PRUDENTIAL **INSIGHTS**

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Prudential Investment Managers

JUNE 2021

The best financial legacy a dad can leave

As a responsible, loving dad, you probably spend a fair amount of time thinking (or worrying) about what would happen to your family if you were no longer around, especially on Father's Day. This thinking often revolves around practical concerns and solutions – such as making sure you have a will in place and an adequate life insurance policy. However, the legacy you'll leave behind extends beyond any physical inheritance. Healthy financial attitudes, habits and practices will set your kids up for a better financial future and is one of the greatest gifts you can give them. Here's how to create a financial legacy that will serve your family well now, and for generations to come.

Make sure you have a will in place

If you haven't yet drawn up a will, that's an important first step. Without a valid will in place, it can take longer for your family to receive the assets you've left and adds unnecessary stress and strain to an already painful situation. In addition to this, make sure one of your family members has the details for your life insurance policy and any savings or investments you own.

Go over the monthly expenses

In many households, both adult partners will be involved in taking care of the monthly expenses, though sometimes this role tends to fall to dad. Having a household budget that includes all the regular monthly expenses can help your family understand how income received is allocated. Teaching your kids about budgeting is a valuable life skill they will need to manage their own finances someday.

Teach your kids about credit

Not all credit is bad. Taking out a home loan, for example, is in many cases a sound financial decision. Similarly, your kids will probably need a line of credit to buy their own car someday. Thinking through the affordability of the repayments in relation to the household budget is important. There are no penalties for being overcautious in terms of not taking on too much credit, whereas unmanageable levels of debt can be devastating and hard to bounce back from.

If your kids receive pocket money each month, you can help them learn about the concept of credit by allowing them to take out small loans (from you, of course) against the money that they receive. This is a great way to demonstrate how interest rates and monthly repayments work, and how it's often more cost-effective to save up for something that you want than to simply buy it on credit. Delayed gratification, or patience, is also an important attribute to have when it comes to investing.

Help them get started with investing

Being frugal and financially responsible will help your children avoid messy financial lives in future, but only investing will help them build wealth. Talk to your kids about the wealth-eroding effects of inflation and why they need investments that can grow above inflation over the long term. Get them started with investing in a unit trust fund as soon as possible, so that they can enjoy watching their money grow over time. This is a great explainer video on unit trusts if you need it. Our Past Performance calculator is also a great way to show them how much they would have earned if they'd started investing sooner.

Talk about your money mistakes

If you’ve made an unfortunate money decision in the past, now is your chance to turn it into something positive by sharing what you learned with your kids. One of the most common mistakes to avoid is making investment decisions that are clouded by emotions. For example, withdrawing from your unit trust fund when the market is down, prices are low and everyone is pessimistic – only to buy back in again when prices are up and everyone is optimistic. This common behaviour destroys wealth over the long term as you lose out every time you sell low and buy high. Staying resolute through the ups and downs of the markets is the best course of action.

Keep their expectations realistic

Anyone promising outstanding returns in a short space of time – guaranteed! – is probably too good to be true and best avoided. We all know of someone who was duped by big promises only to lose a lot of money. Adding to the confusion is that sometimes people *do* earn great returns in a short space of time to start off with. They get comfortable and invest even more before things go south. Teach your kids to do thorough homework before investing, and that a long-standing and reputable investment manager is a safer bet.

Hopefully, this Father's Day the above tips will set the foundation for you to have honest and important money conversations with your kids. After all, when it comes to finances, teaching your children healthy attitudes, habits and practices is arguably the best financial legacy that you can leave them. If not from you, where else will they learn them?

If you need any help with explaining financial concepts in simple terms, have a read through our ”Guide to Investing”. Alternatively, for more information please feel free to contact our Client Services Team on 0860 105 775 or email us at query@prudential.co.za.