www.chicagotribune.com/business/chi-0416kids_invest_fillapr16,0,4902887.story

chicagotribune.com

Kids invest in their future — literally

By Gabriele Steinhauser

Columbia News Service

April 16, 2008

NEW YORK — The past year has not been good for stock investor Ashley Berman. Shares of Mattel and Hershey's lost roughly a third of their value, while Disney and Chicago-based Tootsie Roll fell nearly 10 percent and 20 percent respectively. Then, in mid-January, Ashley saw that the market took another hit.

"I didn't really know what was going on," she remembered. "I didn't know what would happen to my stocks."

But unlike many stockholders across the United States, Ashley, who lives in Cranberry Township, Pa., didn't panic or feel pressured to sell. One of the key reasons for her lack of alarm: she is only 10 years old. "I was confident they would go up again," she said, knowing time is on her side.

Ashley is part of a group of young investors who now, for the first time, are experiencing a declining stock market. Whether they have invested their own savings or are watching as the shares their parents bought for them tumble on Wall Street, these young people are discovering one of the hardest lessons of the stock market: Money can be made, but money also can be lost.

"It's one of those learning moments," said Lewis Mandell, a professor of finance at the State University of New York at Buffalo and a financial education expert. "Parents should really emphasize the buy-and-hold aspect of investing." The current turbulence, he added, provides an opportunity to teach children and teenagers about the stock markets and the benefits of saving and investing.

Critical lesson

It's a lesson many of them seem to desperately need. In a 2006 survey of nearly 6,000 12th graders across 37 states, Mandell asked questions to measure the teens' knowledge of personal finance basics. The results raised concerns. The average score for correct answers was only 52.4 percent. In spite of finance management classes and stock market simulations that have become increasingly common in many high schools, financial literacy has barely improved in recent years, contributing to worries about growing debt levels among young people and their ability to manage money as they become adults.

Financial illiteracy is exactly what Mike Berman wanted to avoid for his daughter. "She is an experiment," said Berman, an associate director with Better Investing, a national association for investment clubs. "I wanted to teach her a lesson."

So when Ashley was 2 years old, Berman bought stock in four companies he thought would interest her: Disney, Wrigley, Hershey and Mattel. "At the age of 5, she picked her fifth one, which was Tootsie Roll," Berman said.

Follow the friends

Knowing what's of interest to your friends can lead to good investments, as Jacob Wondolowski, 13, of Denver, has learned. Seeing the popularity of Crocs, the colorful rubber slippers, Jacob suggested that he and his three older siblings invest in the company.

"We looked at their stock, and we liked it," said Jacob's sister Valerie, 16. "So we put an option on it." With stock options, a trader pays for the right to buy or sell a company's stock at a predetermined price before a specified date, essentially betting on whether the stock's price will go up or down. Jacob and his siblings started buying and selling stock options last fall, after learning about them in a class they attended with their father, an investment adviser.

Through their father, the siblings invested $900 in the company that sells Crocs, money they had saved from shoveling snow, walking dogs and doing other odd jobs in their neighborhood. Jacob's retail radar paid off. They sold the options after one month for a profit of 33 percent.

Spotting lucrative trends can benefit parents too. When Larry Meer, of Denver, was failing to harvest good returns from a broker, his son Jordan, then 15, stepped in.

Not average

"I was like, I can do better than that," recalled Jordan, now 16. So his father let him invest his retirement money — around $100,000. Jordan, who had been studying the markets for a few years, suggested buying stock in Zumiez, a skate and snowboarding retailer. By the time they sold their shares last summer, the price had nearly doubled.

"You have to know Jordan," said his dad when asked about their unusual undertaking. "He's not your average person. He's very thorough." Jordan says he doesn't mind the pressure of being in charge of his father's savings. "I'm not nervous," he said. "It's kind of exciting."

No matter how keen a child's investment instincts, Maggie Baker, a child psychologist in Wynnewood, Pa., who specializes in the psychology of money and wealth, stressed the importance of carefully explaining the risks involved in investment. "Children and teenagers may have very unrealistic expectations," she said. "When you're young and inexperienced, you don't think about loss."

Jacob, Valerie and their siblings might soon be facing that possibility. The options they bought for Research in Motion, the company that produces the BlackBerry, would bring them a $200 loss if they sold right now.

"You don't want to be an emotional buyer," said Nicolas, 17, the oldest. "We knew we had the risk of losing it," added Valerie. They remain optimistic that share prices will rise before they have to sell. No matter what the result, they intend to continue investing. "It's really nice that we are young," said Valerie, who wants to be an options trader when she grows up. "We have a lot of time to learn and make mistakes."