age 10.
4. Don't let your child (or yourself) use a loan to purchase a car, or any other depreciating asset. If they can't afford the car they want, then they need to learn the lesson that they should have worked harder to earn it.
5. Help your child decide what car is best for them given their situation.
6. Help them accomplish due diligence on an affordable car that won't depreciate too much, cost a ton in insurance, or cause future "Regression Rejection Effect" problems.
7. Persuade your child buy to buy a reliable and safe, but modest, vehicle that is not new, but new to them.

Insurance

We've discussed insurance a few times already in this book. We addressed it when we talked about the disability insurance Logan paid his mother in case he couldn't work for a specific time period. The main purpose of this would be to introduce the concept of insurance to your child at an early age so they can begin understanding how it can provide protection from risk. We also discussed insurance in the previous section "Buying a Car." Whether you want to pay your child's car insurance or let them pay it themselves is up to you. Some people believe making them pay it themselves will make them less likely to get in accidents. However, we believe making them buy their own car is a more direct link to making that connection. You could consider a hybrid in which you paid for their insurance, but they would pay the difference if your insurance rates went up due to something they did like an accident or traffic ticket. Either way, it's important to make sure they do understand that their actions have a monetary effect on what gets paid for insurance. It's a good way to hammer home the concept that actions have consequences. Think back to the discussions on credit when we described how your credit rating follows you for a long time. Remind them that their driving record does the same thing.

Another factor to discuss with your child regarding car insurance would be how much they should get. Explain the different types of car insurance like liability, comprehensive, and collision. You should also probably discuss the terms associated with insurance like deductible, premium, claim, appraisal, and adjuster. These are common terms that most adults know but your kids probably don't. Show them your insurance bill to help them understand what each version costs, and how you would file an insurance claim if you needed to. This would also be a good time to explain why liability insurance is required and what they should do if they get in an accident. As we mentioned in the last section, if they buy a very inexpensive car, they may not even need to purchase comprehensive or collision insurance, especially if they have saved up extra for repairs. This would be a form of self-insuring. After all, Geico doesn't make all those hilarious commercials because they are losing money. Explain that they could save the cost of the insurance and keep a liquid fund available for repairs, allowing them to forego all but the legally required insurances. In general, if your risk is lower than your perceived risk in the eye of the insurance company then it might be more economical in the long run to self-insure. You just need to make sure you have funds to fix your car so that your car damage doesn't cause you income damage when you can no longer drive to work or your business.

So far, we've talked mostly about car insurance since that is probably the only insurance that is of immediate concern to your child at this age. However, while you are talking about car insurance with your child, it's probably worth mentioning and briefly discussing some of the other types of insurance they may eventually choose to purchase. These would include homeowner's insurance, renter's insurance, flood insurance, health insurance, disability insurance (which we touched on before), life insurance, long-term care insurance, valuable personal property insurance, and umbrella insurance.

Warranties are another topic related to insurance that could also be discussed at this time, including car warranties, home warranties, and merchandise warranties. Although we aren't

generally a big fan of warranties, we have used home warranties to successfully reduce unexpected expenses on investment properties at times.

Identity protection is another item related to insurance that you should probably have yourself and should discuss with your child. As the world gets more digital and we conduct an increasing amount of our business and transactions online, our exposure to identity theft goes up considerably.

You don't need to go into great depth on any of these topics at this point in their life, but it is worth talking about how they work and why they might be useful. It's also worth talking about situations when you might want to self-insure and what the risks of that could be. Like many things, choosing which insurance to get, how much of it to get, and what deductible you want, often comes down to your risk tolerance and how much emergency funds you have set aside to pay for any uninsured catastrophes. Talking through these factors with your child will help them make informed decisions about what insurance they will need in the future.

Chapter 8 – Ages 16-17

"Your economic security does not lie in your job;
it lies in your own power to produce – to think, to learn, to create, to adapt.
That's true financial independence. It's not having wealth;
it's having the power to produce wealth. It's intrinsic."
Stephen R. Covey

Can you believe your child is driving now? With the newfound independence of being able to get around town on their own comes even more independence and pulling away from their parents. You may have to be more creative in finding engaging ways to get your child to keep learning about money. We have some ideas to help. Hands-on is the lesson of this age group. Recall the analogy from earlier in the book comparing your child's journey to financial freedom being like flight school. By now, your child has mostly completed their ground school part of training. It's time for them to begin taking the controls of their own financial flight and showing off the money savvy you've been teaching them for so many years. You are still there to keep an eye on them, but you need to give them some real-world experience. Their solo flight is only a few years away. We know. That's a scary thought.

Starting a Real Business

Whether your child's entrepreneurial endeavors before panned out or not, now is the time to help them grow wings and fly. They are now nearly adults, as scary as that is. They are capable of adult dreams and ideas. If you've cultivated their business spirit, their mind is probably constantly spinning with potential business ideas, but they aren't always willing to share them with their parents. If they are like most kids this age, they barely want to talk to their parents at all. What better way to create some shared time together than helping them start a real business – a real Cash Machine? You may be able to get their mind working or get them to open up about their own ideas by saying things like, "I've been thinking it would be cool to start a business but I can't decide exactly what it would be. Do you have any ideas?" Perhaps you might even be able to lead them to the idea by talking about what they love doing or have been told they were good at. Remember, the best Cash Machines involve businesses using skillsets your child already possesses. This is just a starter business to help them learn how to earn. To begin feeding their Wealth Cycle, the Cash Machine needs to generate revenue immediately. In her book, *The Millionaire Maker's Guide to Creating a Cash Machine for Life*, Loral talks about the Cash Machine Action Plan:

CASH MACHINE ACTION PLAN

- Discover the skills you already have.
- Generate a business idea based on those skills.
- Model the idea after a similar business.
- Test the sales potential through revenue modeling.
- Design a Cash Machine plan.
- Build a team.
- Develop the marketing and sales strategies.

The story that follows describes how Kyle helped inspire his son to start a real business at age 16. At the end of the story we'll analyze how Bryce followed the Cash Machine Action Plan.

"Cyborspace" – the Virtual Reality Business That Was Real

One day my 16-year-old son Bryce came home super excited. He had just come back from his best friend's house, who had just received a new virtual reality (VR) headset and gaming system for Christmas. Bryce raved about how amazing it was and how much better it was than traditional gaming. He said he wanted to spend $400 of the money he had earned the year before mowing lawns to buy the headset. I reminded him that most of that money would be needed for him to eventually upgrade the old truck he had bought with his own money earlier that year but had already had some mechanical issues. Bryce was undeterred. He went on to explain how he and his friend Peyton had already discussed ideas to use it for a business. Now he had my attention. I've always tried to foster his business mindset but now he was old enough that simple ideas weren't enough. I wanted details. We chatted for several minutes about possible ways he could create a business, but it was clear this business idea was still in its infant stages. I told him I would consider letting him buy the headset but only if he could prove he could monetize it and make the money back with his business.

Peyton came over the next day and I too was impressed with how immersive the VR gaming experience could be. I could see how people would pay to play it, but it still wasn't a business yet. Bryce and Peyton and I talked for over an hour about the possible ways they could make it a business. I let them do most of the talking but I would ask questions to help them clarify their idea for how the business would work. In the end they decided they would do a business where they would cater to parties by providing in-home virtual reality gaming. The party host would purchase their services for a set period of time, and they would bring their computer and virtual reality gaming gear. They would also provide instruction and assistance throughout the event. As the details began to crystalize, I could see their excitement growing with every passing moment. However, I've witnessed the difference between exuberance and actual work, so I told them I wanted to see a business plan. "A what?" they asked. I explained what a business plan was and told them they could search a template online and if they could provide me with that I would help with their business but the purchase of a VR headset for Bryce would have to wait on "proof of concept." "What's that?" they queried again. "Let's deal with the business plan first," I advised. It took several days but they did eventually produce a business plan. The

first was a little less detailed than I desired but by the second draft I was convinced their plan could work.

Over the next several months Bryce and Peyton labored through all the steps toward setting up a real business. They purchased a website domain, created their own website, set up a Facebook page and Instagram account, purchased a banner, made fliers, opened a bank account, set up an online payment system, created invoices and receipts, practiced their sales script, ops-tested the system, performed dry runs, and had their first client. They even set up a tent at the local "First Friday" event downtown and sold gaming time by the minute to passers-by as they generated enthusiasm and marketed their business. This was the proof of concept I was looking for. When my son told me he could purchase a used headset from another friend at a discount, I was finally convinced he could monetize it and gave him my blessing. Along the way we talked about things like marketing, sales, logistics, customer relations, and all the other aspects of a business. They often surprised me with their ingenuity and even used targeted Facebook marketing to reach their focused audience. The whole experience was extremely educational for them and the business was thriving right up until COVID-19 made a direct assault on their business model. Despite this setback, they were still profitable and look forward to starting back up when it is safe to do so. More importantly, by opening a Cash Machine they learned important lessons about being entrepreneurs. They also learned how to turn their passions into a business and that, if they want something, they have to put in the work to get it.

Even though Bryce didn't know about the "Cash Machine Action Plan" at the time, he unknowingly followed many of its steps.

CASH MACHINE ACTION PLAN

Discover the skills you already have.

Bryce and his friend Peyton have strong computer and gaming skills so starting a business around these two concepts made a lot of sense. Peyton also had experience making websites.

Generate a business idea based on those skills.

Even before Kyle became involved, Bryce and Peyton had already formed the beginning of an idea centered around their skills

Model the idea after a similar business.

One of the reasons Bryce and Peyton settled on the idea of the party catering business model was because there were two similar business models already in town. One had a trailer with non-VR video games inside that could be brought to parties. Another brought a projector and large screen to parties so they could have outdoor movie nights. Bryce knew the owner of this business and it was very profitable.

Test the sales potential through revenue modeling.

During the "First Friday" event, Bryce and Peyton were able to test the sales potential of the product. They spent much of the time asking customers for feedback on pricing models and their interest levels for various pricing options. They also tested different pricing plans and discount options to find the best combination.

Design a Cash Machine plan.

Kyle demanded a business plan to make sure Bryce and Peyton were serious. The business plan outlined all the details for the business and how it would make revenue.

Build a team.

Bryce and Peyton were a team from the beginning. They had complimentary skillsets to help run the business. They also hired another employee to help run the events when neither of them could attend. Kyle and his wife Tracy provided guidance and mentorship.

Develop the marketing and sales strategies.

Bryce and Peyton had taken some online marketing classes already, so they knew most of the marketing basics. Their strategy for directing ads at specific age groups and demographics with targeted Facebook advertising was impressive. They also used the First Friday event to good effect. Because they recognized that most people didn't really understand the immersive experience of VR until they tried it, they offered discounts to anybody who tried the event at their booth on First Friday events.

Paying Taxes On Their Business

Hopefully by now your child has a thriving business that is profitable. Whether your child goes on to be an entrepreneur or not, it's important they understand basic bookkeeping, including how to pay their taxes. If your child is like ours was at this age, they loved making money but hated keeping up with the books. Come to think of it, this is still one of our least favorite parts of owning a business. Unfortunately, it's also one of the most important parts. One of the big reasons so many small businesses go out of business is because they don't know how to track the money flow in their own organization. If you don't know which activities or clients are providing most of your income, how can you find more of those clients or activities? How can you improve or get rid of those that aren't providing you income? How can you track which expenses are helping or hindering your bottom line?

Here's where the basic accounting fundamentals we taught earlier like keeping an income statement will come in handy. As businesses get more complex, they often eventually turn to accounting software like Quickbooks to help manage their profits and losses. This software isn't free and does have a learning curve. Your child may prefer to use basic spreadsheet software

like Microsoft Excel or Google Sheets. These can be obtained much cheaper (or possibly free) and your child probably already has some experience with them by the time they are this age. If not, it's a great time to learn. It's easy to either download a template or start your own. The key is that the spreadsheet or program keeps track of all the money flow within the company. At a minimum, the earnings entries should include the date, amount, who paid, what was sold, and whether it cleared. Expenses should include the date, amount, who it was paid to, what was purchased, and perhaps a comments section for why it was purchased. We like to create separate columns on our expense sheet to account for the different expense categories like rent, utilities, office supplies, advertising, website and software, internet and telephone, vehicle expenses, licenses and permits, dues and membership fees, insurance, bank fees, legal and professional fees, training and education, equipment, business meals, charity, and home office costs. Obviously, your child's business will not have all these expenses and may have a few other categories.

Additionally, all receipts and invoices should be kept as a "burden of proof" to the IRS if you are audited someday. Will your 16-year-old's business be audited? We hope not, but it's a good idea to get them in the habit of keeping good records for their future businesses. It's also important for your child to keep good records so they can maximize the expenses they can legally take. As we said in the previous section on taxes, there is nothing wrong with making sure you don't pay more than your fair share of taxes. Deductions and expenses were created so business owners would take them. Have your child take a close look at the list of expenses above and think about whether any of them could be applied to their business. One of the best benefits of being a business owner is having the ability to pay your expenses before you are taxed instead of with after-tax money like employees. A tax professional can be worth their weight in gold when it comes to allowable expenses, and should be consulted whenever possible. We've found that having a tax professional on your wealth team can often save you more money than their fees. Your child's business may not rival Amazon yet, but that doesn't mean they shouldn't be looking for legal ways to lower their taxes.

Now that your child has mastered bookkeeping, it's time for them to use all the information they've been tracking to help file their taxes. If your child is just an employee, they could probably file an IRS Form 1040EZ. If they have a business but it is a sole proprietorship, they will file an IRS Form 1040 and may have to fill out a Schedule C and Schedule SE. At the most basic level your child needs to understand what portion of their business profit they will get to keep. Walk them through filing their taxes and how to get their refund, if any. If your child doesn't need to file taxes, walk them through yours so they can get a feel for it. If you are clueless about taxes as well and rely on an accountant, then have them sit in while you talk to your accountant about your taxes. Have your child write down some questions they may have. Make note of the actual effective rate of tax for your taxes or theirs. Remind them that the tax brackets are graduated. If their income is small their effective tax rate should be very low or possibly even zero.

Now would be a good time to revisit the concept of the Roth IRA and other Tax-advantaged accounts discussed in Chapter 2 in the section "Investor mindset – Tax-advantaged accounts"

and how these accounts can help them avoid paying more taxes later when they are likely in a higher tax bracket. Speaking to your child about taxes isn't always fun. If your child does find it fun, then congratulations! You might be raising your own future family accountant! Either way, showing your child that the business of tracking their money and paying their fair share of taxes isn't as scary as they thought it was will demystify the intimidating part of owning a business. It might even make them more likely to pursue their dream and start one.

Reveal More Details About Your Own Financial Situation

If you have followed the guidance in this book, then your child at this age has a considerable amount of knowledge about money. In fact, they probably know more than most adults. In the Chapter 6 section "Your Money Isn't Their Money...or Is It?" we advised you to begin discussing your financial situation with your child and to discuss with them whether your money was also theirs or not. Several years have now passed and it's time to reveal even more details about your financial situation to your child. Remember, as Loral says, it is important to "Live out loud." This means sharing your financial successes as well as failures with your teenager. They are only a few years from potentially being out on their own. They can handle it now.

Wouldn't you share your knowledge with them about your experiences with life and love? Money should be no different. If you made some great choices with your investments and have a healthy nest egg, now is the time to reveal it. Don't you want them to know so they can make similar decisions? The temptation is to be worried that revealing your full financial situation may cause them to be spoiled. If you've been teaching them the concepts in this book all along, that should be very unlikely. Trust your parenting. This is especially true if you revealed to them after reading the section "Your Money Isn't Their Money…Or Is It?" that your money indeed is not theirs. If you aren't giving them any money then they have no reason to be spoiled because, as Kyle said, "they are dirt poor."

If you do plan on giving your child a portion of your wealth it is important that they understand how that wealth transfer will occur. Now is the time to explain any IRAs, trusts, entities, life insurance, or special education funds you might have set up. The availability of college funds may change their plans and potential choices, so they need to know about these accounts now. Explain when they will take possession of these accounts and what their responsibilities will be. Remember, the goal is to slowly transition them into these responsibilities so giving them a surprise windfall when they turn 18 or older won't help them be responsible managers of that wealth. They need to understand your motivation for why you are guiding them to understand how to take over these entities and accounts. Revealing the details of these accounts and entities should get them excited to learn.

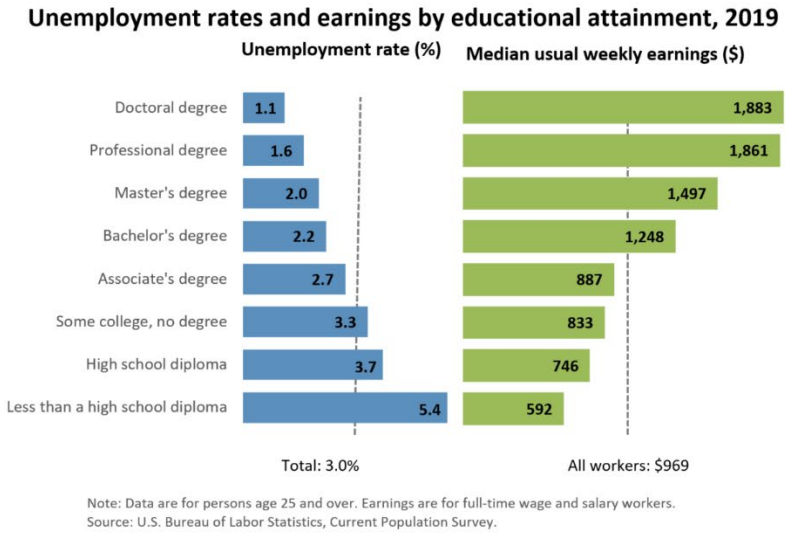
Of course, not everybody has been fortunate enough to build wealth. Some of you have only built debt. If you made some poor decisions and are in debt, it's OK to tell them about it so they can learn from your mistakes. In fact, it's your duty. Though it's natural to not want to share your poor choices, it won't help them avoid those choices if they don't know about it. Remember the famous quote from George Santayana, who stated, "Those who do not

remember the past are condemned to repeat it." Don't condemn your children over a history they haven't even been taught. Explain to them the lessons you learned, and how you are making better decisions now and in the future. They probably already know more about your financial situation than you think. Children are very perceptive. Whether they admit it or not they are constantly listening to us. Hiding your poor choices while pretending you did everything right will only make them mistrust you and not listen to your guidance.

Student Loans

Student loans are a hot topic these days. In the spectrum of good debt versus bad debt we believe that student loans fall closer to good debt than they do to bad debt. However, there are a few caveats. In theory, student debt should be an investment in the student's future. In theory, student loans allow the student to attend college when they otherwise couldn't. If this allows them to eventually have a higher paying job, then that student debt can be considered an investment. The fact that student loans usually have very low rates is also in their favor. In fact, the rates are so low that it might be a better investment to take on the student debt than to pay for the tuition outright.

Still, not all investments are good investments. For a school loan to be a good investment it must have a positive ROI. Returns from attending college can come in many different forms including social, intellectual, spiritual, and emotional growth. However, because this is a book about money, we are only going to discuss the actual monetary returns associated with attending college. First, let's look at the facts from the most recent statistics available from the US Bureau of Labor Statistics.



As the chart shows, college graduates had an unemployment rate of only 2.2% versus 3.7% for those with only a high school diploma. This means high school graduates have a 68% higher

unemployment rate than college graduates. The chart also shows that college graduates make a median of $1,248 a week versus $746 a week for those with only a high school diploma. This represents a 67% higher salary for college graduates than high school graduates. Over the course of a year the median college graduate would make $64,896 versus $38,792, a difference of $26,104 per year. For the purpose of this ROI calculation, assume that the student takes out a $200,000 student loan for 20 years at 3.5% interest. The resulting monthly payment would be $1,159.92 with an annual payment of $13,919.04. If the student matched the median annual increase in salary (versus high school graduate income and disregarding taxes for simplicity) of $26,104 then the ROI calculation would look like this:

***ROI* = ($26,104/13,919.04) x 100 = 187% ROI**

Any ROI of this magnitude would generally be considered a good investment. Of course, every person's situation is different and there are a hundred other factors we haven't considered. Just a few of these would include the degree one gets, the earning years lost while attending college, and the business acumen one has before attending college. If you teach your kids the concepts in this book, they will be much more prepared to have a higher income whether they attend college or not. Whenever one looks at an investment it's important to compare it to the investment returns of another investment. For example, although attending one college may be a good financial investment, that doesn't mean a less expensive college might not have a better ROI. If an expensive college were twice as expensive (assuming twice the student debt) as another one, it would have to result in twice the income difference to maintain the same ROI.

Let's look at the numbers from the previous example if the college chosen was half as expensive with half the resulting debt. For the purpose of this ROI calculation, assume that the student takes out $100,000 student loan for 20 years at 3.5% interest. The resulting monthly payment would be $579.96 with an annual payment of $6,959.52. If the student in this case underperformed the median annual increase in salary (versus high school graduate income and disregarding taxes for simplicity) and only increased his income by $20,000 then the ROI calculation would look like this:

***ROI* = ($20,000/6,959.52) x 100 = 287% ROI**

Though the first investment was good, this one is clearly better. Obviously, if your student can get a scholarship or grant instead of a loan, this increases the ROI considerably. We would highly recommend you plug in a few assumptions for your own child and run through the numbers with them. The math of this analysis may seem scary but it's merely the same math your child needs to use when analyzing any investment. Going over the math will help them to think objectively about investments and their college decision. Even if they still end up deciding based mostly on emotions or other factors, the exercise should help them understand the due diligence required when reviewing future investment opportunities they will have in their life.

Advanced Credit Cards – Friend or Foe?

Now that your child is older and wiser, we would like you to add them as an authorized user on one of your new or previously existing credit cards and teach them how to use it. This may sound counterintuitive. Didn't we just tell you not to take out a loan on a car? That's right. The reason is because the nature of a credit card and a car loan are very different if you use the credit card correctly. Credits cards get a bad reputation. Many financial gurus dismiss them as inherently evil. We believe this characterization to be misguided. These gurus believe that you don't have the discipline to use credit cards as they were intended – as a tool to help you use your money. This is like saying that all knives (including steak knives and paring knives) are bad because some people get stabbed. Everybody has the power to be disciplined enough to use credit cards to your benefit and to not be stabbed. If you teach the principles in this book, your child will not be the lowest common denominator, for which the only way forward is to cut up their credit cards.

In Chapter 6 we talked about good debt versus bad debt. Credit card debt can also be good debt or bad debt depending on how you use it. In the previous debt section, we focused primarily on what you buy with your debt. We made the case that if you are buying assets then that debt could be considered good. Conversely, if you are buying liabilities then that debt would be considered bad. This same concept could apply to credit cards. Credit cards are obviously a bad idea if they make you more likely to purchase more liabilities and feed the lifestyle cycle by getting further and further into bad debt. This type of behavior can make you enter a credit card debt spiral and end up on the wrong side of the compound interest equation.

Let's look at an example of how compound interest can work against you. Note how it contrasts with the compound interest example where compound interest is working for you. Much like a savings account's interest, interest calculation on a credit card is usually compounded daily. Although this would make the interest accrue more quickly, we'll just use the annual percentage rate (APR) to make the math simpler. It is worth noting, however, that for larger interest rates like those associated with credit cards, the fact that the interest is compounded daily can have a much larger effect than for small interest rates like those of a savings account.

For this example, let's assume your child accrued $1,000 in credit card debt. His credit card interest rate is 15%. At this rate, if your child didn't make any payments on his credit card at all his debt would double in less than 5 years. Fortunately, credit card companies generally require a minimum payment. If you don't at least pay the minimum payment each month you will destroy your credit rating and eventually have debt collectors knocking at your door or garnishing wages. For this example, we'll assume your child's credit card company requires a minimum payment of 2% of the balance, not uncommon in the credit card world. If your child paid only the minimum balance, how long would it take to pay off the debt? How much would they pay in interest?

Time to pay off debt: 118 months
Total interest paid: $851.01

That's right. It took nearly 10 years to pay off that $1,000 debt! Even though they paid off more than the monthly accrued interest each month, they didn't pay off much principal, so the interest just kept accruing on most of the $1,000 balance.

The example above demonstrates why you absolutely MUST teach your child not to carry a balance on their credit card. There may be some extremely rare cases where it might make sense, but these are so unlikely they aren't even worth discussing with your child. Credit cards aren't evil but unpaid credit card balances can be. To the uneducated or undisciplined person who carries a balance and lets the interest work against them, credit cards can indeed be a dangerous foe. But what if credit cards are used with discipline and don't lead to rampant consumerism and spending in the lifestyle cycle? What if they were only used to purchase things you really needed? Could credit cards be your child's friend? What if they were paid off fully every month so that you didn't have to pay any interest at all? Believe it or not, to the disciplined individual, credit cards can be a good thing.

When we described how credit cards could bury you in debt, it was clear that credit cards, if used incorrectly, could be your foe. Now let's talk about how they can be your friend. First, credit cards are very convenient. Not having to haul around a wallet or purse full of cash makes life simpler and potentially even safer. Most cards also have built-in fraud insurance to protect your purchases. If you know your card is stolen you can call your credit card company to put a hold on the card. You can't do that with cash.

Next, if you pay your bill in full every month then credit cards can be considered a 30-day interest-free loan from the company that provides them. In some cases, you may even have an introductory period up to 1 year with zero percent interest. This would be a 1-year interest-free loan. This allows you to use other people's money, at least in the short term, to pay your expenses or possibly even buy assets. Additionally, most credit cards have rewards programs that give you points when you use them. These points have real value that often ranges from 1 to 2.5 percent of every purchase. Though it doesn't seem like much, these points can add up, especially if you use them for business expenses. When these points get added up over the course of a year, they can often fund airline trips or other perks, or even be redeemed for cash. Loral and Kyle have both funded much of their travel through credit card points they have accrued. The credit cards give you these points to incentivize you to use their card in part because they know full well that many people will not pay their balance in full and the interest they receive from these misguided people will more than fund the points they reward.

What if you and your child chose to beat the credit cards at their own game and never carry a balance that required you to pay interest? You would be getting these credit card companies to pay you (in points) to let them give you a 30-day (or longer) loan. It really is that easy. Teach your children to be disciplined. Don't let them be the lowest common denominator that fills the credit card's coffers.

Finally, perhaps the biggest advantage and most important reason to establish a credit card for your child is to begin developing their credit. We said at the beginning of this section that you should add your child as an authorized user. To discuss why this is important we need to define what an authorized user is. An authorized user is someone to whom you give permission to use your credit card via a card with their name on it. Although they get to have their name on the credit card, you are still the primary cardholder and are ultimately responsible for all their charges. You are also still the one getting the statements so you can and should closely monitor their spending. This gives them quick access to funds when they need them but lets you have enough visibility to take the flight controls if you need to. The best part is that having your child become an authorized user on your card establishes their credit history. As we discussed before in Chapter 6 in the section "Good Debt Versus Bad Debt and Your Credit Score," this credit history will have important ramifications later in life. By building a good credit history early on, your child will be able to use that credit to help them buy a house or even investment real estate. Without a seasoned credit history, their credit score will be affected, and they will either have higher interest rates or may not be able to take advantage of these profitable investments at all. This circumstance would put a huge roadblock on their ability to use other people's money to make them money. In fact, even if you choose to deny all the advantages of teaching your child to use a credit card, you should probably still make them an authorized user and just never give them their credit card or even tell them about it. That way they could at least take advantage of the benefits of starting their credit history. Once your child turns 18, they can open their own credit card and build their positive credit reputation even more.

Many people prefer the use of debit cards to credit cards. Debit cards are not a loan like a credit card, and they only provide access to funds that are in your account. You can't spend what isn't in the account so you can't amass debt like you can with a credit card. If your child is the type of person who doesn't have the discipline to pay off his or her credit card balance every month, we would wholeheartedly agree that your child should stick to a debit card. If your child is particularly poor at delaying gratification or is especially impulsive in making purchases, these might be other reasons to stick with a debit card. Debit cards do have the same advantage of convenience and preventing you from having to carry around a wallet or purse full of cash. However, they do not have any of the other advantages associated with credit cards. These advantages can be quite substantial depending on the situation. We prefer educating and coaching people with the empowering belief they can use credit cards intelligently and with discipline rather than assuming they are incapable of doing so. In the end, as will all things, it will be up to you to decide how you want to teach your child.

Loral and Kyle believe there are three primary ways to teach your children about credit cards. The first is by talking with them about the facts, math, and examples described above and in other sections describing credit and debt in this book. The second, and probably most important, is to lead by example. Make sure you don't carry a credit card balance that results in paying interest. Tell your children about examples when you made decisions to avoid the pitfalls of credit cards. Instead of just saying you can't afford something, provide a more educational answer like "Honey, I really like that dress for you but we need to make more money this month before we can buy it because I don't have the money in the bank to pay for it

yet, and even though my credit card would allow me to buy it, we must always pay off our credit card every month." If you've struggled with credit card debt let them know how frustrating it was trying to claw out of that debt. These are the types of horror stories that are truly instructional for your child.

The third way to teach your kids about credit cards is to get one for them. We can almost feel the tension that this prospect creates for some of you. Don't worry. Of course, credit card abuse can and does happen. However, we've found that abuse generally only happens to people who weren't taught about money as kids. If you teach them the principles from this book, your children will understand enough to avoid hurting themselves. Also, by having them open a credit card, or at least be added to your card while they are still under your roof, you can monitor that card and make sure they use it correctly.

Think of it this way. By this age (16-18) would you hesitate to give your child a knife to help cut their food? Of course not. You taught them the dangers of knives when they were much younger and monitored them the first time they used one. By now your kids are smart enough to avoid the dangers of knives in order to make cutting their food much easier and more convenient. Don't make your kids saw away at that financial steak with a spoon. Give them the best tools for the job and trust that you gave them the knowledge and training to succeed.

Advanced Forecasting – Finance Tracking Programs

In the very first section of Chapter 7 we introduced you to the concept of Forecasting. We explained how important it is to plan for both your expenses and income and to pay yourself first. In the following sections we went on to describe some of the tools like balance sheets and income statements that can help you forecast. The means for filling these out was either by hand or by using a digital spreadsheet tool like Microsoft Excel or Google Sheets. These tools are still important, but there are easier ways to compile the data in your balance sheet and income statement than hand-typing or cutting and pasting the data directly from your checkbook or bank accounts. Now that they are older and have some money to play with it's time to let them get in the actual aircraft and start trying out the controls themselves. Just make sure you keep a close eye on their forecasting so you can step in and take the controls to correct their flightpath if necessary. Finance tracking programs are the modern way to manage your balance sheets and income statements and, thus, conduct the forecasting that is necessary to make sure you are on track for your goals.

By this age, your child is likely very familiar with "apps" and computer programs and spend a good deal of their time on their "screens" anyway, so why not take advantage of that? The internet has a multitude of programs and apps available that can help your child keep track of their income and expenses. Some programs you can get them started on include: Quicken, Personal Capital, EveryDollar, Mint, GoodBudget, or YNAB. Many of these programs are free. Most have a desktop as well as a mobile version so you can manage your finances at home or on the go, although the functionality may be limited for the mobile version. New applications in this field are constantly appearing so we would recommend doing some browsing to see which

one is currently top-rated. These apps allow you to sync your bank and investment accounts directly to the app. The advantages of this are many. First, it can automatically keep track of all your balances in one place with one easy logon. Because it's done automatically this can prevent transcription errors. It also allows you to quickly and daily review your assets, liabilities, income, and expenses. Many of these programs can produce numerous reports with the touch of a button, like the balance sheet and income statement, or even accounts payable and receivable reports or cash flow statements.

Another advantage is that these programs normally can automatically categorize the expenses they import from your bank. This assists forecasting when you have decided to give yourself spending limits for specific expense categories. Some finance tracking programs even allow you to use automatic bill paying functions and produce invoices. Finally, depending on the program, they may allow you to import your data into some tax software. In addition to tracking income and expenses, you can also track your progress toward your wealth goals. They often have charts and simulations that allow you to project where your net worth will be in the future given your current income, spending, and investment activity. Although we haven't tried all of the finance tracking programs listed above, we have tried the first 2 and can attest to how helpful they can be both in helping with forecasting as well as keeping track of your investments and accounts. Eventually your child may progress to even more advanced options like QuickBooks to handle their accounting. QuickBooks is generally considered the preferred system for accountants and small to medium-sized business so unless your business grows very large, it can probably accommodate your growing needs for many years. The important thing is that you use something to make it simple enough to quickly and easily assess your progress relative to your goals. Remember what we said in the original Forecasting section, "What gets measured, gets met."

If you haven't already set up a finance tracking program for yourself, we highly recommend that you do so right away. Not only does it simplify forecasting and potentially bill-paying, it also keeps your goals in the forefront of your mind. With these programs in place, it only takes a few minutes to check up on your progress toward reaching PI≥E.

Depending on how many accounts you have and how much you plan to do with it, setting up a financial tracking program can take anywhere from 15 minutes to several hours. You may have to set it up on your computer but the information you input should eventually sync to a mobile app you can download. Inevitably there will be some issues with one or more of your accounts not syncing correctly with your financial institution. When this happens, you may be tempted to give up. Don't. The time you save in the long run will be well worth the pain required to get the program up and running. Make sure to set up the bill-pay and other functions that may be useful to you. Once you have a good grasp of it, have your child set up their own separate finance tracking account but with the same program you used. Thanks to your experience and their likely much shorter list of accounts, the process of setting them up shouldn't be too daunting or frustrating for them.

It may seem redundant to set up a financial tracking program for your child when they probably only have a few accounts to monitor anyway. The point is to lay the foundation for them so that when their finances get more complicated and they have more accounts, they will already have the framework in place. Knowing they can easily add a new account to their tracking program may also ensure they aren't afraid to open new accounts when it is appropriate, such as when avoiding comingling between personal and business accounts is necessary. Another reason to have your child open their own finance tracking software is to set up the habit pattern of checking their accounts and being mindful of tracking the money. Though the saying "more money more problems" isn't necessarily true, the saying "more money, more money tracking" usually is true. Since your child is going to be a millionaire someday, they need to be able to track and Forecast their money like a millionaire.

Have Them Start a Finance Club

One of the best ways for adults and kids alike to keep learning about money is to surround themselves with other people who like to learn about money. As parents we advise that you join programs like Integrated Wealth Systems or other programs that allow you to connect with like-minded people to grow your financial acumen. Children can do the same thing at school by starting (or joining if already created) a finance club.

Starting a finance club is a great way for your teen to transition to learning, not just under your careful tutelage, but outside of the home as well. This will help foster the "lifetime of learning" concept that is so important with money. It could also be a great opportunity for them to flex their social skills. The process of getting your child to approach the faculty to start a club entails important learning points as well. They will have to formulate an argument and likely a position paper or presentation explaining why they think the club is important for the school. They will also have to put themselves in the uncomfortable and incredibly educational position of convincing (selling) an adult other than their parents. As founder, they stand a good chance at being named President of the club. Not only does this help them develop their leadership but "President and founder of the High School Finance Club" also sounds pretty good on a scholarship application. Who couldn't use a little extra scholarship money?

After the vast knowledge you've acquired as a parent reading this book and ensuring they nurture their money mastery you could even be the first guest speaker. Enlisting business leaders from the community to serve as guest speakers will not only enlighten the teens in the club but could provide future internship or business connections for them (or even you). The teachings and references for this book alone (plus future references to accompany this book) could fill an entire year's curriculum. Finally, starting a high school club is another step toward Loral and Kyle's dream goal of educating the youth in this world on money and creating financial independence for our next generation.

Chapter 9 – Ages 18 and on

"Formal education will make you a living; self-education will make you a fortune."
Jim Rohn, financial author and motivational speaker

You did it! Your child is technically an adult now and you can wipe your hands clean of ever having to teach them again, right? Not so fast. They might not be a child anymore, but they will forever be your child. Even if you have cut the metaphorical financial umbilical cord and are no longer supporting them with money, they still need your guidance. No matter how well you taught them up until now, they are likely still about to receive a few financial slaps in the face. Rent is how much? My cell phone plan costs me what? My car insurance costs me 5 times what it would if I were 30? Even if you warned them about these things, the staunch reality of having to pay these expenses themselves will be frustrating. Transitioning from having most of their income be discretionary to having little or no discretionary income can be overwhelming for some. Depending on how financially independent they have been forced to become, you might even find that you have magically begun to get a little smarter in your child's eyes. Mark Twain famously said, "When I was a boy of fourteen, my father was so ignorant I could hardly stand to have the old man around. But when I got to be twenty-one, I was astonished at how much he had learned in seven years." Take advantage of your newly recognized wisdom and make sure you are there to provide guidance to them going forward. Just like when they were a baby learning to walk, they will take some tumbles as they toddle along through the financial pitfalls of adulthood. You can't always prevent those falls anymore. Your job now is to make sure they are okay afterward and to help them learn the lessons they need to take from those stumbles. The following sections can help you provide them the guidance they need as they fly their own path to financial freedom.

Time For Some Adult Goals For Financial Freedom

Up until now, many of your child's goals have probably centered on short-term aspirations like buying a new car or perhaps paying for college. It's time for them to consider making some longer-term goals about what they want out of life. Don't let them get stressed out by this exercise to the extent they don't do it. They can always change their goals if they need to. The point is to figure out a destination so they can start planning the route to get there. Review the previous section titled "Your Child's Money Goals." Their new goal should have all the characteristics of previously discussed goals like being SMAA and meeting the Underlying Why. The difference is that this goal should be long-term – around 20 years is probably best. If your child follows the teachings from this book it is quite probable that they can be a millionaire by then and financially free. Kyle vaguely recalls having one of his teachers during high school ask the class to write down their long-term goals. Much like your child probably, he was skeptical

about the exercise of writing down his goals. Despite this, he completed the assignment and wrote down the following goals:

1. Be a certified scuba diver
2. Become a pilot
3. Be a millionaire by age 40

At the time he wrote down these goals he didn't have any experience in any of the 3 categories. He wanted to achieve these goals, but he had never actually written them down until that day. In fact, until a few years ago, Kyle didn't even remember writing down these goals. He was rummaging through some of his old high school books when a notecard fell out. The notecard was simply titled "Goals" and had the 3 goals from above written on it. Only then did he remember the exercise of writing down the goals that he had done so many years before. How was high-schooler Kyle's success on the 3 goals he wrote down so many years ago?

1. Be a certified scuba diver – Not only did he become a certified scuba diver, but he became an Advanced Open Water diver who has dove in six different countries.
2. Become a pilot – Kyle went on to be a fighter pilot and instructor pilot in the Air Force with over 2,500 hours.
3. Be a millionaire by age 40 – Kyle achieved this goal 3 years early by becoming a millionaire at age 37.

The point of this example is not to gloat. The point is that even though Kyle didn't remember writing these goals down, the mere process of writing them down seemed to help them come to fruition. This is the magic of writing down your goals. Putting pen to paper engages several senses. We must first think about what we want to write. We then have to convert that thought into language. Next, we move the pencil (or fingers if typing) to create the text and engage our tactile senses. We then read that text to make sure it is correct. If we follow the guidance listed in the previous chapter on goal setting, we would then display that goal in a place where we would see it daily. All of these actions reinforce and ingrain that goal into our mindset and bring it into the world. In fact, we recommend taking it a step further and considering the goal to be an actual written contract – a contract with your future self. This can help make the goal even more tangible. If Kyle was able to achieve his goals simply by writing it down, how much more likely will it be that your child can achieve their goals when they add the additional steps of reinforcement?

Why do we keep beating the drum of having your child set, write, and review their goals? It's not just our experiences. Hundreds and maybe even thousands of books have been written about it. Tens of thousands of hours of research have been accomplished by scholars for a hundred years. Its efficacy has been known and passed down for centuries. It simply just works. Thoughts lead to actions. If we constantly have our goals in our thoughts, then it will lead to actions, which lead to achievement of those goals. It's that simple. Encourage your child to follow our recommendations about goals and let them thank you later.

The Value of Finding a Mentor or Coach

We all hope to be a mentor for our children. If we do things right, we will be the most important mentor in their lives. The mere fact that you are reading this book means that you at least are trying your best to provide the mentorship they need.

However, we cannot be everything to our kids, no matter how much we would like to be. Even if you knew everything there was to know about financial matters, occasionally they just won't listen to you. Sometimes our kids have heard (and apparently ignored) a teaching point we were making, only to come back the next week and profess that they "learned" the exact same point in some YouTube video. Sometimes it's just easier for them to learn the lessons from sources other than their parents. Sometimes these sources can fill in the gaps of teaching subjects we might not have a strong background in or may have simply failed to discuss.

Finally, hearing differing viewpoints teaches them critical thinking and lets them form and develop their own beliefs and values. This is great as long as those sources are trustworthy. With social media these days there is no dearth of so-called experts in practically any topic under the sun. Financial matters are no different. Some of these experts have good information and some do not. When we peruse YouTube, we are sometimes appalled by some of the incorrect information out there. Some of these experts have no credibility whatsoever, other than their ability to be entertaining and amass viewers, likes, and subscriptions. Since your children are probably digesting a lot of their content online, make sure you know what they are swallowing.

We are obviously biased, but you can't go wrong referencing our website makeyourkidsmillionaires.com, Loral's website Integratedwealthsystems.com or Kyle's new YouTube channel #FlightToFinancialFreedom. For other sources, we would recommend checking out the content to make sure it is credible before recommending it to your child.

So far, we've talked about virtual mentors, but the best mentors of all are not virtual at all. Both Loral and Kyle have been highly influenced by mentors. Kyle had a mentor who taught him about real estate and helped him escape analysis paralysis and make the leap into his first investment property. Loral had her first mentor at age 17 and employed the services of several mentors, including some of the biggest in the self-help industry. She was mentored by industry powerhouses such as Bob Proctor, Jay Conrad Levinson, Michael Gerber, and John Gray, and has become a powerhouse in her own right. Kyle has used her mentorship on coaching and business matters. In fact, many of the most successful people in all walks of life have had a coach or mentor to help them achieve their success. Tony Robbins, one of the biggest self-help gurus of all time, still employs coaches to help him grow and learn. Encourage your child to seek out and find a coach or mentor to help them on their path to financial literacy.

Hopefully you can appreciate the value of a mentor to help guide your child along their Flight To Financial Freedom. But how do you find a coach or mentor? The same people who provide content online often have coaching programs. Loral offers several coaching programs on her

website and even offers high-level mentorship through her program. Kyle has mentored several people on finances as well. Finding a mentor isn't always easy. In the case of high-profile mentors, it may cost tens of thousands of dollars. Other times, the mentorship might be offered free of charge. Mentors are usually most willing to offer their guidance to students they believe they can truly help. Mentors can be found as near as your local town or neighborhood or as far away as distant countries. They can be bosses or teachers or relatives. With today's technology and global reach there is no limit to where they can be found. Sometimes they can be found by joining investment or business organizations or clubs.

Seek out the person who already has or knows what you want. If there is somebody in your community who is successful at what your child wants to do, have your child seek them out and ask if they can have a few minutes of their time. Make sure your child is respectful of their time and help. It often helps to offer something in return for the mentorship, even if it isn't monetary. The key is finding something you have to offer that the mentor needs. Sometimes this is simply the opportunity to pass on their knowledge. Other times the mentor may be looking for an assistant or even a successor. Perhaps the best thing your child has to offer is their time and enthusiasm.

Following is an example of a scenario where a young man we'll call Edgar was hoping to learn from a real estate investor named Mr. Mooney in his local town. Mr. Mooney had dozens of rental properties and was widely respected as a prominent investor. Edgar contacted Mr. Mooney and asked if he could meet with him the following week to discuss a proposal where Edgar would help Mr. Mooney find more investment properties at no charge. Edgar promised the proposal would take less than 10 minutes of Mr. Mooney's time. The consummate businessman, Mr. Mooney was willing to listen to what Edgar had to say and they scheduled a time to meet.

When they met, Edgar's script went something like this: "Mr. Mooney, I want to first thank you for taking the time out of your busy day to meet with me. I know your time is valuable so I'm only going to ask for 5 minutes to explain a proposal I really think you will appreciate. I know you don't know me, but my name is Edgar Rafferty and I am an aspiring real estate investor. I don't have much experience but I'm an incredibly hard worker and I'm willing to take on any challenge. I've seen how successful you've been as a real estate investor and I really respect how you've been able to accrue so many properties. I would love to someday learn how to be as effective as you. I would be honored if you would let me help you find opportunities to invest in. I'll do all the dirty work to research and find investment deals for you. I don't even need to be paid a bird-dog fee for it. I'll bring the opportunities to you for free. All I would hope to get from it in return would be to learn from you what you are looking for in a property and how to find real estate deals that you would want to buy. I mostly just want to be a sponge and to soak in whatever I could from you. I'm a fast learner and highly motivated. I promise I'll do everything I can to make it worth your time. Would you be willing to give me that chance?"

As you can imagine, Edgar's proposal worked. He wasn't paid anything for his work but what he learned was invaluable. He found the perfect currency to exchange for the mentorship – his

own time. As a result, he and Mr. Mooney formed a mutually beneficial relationship that helped Mr. Mooney find more investments and gave Edgar the mentorship he needed to begin creating his own real estate portfolio.

Help Them Buy Their First Real Estate Investment

We discussed earlier the importance of real estate in an investment portfolio. What better way to get your son or daughter (no longer children) started on their asset-building journey than to help them purchase their first real estate property? Real estate comes in many flavors but many of the real estate investments available for adults with a long history of income will be difficult for an 18 or 19-year-old to buy. However, this just means your kid will have to be creative. It is quite possible for young adults to purchase a personal residence. If you followed the guidance we recommended in earlier chapters, your son or daughter now has a credit history and hopefully a solid credit score. But what about the down payment? Remember, it is possible to buy a property with very little down payment. If your child is in the military like Kyle was, they can use a VA loan, which has zero down payment. If not, they may still be eligible for an FHA loan, sporting a down payment as low as 3.5%. Where do they get that 3.5%? How about they get it from that Wealth Account they created from their first business that has slowly been growing? We wouldn't usually recommend it, but they could even pull up to $10,000 from the Roth IRA you helped them set up years ago. With a minimal down payment, credit history, and a form of reliable income there is no reason they can't purchase a house or condo to live in.

In a perfect world, your child's growing business is providing income, and this can be their source of repayment. The problem is that many young adults are in college during these ages and don't have a reliable income. This is where you, the parent, can help by stepping in as a cosigner. We warned you your job wasn't over. As a cosigner, the parent can sign the mortgage along with their children to help secure the loan. The cosigner role provides an additional repayment source to the primary borrower and lowers the risk to the mortgage provider. Although the primary borrower will receive the loan and be responsible for the payments, the cosigner is jointly liable for the debt. The benefit is that the primary borrower may be able to receive more favorable lending terms (interest rate, down payment, etc.) than they would otherwise qualify for, and it may be the only way they will qualify for a loan. This doesn't mean you have to help them pay the loan. At some point your child needs to fly out of the nest. As a parent, we highly recommend you make it clear to your child that you don't plan on stepping in so they will need to be responsible enough to make the payments themselves. How will they do this? They need to find a way to generate the income necessary to pay the mortgage. This income could be generated either through a job or, as we prefer, a business of their own. It can also be generated from the property itself. What if your child were to buy a 3-bedroom house and rent out 2 of the rooms? In this scenario, the rent charged to the roommates could probably cover the cost of the mortgage. Your progeny could then benefit from the principle paid down on the home as well as any appreciation that might occur with the home. The same tactic can be accomplished by purchasing a duplex, triplex or quadplex. All of these are considered residential and can be purchased with standard residential financing. Another way

to create the income to pay the mortgage has become more and more popular in recent years. We are referring to the short-term rental craze. Rather than having long-term roommates, your child could rent out the extra rooms in his house to short-term tenants via Airbnb, VRBO, Homestay, or a multitude of other options. Although this technique is more labor-intensive, location-specific, and less consistent, it can provide more income per night if used successfully. Regardless of what technique your young adult uses to pay their mortgage, getting started by purchasing their first property will prove to be a valuable experience in learning about real estate. It may just be the launching pad they need to create their own real estate empire.

Time For Their Solo Flight

You've spent years preparing for the opportunity to let your child fly on their own. That time is now. Whether you are ready or not, its time to let your child spread their wings and soar. Loral and Kyle have both dropped kids off at college and been left with that nagging question, "Did I teach them enough?" The good news is, if you read and acted on the recommendations in this book, you almost certainly did. Be confident in the fact that you've set them up for success. Unlike some children, your child won't go crashing to the ground now that they are jumping out of your financial nest.

So what does a solo flight for your child look like? The first step is to separate them from your finances. This doesn't have to be an abrupt end if you don't want it to be, but you do need to communicate with them about what your plan will be. Will you be paying for their college? Will you still pay for their cell phone? Will you pay for their car insurance? Do they have access to any of your funds, accounts, or credit cards? If so, for how long? Eventually, the goal is to let them fly completely solo, but the transition can be different for different people depending on your family's circumstances. Make sure your child understands exactly how this transition will happen.

Another aspect of your child's solo flight involves the handling of bank accounts and investments. Since you set up your child's bank accounts many years ago, they should be well prepared to manage these on their own. Likewise, they should be adept at handling their own debit and credit cards. As for investments, we mentioned in the last section the possibility of helping your child buy their first real estate investment. Another way to help your child fly solo is to give them full control of their investment accounts. This would include any custodial IRAs and education funds you may have set up for them when they were young, like we advised in the Chapter 4 sections "Open a Roth IRA for Your Child" and "Set Up a Tax-advantaged Education Account." These can usually be released to your child's full control at age 18. Since you taught them how to manage and conduct due diligence for these investments, they are probably more prepared to take over these investments than most adults much older than them. Depending on what rules you established, this might also be the time when your child has access to any trust funds you set aside for them, as described in the Chapter 4 section "Create a Trust." Additionally, in most countries and states your child can own an entity once they turn 18. If they have a business it's a good idea to encourage them to get incorporated and create one. You might even be able to transfer them one of the entities you created for one of

your business or investments, like we described in the Chapter 4 section "Consider Getting Incorporated." When Loral's son Logan turned 18 she actually gave him an LLC for his birthday. Since she had opened the LLC 18 years prior, it already had credibility and credit that allowed him to be ready to put it to use right away. Loral also let Logan become an active partner in some of her and her husband's other businesses when Logan turned 18. The idea is to help your child start living with a corporate life structure immediately at age 18. It may be scary, but according to law in most states, your child is an adult now. It's time to start treating them like one. If you've been training them along the way, there is no reason they can't be responsible enough to handle the many responsibilities that come with being an adult, on their own, and flying solo.

The Flight Continues

Like many things in life, learning about money isn't like hiking to the peak of a mountain where the only thing left to do is to walk back down. Instead, it's like a flight where you can fly over the summit and keep climbing. Your child's Flight To Financial Freedom is a lifelong endeavor. You can never reach a point where you know everything there is to know about financial matters. Tax and financial laws are ever-changing so even if you did an incredible job teaching your child, there is always more to know. There is always a new summit to soar over and a new cloud to chase. Does that mean we shouldn't even try? Of course not. The higher you get the better the view, and the better will be your perspective of the big picture. We continue trying to learn new things about money every day. Make sure your kids understand this fact.

Another analogy you might want to convey to your kids is that of the carpenter. If you've taught your child all the concepts in this book, then you've given them some tools to help build their financial house. They at least have a hammer, a handsaw, a tape measure, and a screwdriver. Already they are better off than most of the world who is equipped with only a hammer. With only a hammer you would have a hard time building a house. As they say, if you only have a hammer, everything looks like a nail. Armed with the hammer, handsaw, tape measure, and screwdriver, your child could successfully build a house. But how long would it take? Wouldn't it be faster if they were to add a circular saw, table saw, and a power drill? Surely some tools are more efficient than others. How much faster would it be if they had an entire garage of tools at their disposal? Building a financial house is no different.

The more you study and learn about money, the more financial tools you will have in your arsenal. As a hobbyist carpenter himself, Kyle has beat into his kids' brains the saying "the right tool for the right job." Depending on the financial situation, the right tool might be buying real estate under market value and flipping it. It might be buying and renting it out to take advantage of appreciation and high market rents. It might instead be historically low stock valuations that warrant higher stock allocations. It could even be starting your own business in a niche you have found to be underserved. When the financial situation changes, it helps to have a wide array of money tools at your disposal so you can pick the right tool for the right job. The only way to assemble this garage full of financial tools is through continual learning. This is the true treasure of wealth, and the reason why Loral and Kyle do what they do. They

want to help you grow your tool collection. It's also the reason why most rich people, even if they went broke, could quickly become rich again. They aren't building their financial house with only a hammer. They have all the tools they need to create wealth over and over and over.

We've covered a myriad of topics in this book. We've taken you and your child on a journey that started with them as a young child, learning the very basics of how to fly on their own financial flight. We encouraged you to establish accounts, entities, and policies to set them up for success. As they grew older your child learned about credit, banks, good and bad debt, Wealth Cycles and Lifestyle Cycles, delayed gratification, goals, leadership, teamwork, assets and liabilities, passive income, forecasting, and due diligence. You let them simulate many of the financial activities and behaviors they will use as adults, including starting their own entrepreneurial enterprises and investing. Eventually, under your watchful eye, you led them to slowly begin to take the flight controls and start managing these accounts and business ventures and forecasting their income and expenses. Eventually, you let them fly solo and take over their accounts and investments and run their own businesses.

Your child's financial flight doesn't end there. It continues with them throughout their lives. It continues with them teaching their own children how to fly. It continues with spreading the word to their friends and other family members. It continues with an unceasing commitment to learning about money and creating financial freedom for their loved ones throughout their lifetime.

Congratulations for making it to the end of this book. If you've followed along throughout, you've been able to lead your child on an incredible Flight To Financial Freedom. They are well on their way to acquiring the knowledge and skills necessary to become a millionaire. We'd love to hear more about your journey so we as a community can help others be even more effective at creating financial freedom for their children. Please join us on Facebook or on our website makeyourkidsmillionaires.com to share your stories and ideas. Thanks for letting us be your instructor on this epic financial flight. Although this book is over, the flight continues…

Home Tasks Negotiation List

Name: **Age:**

Date:

Check by final tasks	proposed home tasks	child rating (1-3)	parent rating (1-3)	pay rate per minute	flat rate	max time allowed	frequency	additional notes

Home Tasks Invoice

Company name:	**Date:**
Company address:	**For the month of:**
Bill to	
Customer name:	**Due date:**
Customer address:	

Date	Home tasks completed	minutes	rate per minute	or	flat rate	Total	notes

Total Due:

Thank you for your business!

Name:

Balance Sheet

Date:

Assets	Year:
Wealth Account	
Car Account	
Charity Account	
Total Assets	

Liabilities	
Total Liabilities	

Net Worth	
Total Net Worth	

Income Statement

Name:

Monthly Income Statement for: **Date:**

	Forecast	Actual
Revenue		
Total Revenue	0	0
Cost of Goods Sold		
Cost of Goods Sold	0	0
Gross Profit (Loss)	0	0
Expenses		
Total Expenses	0	0
Net Operating Income	0	0
Other Income		
Total Other Income	0	0
Net Income (Loss)	0	0

Recommended Reading

The Millionaire Maker – Loral Langemeier
Cash Machine for Life - Loral Langemeier
Wealth Cycle Investing – Loral Langemeier
Rich Dad Poor Dad – Robert Kiyosaki
The 7 Habits of Highly Effective People – Stephen R. Covey
The 4-Hour Workweek – Timothy Ferriss
The Secret – Rhonda Byrne
Multiple Streams of Income – Robert G. Allen
How to Win Friends and Influence People – Dale Carnegie
You Were Born Rich – Bob Proctor
The Secret – Rhonda Byrne
The Misadventures of Jennifer Pennifer – Leslie B. Kuerbitz
Think and Grow Rich – Napoleon Hill
The Millionaire Next Door: The Surprising Secrets of America's Wealthy – Thomas J. Stanley and William D. Danko
Innovation and Entrepreneurship – Peter F. Drucker