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Six Steps to Teaching Children About the Stock Market

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In the first three trading days of the new year, the stock market has fallen far enough and fast enough that it has prompted news alerts on phones and shouting heads on television. So why would you want to expose your children to any of that?

For many parents, this is not a rhetorical question. The children hear about investing — from eavesdropping on you, from relatives, from reading, from friends — and they want in. You may not know much about the markets though. And even if you do, you're probably not sure where to start and what to share.

So here are six steps to get you started:

First, don't start in the middle. If your children have never handled money before, give them practice with some basic items first. Start with an allowance — and the fundamentals of saving, spending and giving. Introduce them to some of the household budget items too. Groceries are a good place to start.

By all means, however, say yes to investing if your offspring already understand the fundamentals of money. Their curiosity about markets is probably not about greed, and it is good. Gordon Gekko aside, their desire to trade stocks often reflects a deep curiosity about how money works and how people make more of it. As with any age-appropriate interest, we should encourage it as best we can. (And even if they do say that they want to trade stocks to get rich, it's an opportunity to head down other avenues of family discussion.)

Second, while plenty of simulation games exist, let them use real money to invest in individual stocks if you can possibly afford it. You can set up accounts at any online brokerage firm that does not have a minimum balance, and $50 or $100 can be enough for one share of stock.

Investing in stocks is about learning to tolerate risk; without a bit of bravery, we can't ever earn the returns stocks can provide over the long haul. Having a stock decline by 20 percent or 30 percent in a short period of time, as Apple and Disney have done in recent months, is a good wake-up call for children about the importance of diversifying their investments.

Our goal here, in case it isn't obvious, is that by the time they are 22 years old, they will have learned that investing in individual stocks is actually gambling. They should put their grown-up savings in low-cost mutual funds that invest in thousands of stocks at once.

Third, keep score along with your children. Bill Dwight, the founder of the FamZoo allowance app, believes older children are plenty ready to invest in index mutual funds that track entire segments of the stock market, as boring as they may be. I think children should invest in individual stocks first, because that is what will excite them (and allow them to experience decent-size losses, perhaps).

But we agree on one thing: Parents should provide a benchmark so that children know how their investments are doing. Sure, Apple and Disney have lost value, but how does that compare with other stocks in an index like the S&P 500?

Joline Godfrey, who counsels wealth families through her work at the consulting firm Independent Means, suggests a fourth approach: Children can team up with others who share their interests. Perhaps siblings and cousins can have an investment club, or your child can start one at school. The value comes from being able to share ideas, debate the importance of facts they learn about the companies and then vote on the best moves to make.

Fifth, use the money for something important. Mr. Dwight has insisted on setting up Roth individual retirement accounts for his children the moment they started earning the real taxable income that is required before you can start that kind of account. If you do this, do as he did and show your children how much the money might grow at 5 percent a year over 50 years. That should get them excited.

Finally, here is some reading for children who want to learn more. "The Teen Money Manual," by Kara McGuire, provides an excellent overview of a variety of money matters. Nan J. Morrison, president and chief executive of the Council for Economic Education, believes that older teenagers are ready for the classic (and newly updated) "A Random Walk Down Wall Street," by Burton G. Malkiel.

And one last pick for Frappuccino-craving teenagers who want to go deep on a single security. "Grande Expectations," by Karen Blumenthal, tells the story of a year in the life of Starbucks stock. It should give young readers a sense of just how many people and factors affect a stock's price — and how hard it can be to pick a single winner that will do well over time.

*Ron Lieber is the Your Money columnist for The New York Times. He is the author of "*The Opposite of Spoiled*," about parenting, money, values and raising the kinds of children all parents want to push out into the world, no matter how much money they have. He hosts regular conversations about these topics on* his Facebook page *and welcomes comments here or privately, via* his website*. The Opposite of Spoiled appears on Motherlode monthly.*