



Investors in Training

A lot of ways exist to help kids—grandchildren, nieces, nephews, godchildren, or any other young people in your life—build their financial muscles. Many of us utilize common practices like helping a child fill up a piggy bank over time, involving youngsters in small purchases using cash, helping them join the local bank or credit union to open an account, or by the different examples we set, such as sticking to a budget.

But it's also important to teach kids lessons in investing, says father of two and Wilmington-based CAPTRUST wealth management advisor Buck Beam.

So, when it came time to pass on some of these lessons to his own two sons, Beau, 12, and Wayland, 9, Beam was "looking for a way for the kids to connect real money to the stock market and learn about how the stock market works," he says.

All the Action in Just a Fraction

For the Beam family, it all started with the ubiquitous delivery trucks driving through their neighborhood, dropping off brown boxes adorned with a smile logo. "How about Amazon?" Beau and Wayland asked. There was just one problem: The boys' stock pick was totally out of their budget, with a price tag in the thousands of dollars for a single share, says Beam.

Then he looked into fractional shares. While buying entire shares of stock in big name companies can get expensive, Beam quickly discovered that fractional shares are a fantastic way to get young people excited about investing and to help them develop valuable financial skills that will be with them for life, without committing a lot of money.



Since then, Beam has seen his two sons bloom into precocious investors. While working from home in the early days of the pandemic, the family even got into a routine of eating breakfast together while watching the business news, which led to the kids peppering their dad with questions about companies and how the stock market works.

“The idea of investing some of their own money was thrilling to the boys,” Beam says. They already had some savings “from birthday money and allowances” and Beam was excited to foster their interest. He even upped the ante by pledging to match their investments dollar for dollar.

A Long-Term Lesson

“Fractional shares of stock are a great opportunity for young investors because it can teach kids how money actually grows,” says Beam. “And kids are eager to learn” particularly when Disney and Apple could be involved.”

The idea is simple: Instead of buying whole shares of stock, parents, aunts, uncles, grandparents “or anyone with a young person in his or her life” can buy partial shares by the dollar amount. Also called *dollar-based investing*, this capability was first offered by some technology startup companies and then introduced by companies like Fidelity and Charles Schwab in 2020. With dollar-based investing, even someone with just a little bit of money can buy in and diversify his or her small-dollar portfolio.

“Investing in fractional shares is a neat activity to do with the kids,” says Beam, “and it has the long-term benefit of helping create savers and investors out of your kids and grandkids without putting a lot of money down.” According to Beam, fractional shares are for everyone “at the collective age of 21, his boys hold investments in Amazon, Microsoft, Roblox, Disney, and Apple.

Hands-On Investing

For Beam’s sons, their dad’s idea of investing in fractional shares meant they could afford to get into some of the brand-name stocks that they were familiar with. And that got their attention. The boys became very engaged and excited to talk with Beam about their personal stock holdings and their own investment ideas.

Beam quickly noticed a stark difference from his previous attempts to educate his kids on the workings of the stock market. In the past, his lectures were largely ignored. But kids, like adults, absorb complex concepts much better through experiencing them than by passively listening.

“A lot of kids don’t make financial decisions,” says Beam. “So it’s very interesting to them to have some skin in the game and then get to live with their decisions and see how it goes.”

In fact, one day last winter, Beau watched a news report about the airline sector being hard hit by travel bans and pandemic restrictions. Since the sector was down, he pondered, wouldn’t it be a good time to buy some airline stocks and hold them until they recovered? Beam was delighted to



encourage him to follow his instincts. “I said, “Maybe! For the amount of money we’re talking about, it’s worth a try.”

Beau invested \$40 in an airline stock when the share price had dipped to the high \$30s, getting a bit over one share’s worth. Since then, the stock has had ups and downs, trading above \$50 at one point and back down to around \$40.

“Beau and Wayland have seen the markets go up and go down,” Beam says. “They’ve watched Amazon trade at its highest price ever and then come down significantly.” It’s a small amount of money that they’ve invested, but to them, he says, it’s a really big life lesson.

Hungry for More

When Beam comes home from work these days, Beau or Wayland will rush to him, asking, “What’s my stock worth now?” Father and sons pull up the Fidelity mobile app and put their heads together, checking on the latest progress of their investment portfolios.

The experience has shown Beam how he can talk with his kids about the stock market. “This has been the first time in their lives they would ask me questions, instead of me just explaining what I do and why it matters. Now they’re curious. They want to understand. Once their money was on the line, they were hungry for more information,” says Beam.

What to Do with Winnings

Another important lesson for young investors is what to do with winnings. “When one of the stocks went up, their natural question was, “Can we get the money out and buy something?”” says Beam.

While Beam and his wife, Caroline, have not allowed the boys to take any money out, they have been asked by the boys repeatedly. While we can’t blame the budding investors for fantasizing about cashing in, rightfully so, Beam has “encouraged them to look at this money as a long-term savings account, not a source of money for buying a toy or a treat or a video game.”

Beam also wanted the boys to avoid short-term gains, which might have tax consequences. More importantly, he was teaching them to become savers and long-term investors—a habit that is truly a valuable gift to impart on a child.



START WITH A CUSTODIAL ACCOUNT

Depending on which stock your little one wants to invest in, fractional shares could be a practical option worth considering. Here is what you need to know about getting started.

Kids and teens can own stock by having an adult on the account with them. If you want to open an account for someone under the age of 18, you'll need to open a custodial account in person or online through a brokerage. You will be the custodian, and the minor will be the beneficiary, Beam says. "Your child will own the assets, but you'll control the investments and have legal responsibility over the account until your child is 18 to 21, depending on your state."

Custodial accounts for kids are easy to set up and monitor so they can embrace investing early in life, Beam says, but be sure to confirm beforehand that the brokerage allows for fractional investing, as not all of them do. Also, look for an account that offers commission-free trades. When you're investing small amounts, fees can quickly erode your returns.



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