

She was only 14 when the conversation took root. The dialogue was one most parents have with children when they are old enough for a drivers license. But this child was always a couple years ahead of her peers in her maturity and in her planning. Even though she was two years short of her 16th birthday she was thinking about a car. The first reaction is often ‘we’ll cross that bridge when we come to it’. But in raising three children I’ve found it is often better to talk about things when they are interested than when I am ready.

Anticipating this might be an opening for some productive dialogue, I inquired “what kind of car do you think you’d like?” I had opened the proverbial barn door. Minutes later we agreed that she would probably need a car in a couple years and that it would be a good idea to come up with a plan to assure that her goal could be met.

I have learned I am often more successful if I create a participatory process to help children create solutions to their problems. So I plied my trade as a parent hoping to advance her financial education. “Cars cost money”, I began, “so if I need to be part of this equation, do your home work and find out the following:

1. What will the car cost if you (or I) purchase it?
2. How much will the insurance, maintenance, and gas cost you monthly?

I showed her how to do the research on the web, and then sat back to see if she was motivated enough to find answers.

In a couple days she was back, looking a little discouraged. What had she learned?

The car would cost \$12,000

The insurance would cost approximately \$95/mo.

The gas would run nearly \$150/mo. at \$3.00/gal

And the maintenance might average \$80/mo. if she encountered no major problems.

I complimented her on a great job and proceeded to the next challenge. “How do you think you will pay for all that?” Wrinkling her little girl nose and cocking her head, “I don’t know,” she replied. I could see that she was hoping dad would solve the problem with a check book.

Despite the ease and simplicity of that solution and the temporary reward of a child’s praise and a self congratulatory sense of being a wonderful provider, there is far too little benefit accrued to either party in that resolution. In fact all she would learn is that when she has a money problem, daddy fixes it. It is an unfortunate destructive precedence too many parents set and worse yet it robs a young mind from the opportunity to learn problem solving skills as a function of self sufficiency and self fulfillment. This was a teachable moment. And if successful, the value of the education would far surpass the value of the automobile under discussion.

Still, I couldn’t help but embark on the story of how as a young man I worked twelve hours a day on the farm for five years to save enough to pay cash for my first car while

attending college. We never forget our first car...in this case a new 1970 gobi beige 396 Chevelle SS right off the Ft. Scott dealers show room floor. But, I also knew the real mission wouldn't be well served by long reminisce of my own youth.

Focusing again on her economic agenda, I suggested that even if dad was willing and able to buy her this vehicle, it would still require her to come up with nearly \$325 per month to keep it on the road. I advised her that at a minimum I felt she would have to position herself over this next two years to afford that share of the costs. I commissioned her to determine how many hours she would have to work to create an after tax income adequate to meet her anticipated auto obligations.

A few days passed. When she finally caught up with me in my office, the first words were "I can't afford it." I've never readily accepted that answer from my children. I believe it too easily creates an unacceptable escape from critical thinking and problem solving. So I probed... "Why do you say that?" I enquired. "My friends tell me they clear \$5.00 per hour or less working at most jobs that are available to teenagers", she retorted. "That means I would have to work a minimum of 65 to 70 hours per month or more than 16 hours a week just to afford the car. That means both days every weekend or all day Saturday and at least two nights a week. I don't see how I can do that and still play volleyball, make the lead in the school play, letter in forensics, sing in the Allegro Choir, work on my Girl Scout Gold Award, not to mention study enough to keep my grades up to the level top colleges expect."

I recounted her dilemma out loud. "Sounds like both a time and money problem, huh?" "Have you thought about other ways to earn money or create at least a \$320/mo net cash flow without a linear exchange of hours for dollars?" I said, and continued with an explanation and discussion of linear verses non linear incomes. I was planting seeds.

Soon she was back. "Could I make that much every month if I owned an investment property?" she asked. I couldn't help but smile. "I don't know, but that might be worth some study." I mused. And so lesson continued.

Over the next few weeks we talked about real estate investing. I had several dozen single family rental homes in the Kansas City metro area and a few dozen more that I sold and financed for home owners. We talked numbers. We examined those in the portfolio and confirmed that the \$320 to \$350 a month needed was achievable if we could find the right property. The financial education (disguised as an automobile) had begun.

We began by researching and looking at houses. Next came the analysis process using excel spreadsheets to examine the property cost, rehab expenses, carrying costs, credit costs, and potential profit, cash flow, ROE and IRR. We discussed the risks and rewards, leverage, and financial responsibility. Admittedly we were discussing financial principals and functions far too few adults grasp much less high school freshman.

The experience involved the sometimes ugly process of wading through houses examining basements, electrical panels, plumbing, and the dozen other items that require

evaluation before making a wise investment. The adventure led us to the local Home Depot where we checked out costs of everything from kitchen cabinets to heating systems to better enable her to quantify the costs required to make the selected home highly marketable.

Next, we outlined the work requirements and labor contract and interviewed and qualified a rehabber and negotiated a labor cost (although sometimes she was more spectator than negotiator). From there on it was basic project management and dad admittedly played the leader to be sure the work was done on time and to code.

Surprisingly, dad's investment company consented to loan the new entrepreneur most of the money for the purchase, rehab and soft costs at a very reasonable rate requiring only that she investment of about \$1,000 from her savings account and execute a standard note and trust deed on the home back to the company (just like the bankers do it). She was also required to set up her venture in Quick Books with the help of one office manager so she could input her income and expenses, and generate a quarterly income statement (profit and loss) and financial statement.

The total investment in time for the research, analysis, acquisition, financing, rehab, and sale (not including a little parenting and 'volunteer' time from dad) amounted to slightly less than the 65 to 70 hours she concluded she originally needed to spend monthly under her original linear time-for-money plan. Because she accepted \$5,000 down from a qualified buyer she collects a payment check every month and after paying the \$275/month mortgage she nets \$333/mo in free cash flow and has just under \$20,000 equity in the property. On an ongoing basis she invests less than 15 minutes the first week of each month opening the monthly house payment from her buyer, filling out her deposit slips, making her note payment, and updating her Quick Books accounts.

There are times when I think I should have let her get the linear money for time experience first. The McDonalds gig at \$5.50 or \$6.00 per hour can give kids great experience and teach them valuable lessons as well. The payoff in the end, I suspect, is not that she invested 64 hours to create \$20,000 in equity (making \$312/hour) or that she earns \$333/month in free cash flow working 15 minutes a month (making \$1,332/ hour). But that she now understands a potential model for creating non linear cash flow and wealth that is not always a function of hours worked, but of opportunity identified, knowledge applied, and disciplined plans executed. But the best payoff, by far, has been the opportunity to invest precious time with my child; to teach her one more way to create value in her life by providing value to others. It's a life lesson that will remain long after the money, the car, and even dad are gone.