

# Making Money Work.

Kids know that saving money is important. But, they might not know that where they choose to put it matters just as much. Asset allocation, where you put your money, is a key step in creating a smart financial strategy that puts money to work. In this article, kids will learn about savings accounts, stocks, and bonds, and see how inflation affects them.



If you put money into a savings account, you will earn .17% in interest (on average\*) each year. This means if you put \$100 into a savings account when you're 10 (and don't spend any of it), you will have \$101.70 in your account when you are 20 years old.

Now let's say you wanted to buy a bike with your savings. Today a great bike could cost you about \$100. However, in 10 years an equally amazing bike would cost \$134.39.

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## An asset is something useful or valuable.

Asset allocation is all about finding ways to make your money work hard for you before you need to spend it. First, decide whether your goals are short-term, long-term or somewhere in the middle. If you need to buy a new soccer uniform next week, that's a short-term goal. Inflation won't increase the cost of your uniform that quickly, so it makes sense to put your money into a savings account (so it's out of your pocket and you're not tempted to spend it).

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## College Fund

Starting a college fund when you're 10, however, is a longer-term goal. You should consider strategies that will grow your college fund, such as investing in a combination of stocks and bonds. If you put in \$200, you could have more than \$200 once you're ready to start spending it.

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## Fast Food

History shows that bonds and stocks can earn more money overtime. In the short term, however, they are riskier than a simple savings account. Based on the time horizon of your goal, select a good mix of investments. You will need to make sure that you own a blend of different kinds of stocks and bonds. This mix is important because if you were to buy all the same kind of stock (such as fast-food or video-game companies) and people suddenly stopped purchasing those products, you'd be in trouble. However, a blend of stocks (which can be easy to get with a mutual fund) provides better protection. As your goal gets closer, you may want to move your money into a combination of bonds and a savings account.

Keep going, you're doing great!

Next Skill