Learning to Launch: 
Talking to Your Child About Investing

Investing is a broad topic that can be overwhelming and take many years to learn, so it is important to start these conversations early. But where do you start? Below, we have outlined some basic information that parents can share with their children to help navigate that first discussion about investing. This is only meant to touch the surface, as we hope conversations continue throughout their transition into adulthood.

Below is an example of how we might answer children’s initial investing questions:

• **What is investing?** Investing is the act of exchanging your capital, or money, for investment vehicles, or assets, with the hope your capital will appreciate, or grow, over time.

• **What can you invest in?** You can invest in many things: cars, art, real estate, sports memorabilia and more. For this guide, we will explore the basics of two main asset classes: public stocks and bonds.

• **Why do people invest?** As previously stated, people invest with the hopes of their assets growing in value over time. For example, you might buy a pack of baseball cards with an up-and-coming player inside. You can choose to either sell the card to your friend right away or hold on to it. If next season, the player is named MVP or wins the World Series, the card’s value will rise. As a result, it can be sold for a higher price, allowing you to profit.

**Stocks:**

• **What are they?** Stocks represent ownership in a company and can be bought and sold on stock exchanges. Each share signifies partial ownership of a corporation, representing a claim to part of the corporation’s assets and earnings. Think about what you use frequently. For example, the toothpaste you use every day might be a product of Colgate-Palmolive, a publicly traded company that you can purchase shares of.

• **How do they work?** Companies will issue, or sell, stock to raise their own liquid, or spendable, capital to fund projects. Your shares can appreciate or depreciate based on the company’s performance. For example, if “Frozen 2” is a box office hit, the Disney stock price may increase.

• **Why invest in stocks?** Historically, stocks have had higher returns over the long run than most other investments. Stocks have the ability to continuously rise in price if demand remains strong, which creates this opportunity for
high returns. This does not mean that all stocks are created equal; not all stocks will deliver high returns! A company may go out of business or underperform, and your investments can lose money. Returning to the previous example, this would be the equivalent of the baseball player becoming seriously injured, lowering the card's value.

Bonds:

- **What are they?** Typically, bonds are categorized as fixed income, since they can produce a steady stream of income to the investor who loans money to the issuer. An issuer can be a company, a government or a municipality, but for this discussion, we will only focus on companies that issue bonds, also known as corporate bonds.

- **How do they work?** Bonds, like stocks, are issued to the public as a way for the company to generate capital. Continuing with a previous example, Colgate-Palmolive could be an issuer of bonds. If you, the lender, purchase those bonds, you are lending Colgate-Palmolive money, with the promise of repayment at a predetermined time in the future, along with interest payments, called coupons, each year.

- **Why invest in bonds?** Depending on the issuer, bonds can be lower-risk, stable investments that offer some investment income. But like stocks, bonds are not all created equal and depend on the company. Some companies are less stable than others. It is possible that a company could go bankrupt and you would not be repaid.

**Why should I start investing early?**

Investing earlier in life allows you the opportunity to benefit from the power of compounding. Compounding occurs when positive returns build on each other over time to create even greater returns. One way to visualize this is to map out a penny doubled for a month. After 10 days, the value is only $5.12, but by day 31, its value reaches $10,737,418. Therefore, if you invest earlier in life, you allow ample time to grow your wealth with the help of compounding. This key concept is critical when thinking about savings. For example, if you have the opportunity to invest in your 20s vs. in your 30s, you are able to grow your money much more.

There is nothing like learning from real-life experiences. To help your child grow her interest in investing, you may start by helping her buy one stock and one bond. She can track her investments and watch them fluctuate with the markets. This process can help open up the opportunity for more in-depth conversations about investing.

This guide is just a start, and at Brown Brothers Harriman, we have helped countless families start talking about investing and educating the next generation on financial topics. Please reach out to your relationship manager to continue the conversation.
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