HOW TO HELP YOUR CHILD BECOME STOCK MARKET SAVVY

Teaching your children about the value of investing is an essential part of preparing them for the future. If you are not sure how to get started, the Georgia Society of CPAs provides answers to common questions parents have about introducing children to investing.

WHAT'S THE BEST WAY TO INTRODUCE MY CHILD TO THE STOCK MARKET?

Before you start building an investment portfolio, it's important for your child to understand some basic investing concepts, beginning with how investing differs from savings. Use examples to show how you might "save" for a short-term goal, such as buying a video game, and "invest" for long-term objectives, like college tuition. Next, cover the basics, including the importance of diversification, liquidity, and the correlation between risk and reward.

HOW DO WE START BUILDING AN INVESTMENT PORTFOLIO?

Before your child actually invests any real money, it's a good idea to set up a mock portfolio. The Internet offers a number of investing simulation games. Or you can do this on your own by helping your child construct and monitor his or her own portfolio of stocks. Like adults, child investors should invest in what they know. Have your kids compile a list of companies that make products they are familiar with. Disney, PepsiCo, Nike, and Microsoft are a few that quickly come to mind.

Help your child look in the financial pages or on the Internet to find the current price of each stock. Every week, for a few months, monitor the company's financial performance. Also encourage your child to look for news stories about the companies selected. Will the new spokesperson for Nike push up its stock price? Is the latest soft drink on the market likely to flatten Pepsi's growth? This might be a good time to explain the virtue of riding the market's ups and downs.

OK, YOU'RE READY TO INVEST. NOW WHAT?

When you feel your child is ready to enter the market for real, you have two options. Buying a mutual fund is the simpler approach, but kids may find it more exciting and easier to relate to a company rather than a "faceless" fund. Your child can use experiences with the mock portfolio as the basis for buying decisions.

Should you decide to go with a mutual fund, there are thousands of funds to choose from and most hold investments in some kid-friendly companies. In fact, there are a few mutual funds geared especially for young investors and these often provide educational materials as well. Before investing in a mutual fund, you and your child should review the fund's past performance. Once opened, carefully examine the monthly or quarterly statement you receive.

HOW DO I OPEN A STOCK ACCOUNT FOR MY CHILD?

Minors cannot own stocks or open brokerage accounts in their own names. However, parents can set up custodial accounts under the Uniform Gifts to Minors Act or the Uniform Transfer to Minors Act (depending on the state of residence). These accounts are opened with the child's name and Social Security number, but the custodian controls the account until the child reaches the age of majority. Whether you open a mutual fund or brokerage account, be aware that any net investment income above a certain level ($1,600 for 2005) received by a child under age 14 at the end of the tax year is taxed at the parent's marginal tax rate.

HOW CAN MY CHILD INVEST WITHOUT PAYING HIGH FEES AND COMMISSIONS?

Many companies allow you to make initial stock purchases directly without going through a broker. The company's dividend investment plan (DRIP) is used to buy additional shares. There are also sources available on the Internet, such as www.oneshare.com, that allow you to buy a single share, and several discount brokers featuring no account or investment minimums.

T o put your child's investment strategy on track, start by consulting with your CPA who can advise you on where to begin and the potential tax consequences of your decisions.