



From Piggy Banks to Prosperity: How to Help Clients Raise Money-Smart Kids

Suddenly, financial literacy is more important than ever. In early March 2009, major stock markets sank to their lowest levels in over a decade. World economies have plummeted into recession. Unemployment rates are skyrocketing. Personal credit card debt rose upwards of \$961 billion.¹ Retirement accounts are dwindling. And, if that weren't enough to cause people to stuff their mattresses, Ponzi schemes and corporate scandals have dealt a brutal blow to investor trust.

This turmoil has exposed an overwhelming need for all people, wealthy or not, to develop more prudent saving, spending and credit skills. And according to experts, the best time to develop those skills is early—and often.

Raising money-smart kids is a laudable goal for any family, not just the wealthy. While family offices and wealth managers have long been nurturing the financial know-how of the next generation of high net worth families, the need for education is even more acute among the emerging and mass affluent.

This under-served population presents a ripe opportunity for financial advisors who want to differentiate themselves in the mass affluent market. And that market is hungry for financial advice. Whether burned by “do-it-yourself” investing, overwhelmed by retirement plan choices, inspired by new investment options, motivated to be better prepared for retirement than generations before, or simply lacking the time needed to manage their own investments, more investors than ever before are seeking the help of financial advisors.

The challenge for advisors who want to win over these new clients and also retain existing ones is how to differentiate your value from that of your competitors.

As a result of the recent market downturn, the average investor—regardless of who their advisor may have been—has lost a lot of money. In down markets it is almost impossible for advisors to distinguish themselves based on investment performance. For example, try telling your client that a 33% percent loss is actually good relative to the 40% that most of their neighbors experienced. That's a tough sell. So, instead of focusing on performance in the face of market volatility, differentiate yourself by delivering value-added services, such as financial education.

You have an opportunity to increase your value by taking on the role of a supportive resource and educator for parents struggling to raise money-smart kids, which is nearly any parent regardless of their net worth.

This paper aims to help you answer the following 3 key questions:

- Why should I provide financial education services to my clients?
- What role am I most comfortable playing: resource, guide or educator?
- How do I begin conversations with clients who are uncomfortable talking about money or their children's lack of money skills?

Successfully integrating this type of service into your practice requires understanding the reasons why so many people are uncomfortable talking honestly about money in the first place—whether with family, close friends or even their advisors.

WHY PEOPLE AVOID TALKING ABOUT MONEY

Talking about money with children often provokes anxiety in parents. Many simply don't know what to say or where to begin. For others, money is a taboo topic. Some worry their children will reveal too much to their friends about the family's finances. Some are concerned that if the kids know too much about the family's money, they may start pressuring parents to buy more things.

But ignoring money conversations, or treating the family's finances as a secret that's best kept in the drawer with the good silver only deprives kids of opportunities to learn how to manage money effectively. Avoiding the subject altogether could harm a child's chances for achieving a healthy relationship with money later in life.

MONEY BALANCE MATTERS

Dr. Jim Grubman, a noted psychologist who works with affluent families and their advisors, thinks that our financial health is not measured by the *amount* of money we have, but by *our relationship* to that money whatever its literal value may be.

“Balance,” he says, “is the key to a healthy relationship with money.” In other words, people who have healthy attitudes toward money do not put it on a pedestal—nor do they demean it.

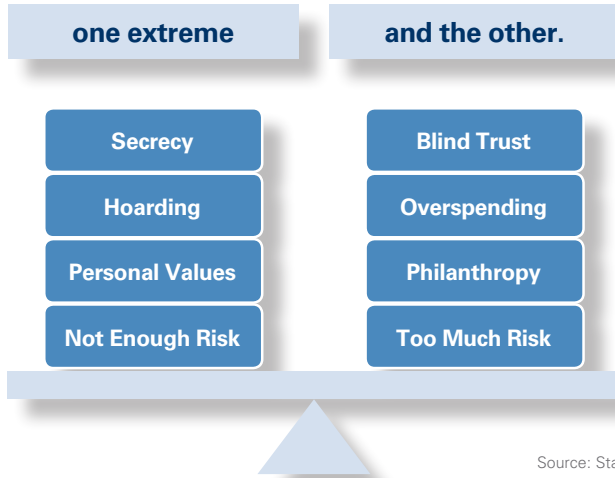
Other experts agree. In their book *Silver Spoon Kids*, the husband and wife team of Jon and Eileen Gallo wrote, “[Kids] need to understand that affluence is emotionally neutral and that you can be happy or miserable no matter how much money you have.”²

While money is emotionally neutral, its power potential is undeniable. Says Grubman, “People relate to money just as they do anything powerful. The trick is knowing how to use it and also knowing what it isn't good for.” This is the difference between drinking one martini and eight, between using executive status to mentor and model or to manipulate.



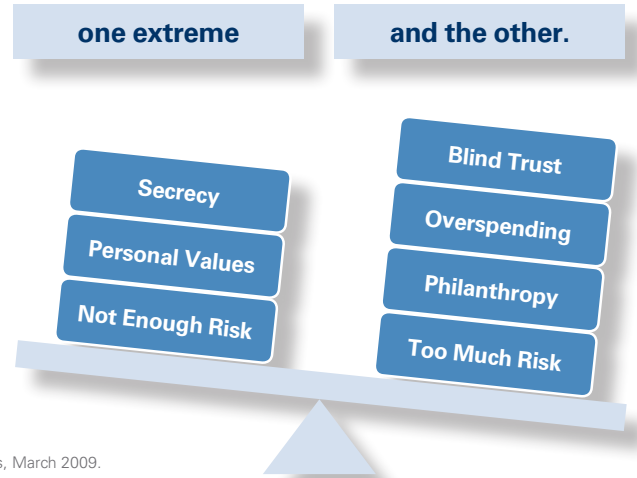
FIGURE 1: DON'T TIP THE MONEY BALANCE SCALE

Find the balance between...



Source: State Street Global Advisors, March 2009.

Signs of imbalance between...



When balance is missing in life, unhappiness or chaos often ensues. The same holds true for money. Where money attitudes and behaviors are off-balance, financial woes frequently follow (see Figure 1 above).

Think of the spendthrift child whose pockets light up like the 4th of July the instant money lands in his hands. It may seem harmless for an 8-year-old to immediately spend the \$20 Grandma just gave him, but that same child may become an adult saddled with debt and lousy credit as a result of impulsive spending.

Grubman believes that building a balanced approach to money from an early age helps people lead more honest, content and productive lives. They'll be prepped to avoid, for example, the heavy debt and cash shortages that are plaguing so many today.

HOW TO BUILD BALANCE AT ANY AGE

Most people think financial education should start in the teens. Experts say that's already too late. The really formative years are much earlier, which is why Grubman recommends advisors help guide clients towards teachable moments that take place throughout their children's development. "By helping clients teach their kids age-appropriate lessons about money, you're providing a valuable service to parents who may be unsure of when or how to begin those conversations," says Grubman.

TODDLERS (0-4 YEARS)

Imagine parents sitting down to talk to their infants and toddlers about investing in bonds. We don't recommend it. Rather, this age is critical to establishing a child's personality and sense of security in the world. It is important that kids feel loved and safe in order to develop what psychologists have termed a "secure attachment,"

essential to developing healthy relationships later in life.³ Giving kids the attention and affection they need establishes trust and ultimately sets the stage for them to avoid using money in dysfunctional ways when they grow up.

CHILDREN (5-8 YEARS)

This is the perfect age to begin establishing basic money skills. It is vital that kids interact positively with money, and with their families around money. Giving kids contact with money helps them feel a connection to it, advises Grubman. There is an opportunity to supplement the counting and basic math skills that kids are already learning in school.

In addition, a child's contact with money should be tangible—touchable coins and bills—rather than abstractions of ATMs and debit cards (introducing these abstractions comes later). During this age range, parents should consider providing an allowance, which most experts agree can be an excellent tangible teaching tool.

For example, if a child wants a candy bar, take advantage of this teachable moment. Instead of purchasing it for them, a parent can have the child use his or her allowance money to buy the candy. At the least, the parent can hand the child the dollar directly. Let the child choose what to buy. If he or she wants more candy than a dollar will buy, parents can tell the child why he or she can only choose one candy bar. Further, parents can explain that there is a tax on the candy bar and what the tax is for (see next page). This is the first step to establishing balanced money messages, where money is neither demeaned, nor elevated in its importance to individual fulfillment.

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HOW TO EXPLAIN SALES TAX TO AN 8-YEAR-OLD

Use words your child can understand.
Don't overcomplicate it. It can be as simple as 1-2-3.

1. The government charges everybody a little bit on almost every thing we buy.
2. Then, they add up all these little bits of money and use it to pay for our policemen, firemen, schools, and even repairing the roads we drive on.
3. So when you pay your little bit of tax, you're really helping to pay for the good things that keep our community strong.

PRE-TEEN (9-13 YEARS)

The pre-teen years are among the most important to an individual's development. Kids this age learn a lot about initiative and taking reasonable risks. This is also a time for setting limits on, and consequences for, behavior. Let kids use their own allowance money to make purchases, such as video games, clothing and recreation. Says Grubman, "If they overspend or run out of money, it's important that parents not rescue them. Kids need to learn how to delay gratification. They need to make the connection between personal responsibility and their ability to achieve their goals."

This is also the right time to help kids start to understand how money really works, especially in its abstract forms, such as with debit cards, checks and ATMs.

YOUNG ADULTS (14-19 YEARS)

Young adults at this age begin to break away from their parents and establish their independence. This is the ideal age to develop more advanced money skills and really cement the money basics. Parents can make the allowance more important and give children more responsibility for paying for things themselves. But, they should also allow for mistakes and consequences at a slightly higher level to really drive home the need for personal responsibility.

Parents may want to consider helping their children get their first credit cards, establishing limits on their use. But they should first talk about how money in its abstract forms can be too easy to spend. For example, help kids become aware that the fast and convenient download of songs from iTunes has a very real cost to their own wallets. The same holds true for other Internet sites like Amazon that offer 'one-click' purchasing.

LEARNING STYLES MATTER

Each of us is born with a unique personality or temperament. A child may be more anxious and hence more prone to becoming an over-saver. Children may have specific learning styles or developmental challenges that merit attention, since these learning differences can affect money management skills. For example, kids with ADHD may struggle with impulsivity in a way that makes thinking through the consequences of their money behavior extremely challenging. When faced with a spend-versus-save decision, the child may choose to spend partly because saving feels too far removed and intangible.

As an advisor, you have an opportunity to nurture your rapport with the parents of these kids by offering them resources and referrals to experts appropriate to the child's temperament or learning style.

WHY ADVISORS HAVE A BUILT-IN ADVANTAGE

Your clients expect you to be knowledgeable, but they also want to feel understood by you. They want to have the sense that you genuinely 'get' them and their families.

Grubman believes that "for many clients, their satisfaction with you is not just about the money. It's about money and family." Advisors who know how to initiate and draw out a conversation about a family's relationship with money will increase their client's satisfaction with them.

In no other relationship do clients come closer to talking meaningfully about money. For them, suggests Grubman, you are the person with whom making the leap to discussing money issues is the smallest. Many don't even talk honestly about money with their family members and closest friends.

For this reason, advisors are in a favored position to broach the topic, giving clients the opportunity to air their fears, anxieties and challenges. Client concerns can be as diverse as their experiences. Some clients want their children, who may be growing up more affluent than they did, to "know the value of a dollar." Others may regret their own lack of financial savvy and want better for their kids.

Says Grubman, "Helping clients manage their children's approach to money can really be a win-win for the advisor and the client. Many simply don't have another outlet to talk about their money and the difficulty they have teaching their kids about it."

Advisors who proactively raise the topic with clients will not only distinguish themselves in the market, but will also build trust. Those who don't will miss out on a valuable opportunity to develop more productive long-term client relationships, not only with current clients but future generations as well.

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HOW TO START

While many parents may feel adrift in thinking about how to teach their kids balanced money skills, advisors can also find it difficult to initiate the conversation with clients. If you're one of them, Grubman offers some guidance.

CONNECTING WITH YOUR CLIENTS

Gallo and Gallo talk about parents spending "floor time" with their kids in order to better connect with them on all issues, including money-related ones.⁴ They borrow the concept from child development experts who point to the time parents spend giving kids their undivided attention as a tool for enhancing a child's sense of security and his or her ability to feel understood.

Try spending some "floor time" with your clients as a way to truly understand how they are feeling about their financial and personal concerns. Put away your own agenda and be open to hearing what your clients are trying to tell you about how they feel. Suddenly, you'll find you know a lot more about your clients and their families. And you'll be pleasantly surprised at how well they respond to you. Starting this discussion could be as simple as saying, "I'd like to check in on how we're doing—it's part of my interest in you and your family."

LISTEN FOR TEACHABLE MOMENTS

As you listen to your clients, you'll begin to pick up on their concerns and recognize what Grubman calls "teachable moments." These are the advisor's equivalent to a parent's teachable moments, when a child's natural curiosity or interest creates an opening to talk about something important.

Have you ever heard your clients make statements like the ones below?

- I didn't get much training myself. I had to learn on my own. I want more for my kids.
- My wife and I argue about money. I don't want my kids to be affected by it.
- I grew up without a lot of money. Even though we have money now, I still want my kids to know the value of a dollar.
- I don't want my kids to have problems with credit cards or to live beyond their means—but how can I teach them to resist all the pressure to just spend, spend, spend?
- My kids are forever asking me for more money. It's just easier to give them a credit card and then pay the bill myself when it comes in. But I know that's probably not the right thing to do.

These are teachable moments for you as well. Use them as a springboard for more in-depth conversation about their family's financial literacy. You'll be able to gauge whether clients need and want your help, and what role you can play.

For example, a couple who tells you they have differences in how they believe money should be managed might avoid talking to their kids, because they haven't worked out whose attitudes they want to teach. But this situation makes teaching kids about money even more important, since they may be getting conflicting messages from their parents.

As their advisor, you may be able to help the couple recognize and reduce conflicting money beliefs and then introduce the idea of giving their kids consistent money messages. Your efforts may be doubly rewarded by the good will you generate from not only jump-starting their kids' financial education but also resolving stress in the marriage.

PAY ATTENTION TO DEMOGRAPHICS

Client demographics like age can guide your conversations. For example, parents who are 35-50 years old are likely to have kids between the ages of 5 and 15, the prime age range for money learning. Listen for openings about how kids interact with money at this age. It could be as simple as asking if the parents give their children an allowance.

You may want to broach the topic of financial literacy while talking to parents about educational investments, such as 529 plans, custodial accounts or college funds.

Alternatively, clients who are 50 years and older may be grandparents who want to help their adult children and also mentor their grandchildren. A good time to ask questions about the family's financial education may be during retirement or estate planning discussions.

ENGAGE CLIENTS USING TIMELESS OR TIMELY CONCERNS

If you're unable to detect your client's interest in financial education, try drawing it out by talking about what other clients are feeling, or what you see to be the challenges facing all parents today.

Consider using these openings or developing similar ones of your own:

- A lot of parents want their kids to have good money skills but often feel at a loss for where to start. Do you share those concerns?
- Our kids may have to learn how to manage their money better in this new environment, yet a lot of clients have told me they're not sure what to teach or how to go about it. How do you feel about it?
- Many of my clients are looking for information on raising money-smart kids. Because of that, I have some great resources here. Do you have any interest in these materials?

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When asked appropriately and with a sense of interest and caring, your clients should respond well, especially if they are actively struggling with the issue.

INTRODUCE FINANCIAL EDUCATION IN A SNAIL MAIL OR ELECTRONIC NEWSLETTER

Address the issue of raising money-smart kids in your newsletter to clients. Provide them with some basic tips and let them know you can point them to additional resources if they'd like. Then, when clients call or come in to meet with you, casually ask if they saw your last newsletter. Use this as your opening to talk about the level of support you are able to provide depending on your client's wants or needs.

HOW TO DETERMINE YOUR ROLE

The amount of resources and level of service you provide to your clients can vary according to your comfort with a particular role and whether offering these services makes sense for your business.

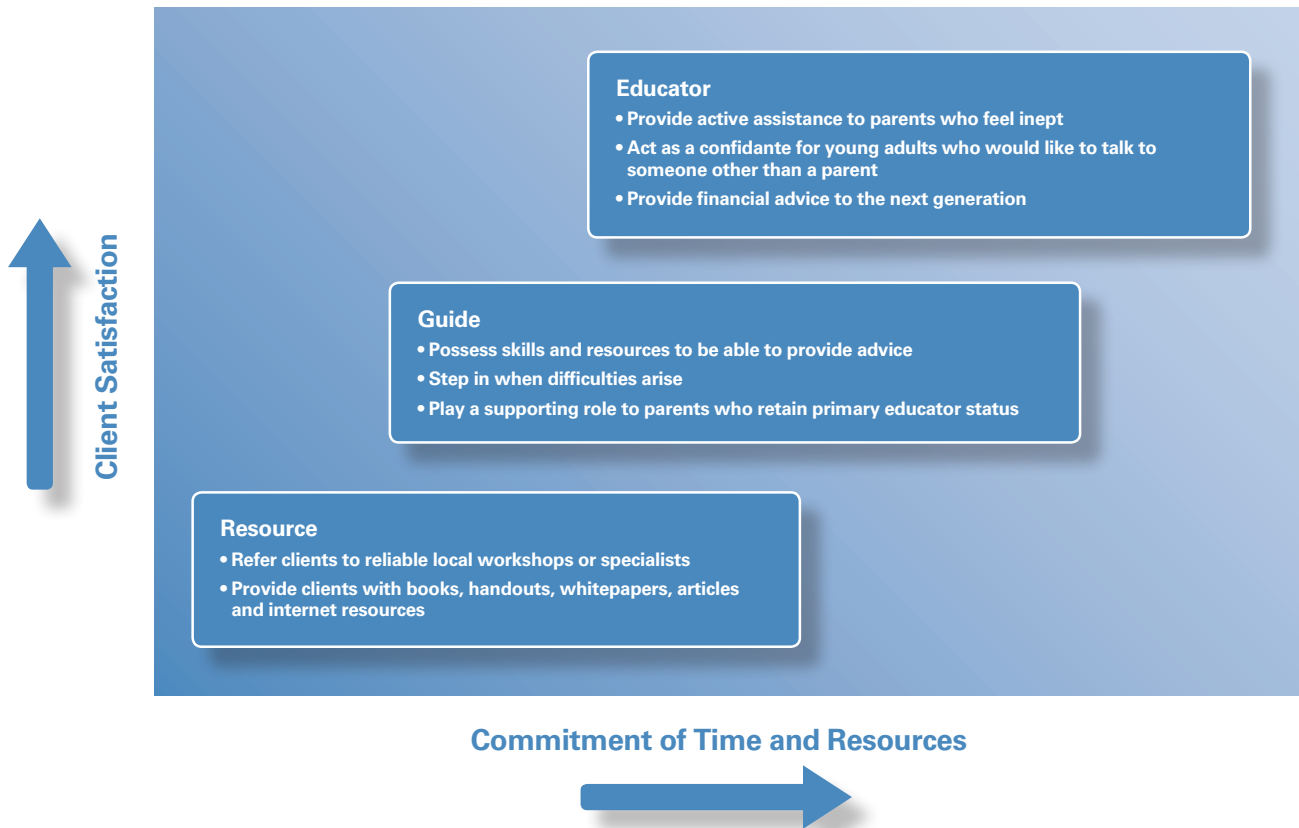
For advisors, the level of support you choose to provide can vary by degree and time commitment required. Typically, advisors fill one of three increasingly involved roles: (1) Resource (2) Guide or (3) Educator (see Figure 2 below).

Each role demands an increasing level of commitment and resources on your part. But, that added effort is likely to result in even higher levels of satisfaction among your clients.

AVOID STEPPING ON PARENTS' TOES

Ultimately, whatever level of service you provide, your clients will dictate the role they expect you to play in helping them educate their children. Employ your active listening skills and the techniques discussed earlier to assess precisely how your clients want or expect you to help them with the task of educating their kids. Ensure parents feel that they are in the driver's seat and that you are simply supporting them in their role as parents by providing them with a valuable service.

FIGURE 2: CLIENT SATISFACTION CLIMBS WITH LEVEL OF SERVICE PROVIDED



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Source: State Street Global Advisors, March 2009.



DOES IT MAKE SENSE FOR YOU AND YOUR BUSINESS?

Use the checklist below to assess whether adding financial literacy support to your practice makes sense:

TABLE 1: ASSESS READINESS TO OFFER FINANCIAL EDUCATION SERVICES

PERSONALITY FIT	BUSINESS MODEL FIT
<input type="checkbox"/> Are you a good listener? <input type="checkbox"/> Do you like to teach? <input type="checkbox"/> Do you enjoy focusing on family matters? <input type="checkbox"/> Are you willing to invest the time and resources to make this successful?	<input type="checkbox"/> Do you have a good handle on the economics of your practice (e.g., which clients are lucrative versus those who may be receiving services at a discount)? <input type="checkbox"/> Can you match your level of involvement to a client's account size? <input type="checkbox"/> Are you equipped to regularly monitor for high-maintenance clients who may demand more than you can offer?

Choose a level of involvement you're comfortable with. But if you're thinking of not providing any support, recognize that even acting as a resource could improve your rapport with clients and boost their satisfaction with you. And as Grubman notes, "Any service that deepens satisfaction deepens client loyalty."

There are lots of prepared materials available today to help clients raise money-smart kids. It will cost you very little in time or money to provide these materials and referrals to clients, but the return could be significant.

THE WINDOW IS OPEN, BUT NOT FOREVER

The window of opportunity for you to help your clients raise money-literate kids is wide open. Differentiate yourself from your peers before this level of support or service becomes ubiquitous. Some states in the US, for example, have already passed laws requiring financial literacy classes to be taught in public schools. Many more are considering doing so in light of the current economic situation.

And while many emerging- or mass-affluent clients may not expect you to play this role right now, that's likely to change. After all, it's no secret that advisory services move downstream. Institutional-level services get fitted to ultra high net worth individuals. Ultra high net worth services become available to high net worth investors. And so on.

We also live in a service-oriented culture where we expect to be treated well. When we find out John or Jane is getting something we aren't, we'll ask why and then expect to get it too. Right now, you have the opportunity to provide value to your clients beyond their expectations. This should enhance their estimation of you and the likelihood they'll recommend your services to others—including the future generations in their own families.

Helping clients raise money-smart kids is just plain smart. Many good resources already exist out there—they just need your personal touch and whatever level of involvement you and your clients decide is best. Providing even basic assistance can help you establish your expert status, build trust, increase loyalty, and lay the groundwork for advising the next generation. And there is no better time to start than right now.

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Dr. Jim Grubman is psychologist consulting to high-net-worth individuals, couples and families about the impact of wealth on personal and family dynamics. He is a frequent speaker and consultant to wealth management firms about family dynamics, the integration of psychological services with financial services, and training of advisors to improve client relationship skills. He is also a faculty member of the McCallum Graduate School of Business at Bentley University, where he teaches course work in financial psychology. James has a Doctorate from the University of Vermont and a Master's degree from the University of Michigan. More information is available at www.jamesgrubman.com.

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To contact State Street's Strategy & Research team, email sr@ssga.com.

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¹ The Federal Reserve. Release posted March 6, 2009. <http://www.federalreserve.gov/releases/g19/Current/>

² Gallo, Eileen and Jon J. Gallo, *Silver Spoon Kids: How Successful Parents Raise Responsible Children* (McGraw Hill, 2002) 94.

³ Sadock, Benjamin James and Virginia Alcott Sadock, *Synopsis of Psychiatry* 9th Edition, (Lippincott, Williams and Wilkins, 2006) 139-143.

⁴ Gallo, Eileen and Jon J. Gallo, *Silver Spoon Kids: How Successful Parents Raise Responsible Children* (McGraw Hill, 2002) 96-98.

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