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How Aussie parents and grandparents are investing for kids

An increasing number of parents are making regular investments into minors' accounts.

October has become a particularly busy investment month for many parents in the United States, and the activity has nothing to do with Halloween.

It's because of two, some might say, quirky annual days in the first couple of weeks of this month, when parents are encouraged to give money to their children to help educate them on the benefits of savings and investing over the long term.

October 6 is designated as "National Transfer Money to Your Daughter Day" every year and, to balance off the books, every October 13 is "National Transfer Money to Your Son Day".

Both days are focused on getting parents to improve their children's financial literacy. This includes empowering their children to access and manage their own finances, teaching them how to budget, save and make smart investments – all skills that will serve them well as they grow into adulthood.

Helping children to establish sound money management skills and strong financial acumen is important, regardless of your wealth level.

Involving your children throughout any investment process you take on their behalf can be invaluable.

Investing for Australian kids

Australia doesn't have any days specifically devoted to improving the financial knowledge and skill sets of children. And, unfortunately, most school curriculums are also still lacking in this area too.

Yet, it is evident many Australian parents are doing some heavy investment lifting on behalf of their children to try and give them a good financial head-start.

Vanguard research shows that many Australian parents, and in some cases their parents (grandparents), are investing on behalf of children under the age of 18 on a regular basis.

The Vanguard research is based on the investing patterns associated with the Vanguard Personal Investor Kids product offering, which enables adults to open an investment account and invest in a range of ready-made managed fund investment portfolios on behalf of minors.

There are some interesting observations from the data related to these types of accounts.

Firstly, around 80% of the "Vanguard Kids" accounts have been opened by adults aged between 35 and 54.

This broad age band relates to the fact that many "younger" parents have opened accounts for very young children, evidently recognising that starting an investment program at an early stage is likely to produce substantial long-term gains thanks to compounding capital growth over time.

Those at the older end of the parental age spectrum are more likely to have opened kid's accounts for children in their teenage years.

A much smaller percentage of Vanguard Kids accounts (about 3%) have been opened by adults aged between 65 and 84. It's feasible that many of these accounts may have been initiated by grandparents.

The Vanguard data also shows that the vast majority of minors' accounts (around 82%) make regular investments into the diversified high-growth fund option. This option invests in 90% growth assets (shares) and 10% income-producing assets (bonds).

Vanguard Kids accounts have four investment options: high growth; growth (70% shares and 30% bonds); balanced (50% shares and 50% bonds); and conservative (70% bonds and 30% shares).

So, based on the large weighting of kids' accounts towards the high-growth option, it's evident many parents (and grandparents) have adopted a higher-risk profile.

Selecting an appropriate asset allocation, based on one's needs and expectations, is one of the core principles of investing.

The tendency by most parents/grandparents operating one or more kids' accounts to have a high allocation to shares perhaps reflects a general view that when it comes to investing, minors have more time on their side to benefit from the higher compounding growth from shares, despite the greater short-term volatility associated with having an exposure to share markets.

Indeed, share market returns have outpaced the returns from most of other asset classes over the long term, as evidenced by the 2024 Vanguard Index Chart. That's despite a number of significant market corrections over time, such as the 2007-08 Global

Financial Crisis (GFC) and the short-lived 2020 COVID crash.

Knowledge is key

When it comes to investing, and more particularly to achieving investment success, knowledge is key for both adults and children.

Involving your children throughout any investment process you take on their behalf can be invaluable.

As well as teaching them the basics of investing, having a long-term investment plan and framework will show them the benefits of strategies such as making regular investment contributions to increase compounding returns.

It will also teach them about the benefits of staying the course, over the long term, and not being distracted by short-term market events and volatility.

How much you invest, and how often you invest on a child's behalf, is entirely up to you. That ultimately comes down to what you can afford to invest.

Set an affordable ongoing investment amount into your regular spending budget for each child. Even small amounts will grow over time when combined with compounding investment returns.

Of course, to achieve the full benefits of making regular contributions and from compounding returns on behalf a child, the earlier you start investing for them the better.

They're lessons that they can take with them too as they grow as children, as they move into adulthood and start investing in their own right to continue building personal wealth, and that they can eventually pass onto their own children.

Source:

https://www.vanguard.com.au/personal/learn/smart-investing/life-events/how-parents-and-grandparents-are-investing-for-kids

https://www.vanguard.com.au/personal/invest-with-us/investing-for-kids

https://www.vanguard.com.au/personal/learn/smart-investing/investing-strategy/2024-vanguard-index-chart-the-strong-path-from-steady-investing

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