Luke Hohmann of FirstRoot, Inc.

Speaker1: [00:00:04] This is the Investor Connect podcast program. I'm Hall Martin and the host of the show in which we interview Angel Investors, venture capital, family offices, private equity, many other investors for early stage and growth companies. I hope you enjoy this episode. Interested in learning more about investing in startups, launching a new startup need to raise funding, the startup Funding Espresso is a daily podcast and a short, concise format delivered to your inbox every day Monday through Friday, the time it takes to drink an espresso and learn about startup funding. To subscribe, go to invest. Connect again through email to the top of.

Speaker2: [00:00:43] Hello. This is Hall Martin of Investor Connect . We're here with Luke Hohmann, CEO and founder of FirstRoot FirstRoot teaches financial literacy and civics as kids decide how to invest real money in their school. Luke Thank you for joining us.

Thank you. I'm really happy to be here.

So can you tell me about your background before founding first? What did you do before this?

Well, first, it is kind of the natural evolution of a career spent in helping people decide how to invest and manage money. My last company, Conten, was an enterprise software platform that helped large companies around the world set budgets using participatory and collaborative techniques. And this is part of the reason I did continue was if you know anything about the annual budget process in most companies, it's awful, right? People people are supposed to work together. And for the listeners, Paul is chuckling right now just to let everyone know because he knows, as we all do, that the annual budgeting process is just garbage in most companies. But absolutely, it is a tough experience to go through those and very painful one and very tricky and is just not a very fun thing to do for sure. So when I started to do as I started to work with major corporations to create a better process of setting the budget where people would come together and they would participate, and we called it, of course, collaborative budgeting or participatory budgeting. And I had major corporations using our software, Cisco, eBay, Salesforce, BMW and Naspers in Europe to pay you one of their subsidiaries.

Speaker2: [00:02:20] And I started to see how much better the budgeting process was when people were using these participatory techniques. You roll the clock a little forward. I started doing it philanthropically with cities and then around twenty fifteen I started experimenting. What would happen if we started doing it with schools, quite literally? What would happen if instead of giving kids a fake money problem, that doesn't mean anything to them, like a stock market simulation. We actually gave them real money. It doesn't have to be a lot of money. How do we find that? Somewhere between a thousand dollars and a two thousand dollars for a school. Is it enough to feel meaningful to the kids? They can do something with it, but we put the kids in control and then we guide them through this process. Roll the clock forward a little bit more. I sold content in twenty nineteen. I finished my integration tasks and last year started First Route, which is a company completely devoted to teaching financial literacy and promoting positive civic engagement through this activity known as participatory budgeting in schools. Was great.

So what led you to start work in the personal finance or personal literacy space to begin with?

Well, part of that is for many of us to tell we grew up right. It's it's one of the things I think people.

Speaker2: [00:03:51] Mistake about financial literacy is financial literacy and civics are both life skills, and I'm going to distinguish a life skill from a technical skill. I don't grow up learning algebra or calculus or chemistry per say. Those are things I'm taught in school. But when the moment you're born, you're born into a family that's already has some notion of financial literacy. And if you actually look at the studies of how financial literacy is developed in children around the age of two is the first purchase request where a child is at the supermarket typically asking for cereal or fruit, then you get what's called an assisted purchase around the age of four, where a child is given money and some goods by a parent and the child engages in the transaction assisted by the adult. By the time the child enters school in kindergarten or first grade, they've actually accumulated some knowledge of financial literacy in the home through life experience. And so financial literacy needs three components. It needs knowledge like technical knowledge. What's the loan or what's an interest rate or what's compounding interest or what's a stock. It needs skill, the ability to, for example, compare investments on financial returns or risks, but it also needs disposition. Are you more conservative with your money or are you more risk averse with your money? If you're an investor as an adult, do you want your investment to be aligned with some notion of a of a social impact, or do you just want a financial return? All of these flow together to create financial literacy.

Speaker2: [00:05:37] Unfortunately, most school programs only talk about one aspect, the technical aspect, like if you go to a bank and you say, hey, I'd like to download the financial literacy materials at a major bank, you're going to see that those materials are pretty much only associated with things like, well, you've got to develop a budget and you got to develop a savings plan. Well, OK, but. What choices have I make my budget, one of my favorite points of view is the idea that you shouldn't judge how other people spend money because you may not know their context. And I have a wife and I live in California. We have some friends and we love to go over to their house for for dinner because how they serve really good wine like really like wine. My wife and I would never buy because it's way out of our price range. But you know what? My wife and I chose to have four kids and our friends chose to have no kids. And every now and then we'll be walking back from our neighbor's house and my wife will say, you know, if we didn't have those kids, we can have that wine. And I said, yeah, but I'm glad we have the kids. So you shouldn't really judge how people spend money because you may not always know the context by which they're spending money, but you should know how you spend money and your context and your values.

Speaker2: [00:07:02] That's a good point. So what does the state of personal financial literacy education today? What are you finding out there when you go with your program? What are you competing with? Where the holes, where the gaps? Where is it right now?

Well, there's a boy there's a lot of issues that I have with the way that most personal finance is taught in in schools. Right. I'm going to give you two examples that just really great me the wrong way. You know, you're you understand finance. You understand investing. And I remember when one of my sons so I have two four kids, two in college, two in high school, and one of my sons is now in college. He came home and he was really excited how he said, Dad, I'm so excited. Our business class is going to do a stock market simulation. And I get to talk to you about business because my kids on a business run, I run businesses, I start them, sell them, etc. and I'm like, I was really excited because this was my son who wants to be learning about business. So I say, OK, tell me about the assignment and he says, we have one hundred thousand dollars in plain money that we have in a spreadsheet and we get four months to see who makes the most money in our class in the stock market.

Speaker2: [00:08:15] OK, I said time out. That is against everything that is about value based investing that you can imagine. I said you would if you were saving for something with a four month time horizon, you'd never put that money in the stock market. I said similarly, when you're looking at a stock, you're not trying to time the market. You're trying to look for a company that's based on value. So what I found and part of this was where it kindled in me was this desire to to reframe how we teach personal finance, because I had to actually undo the program promoted by a major bank about how to invest money. And then I started to poke at it. One of the other things that I thought was really funny was my daughter, I said, hey, let's let's check out the budgeting spreadsheet and template from one of these banks. And she said, OK. She downloads it. The first three items where what's your rent or mortgage? What's your car payment? What's your car insurance? And my 13 year old daughter looks at me and she goes, Well, OK, Dad, this was clearly written by an adult who doesn't know anything about kids. And it's stupid. I don't have rent because I live at home. I don't have a car because I can't drive and by definition, I don't have car insurance. This doesn't mean anything to me.

Speaker2: [00:09:37] And that's kind of what got me started in this notion of wanting to create something that kids can understand. And I guarantee you, you put money in the hands of kids and they can understand how to spend it. So how do you approach it when you're dealing with somebody that doesn't have the the standard expenses a family would have, but they have their own? How do you go about designing that thousand dollars and where are they planning to save for? How do you approach the whole budgeting process for that level? So let's start with the distinction between the school and the family. Where first rate starts is actually in the school. Right. So when we talk about a thousand dollars or two thousand dollars, that's money that the class or the school is spending. I'll give you to not make it abstract. Let me give you a really concrete example. We did a project with Heagle Elementary School in Madison, Wisconsin. There were three fifth grade classrooms. Each classroom had five hundred dollars and a goal to make the school a little better because they're graduating out of the school. The classrooms created ideas. And I want to take a step back now and actually describe what participatory budgeting is. We don't walk up to the school and say, here's some money, good luck. We actually have a program and it's five stages. Stage one is planning the kids actually plan the theme of the program and decide who is going to be involved.

Speaker2: [00:11:08] The next stage is the kids using that theme create ideas that would be appropriate for the school to get the benefit when the schools move into refinement, where they take those ideas and they actually create specific proposals. So an example at Heagle was one of the students said it's always an idea, always starts with one person. So one of the students said, hey, we're fifth graders. Wouldn't it be nice to plant a tree? We need the tree in this part of the school. And if and it would be something that we could remember that we did so in refinement, they started to research. Well, what kind of tree should we plant and how much would it cost? I'll come back to that. Another kid had the idea that they wanted to get new soccer nets for their soccer field because it was they were worn out. And again, how much does a soccer net cost where you go on Amazon? Figure it out. Then they have a voting process. And the kids, they had these budgets. Five hundred dollars per classroom or fifteen hundred dollars total. But their total set of ideas was something like twenty eight hundred dollars. Now, this is common in life, right? I mean, in business, the marketing team is going to give you a bunch of ideas that you can only afford a subset of them. If you were doing a home improvement, you'd have a bunch of ideas, but you couldn't afford everything.

Speaker2: [00:12:34] So you got to choose. That's the voting stage. Now, each of the children have a vote. They make their preferences known. We look at the voting results and then we fund and put into implementation the choices of the children. And along that way, there's something that's really important. It's important to help the students make the connection that you can think big. You can even think about projects that cost more than you can afford if you're creative about how you get the project done. So let's go back to the tree. When the kids started researching the tree, it was several hundred dollars. And then one of the kids says, hey, I have a family relative who owns a nursery. Maybe he'd donate the tree. So then they got a tree donated, so the cost went to zero because the kids were doing the work that we want to instill values, right? I mean, it's part of personal finance, right? You know, my wife still cuts coupons. And her point is, why pay full price for something if you don't have to? Absolutely, you don't pay full price for everything, you barter, you negotiate, you trade, you do things to get the cost down where matters for you. So it's something you care about. You probably won't barter for it. If it is, something does matter, well, then you're going to find ways to get it down.

Speaker2: [00:13:58] And that helps prioritize things as well. Now, taking that concept into families is the next thing is we know that for personal finance, when it's introduced in schools, how the family is structured and what the family talks about is really critical. And so first route is a benefit corporation, which means we're like Patagonia. We're trying to create a socially beneficial product, if you will. So our platform is actually free for families. And what we do with families is we've identified three activities that parents can talk about with their kids planning a family vacation. Planning charitable donations or planning a home improvement. And then we mapped those activities into financial concepts, so an example would be a loan is a financial concept. And what we talk about is if you're going on a vacation, most financial advisers would recommend against getting a loan. That's not a good idea to get a loan for a vacation. But if you were doing a home improvement and you intended to live in your home for a while, you'd find that financial advisers are more comfortable with taking on debt for something like a home improvement. Now, there are some people who are rather extreme about debt. Write some. Some financial people are like there's no debt ever. And my responses sorry, Dave Ramsey. I live in California and virtually no one can buy a home for cash in where I live. So I get it. It's a nice goal. But the reality is, is debt itself is not an evil concept.

Speaker2: [00:15:49] It's understanding what that is about and how you're using it and how you're managing it, that's much more important because the reality is for most people, a debt will be part of the financial landscape of their life. So saying no to debt is not as to me effective as is saying you need to understand what that is and how to manage it. We talk about the five stages of planning and refinement voting. What was the fifth one? Oh, implementation. We're and what we're trying to do in the implementation stage is and we joke about this, you know how I try to make good financial choices, but I'm not perfect and I have made some mistakes. And some of those mistakes are hilariously dad jokes in a family like, oh, yeah, Dad bought this and it totally felt like there's a couple of tools in my garage gathering dust. So what we do in the implementation phase, I think is almost where the best learning comes in because we actually implement the ideas of the kids and then we sit back and ask how it went. And you had a budget. Did you go over budget? Did you include shipping? You bought a 3D printer for the school. Did you include supplies? So sometimes the lessons that you really learned is not in planning your spending, but in buying something and experiencing what you purchased or what you what you did with your money.

Speaker2: [00:17:18] Right. So when you put these programs together, what's the biggest challenge you have to overcome? Is it with the schools or with the students? With the teams? Where's the hurdles here?

There's a couple of hurdles. One hurdle is the parents, right? I'm going to give you kind of an interesting answer to the question, how much money do you give the kids right in this program? And what I say is, instead of a specific number, I say we want to give enough money so that the kids feel it is meaningful. And not so much money that the adults will take over and make the decisions for the kids. So imagine you were talking before the show started about how you're working with extended members of your families, nieces and nephews and things like that. Imagine you had a group of fifth graders at Heagle Elementary School. You've got three fifth grade classrooms. No one is really going to be too worried about giving the kids five hundred dollars. You might be a little worried at five thousand and you might be really worried at fifty thousand, right? So there's a there's a level of money that's appropriate to the age of the child where you can create an experience of managing money without making parents or administrators nervous. So the holdback is mostly parents. And the other holbeck is you get these adults who have these bad images of kids right now, like we all have these stereotypes, like a kid wearing hoodies using drugs or a kid doing X is some bad thing.

Speaker2: [00:19:03] Or the kids are going to spend money on a party because there's a John Hughes movie, Pretty in Pink that we watch when we were kids where everyone's getting drunk and acting crazy kids. That's just not the normal kid. And so. When you look at what kids really do with the money, they make great investments in their school. We've got kids who are planting trees, who are buying 3D printers, who are buying chemistry equipment, who are painting murals. We also have kids doing really profound things. And one of our schools, the kids, ended up buying a more menstrual products for the girls bathroom in high school because the girls just didn't have what they needed to be safe and go to school.

So how do you find the schools accepting this program? Are they saying this is a great thing, bring it in or do you have to go and really sell it to them or do the parents sell it to them? How did you make to sign up?

Yeah, some schools love it because they've been doing participatory budgeting in person and some schools, some schools don't like it very much. And so it's just a process where a small enough company and the market is vast enough that we only go with the schools who say, yes, we're not trying to sell people and what they don't want to buy, we we actually work with the schools.

Speaker2: [00:20:32] And there's plenty of schools out there that are saying, hey, we really want to do this. So I think over time it'll grow, but I don't. I don't think that we worry about the schools too much. Where do you plan to take first route going forward? Are you going to stay at the same level with the schools or do you plan to take it to more schools or maybe at a higher level? I think there's two questions on that. Right. The first is we're a benefit corporation, but I also have investors, so I need to make a return financial return for my investors. So the likely long term outcome of first rate is that we'll sell to another company or we'll go sell to the public market and go public. So that's that's kind of the normal outcome of the kind of companies that I've worked in in the past. But where we're headed is quite simply is into two vectors. One is the first vector is simply serving schools in America and around the world. So we've got pilots that we've completed, America, the North American on the date of this podcast. And when it gets released, we'll be out of school in North America. But in the southern hemisphere, we're just starting schools. So we're actually piloting right now or planning pilots in India and a few other places in the southern hemisphere.

Speaker2: [00:21:55] So we'll be a global company promoting financial literacy. Now, the other element of our strategic plan is to help schools manage the money that's in the program. And so I want to I want to give you a possibility question. Right. I want to I want to stoke your imagination how if I go to a single classroom with twenty five kids and I give each of those kids ten dollars, we've created a program of two hundred and fifty dollars and the kids will learn participatory budgeting and civics is great. It's not a big impact though, right. If I go to that same school and say it was a high school and I gave it ten thousand dollars, well, that's not so much money that the high school is going to be worrisome, but it's an impact that the kids can make. But let's expand that. What would happen if I gave all two thousand eight hundred or so high schools in Texas? Ten thousand dollars. Now I've got twenty eight million dollars in the hands of kids. And what if they could collaborate, what with the kids in Texas fund if they had twenty eight million dollars? If I, if I keep going, there's a roughly one hundred thousand schools in the

US. I mean there's like ninety eight thousand. Let's just rounded up for simple math. If I gave one hundred thousand schools in the US ten thousand dollars, what would our children in the US do with a billion dollars in capital.

Speaker2: [00:23:25] That's what we want to find out how much money you get. Start doing much bigger things and more collaborative things and more infrastructure resource things that you can do with the smaller amounts. And you probably see a lot more. And we'll say crowd funding, but crowd sourcing of of potential solutions and applications of funding that I think that could guide the government budgets and these guys would pay that much money for it or that we should be solving that problem with the federal funds or what have you. So you kind of get into a crowdsourcing solution there at some level because it's always a validation when somebody puts your own money. OK, well, I'll come in behind it versus they're not putting their money in, but they want you to put money in. Well, that's that's that's dicey, of course. Well, and it's funny. I'm so glad you said what you said because you're one hundred percent correct. There's data from participatory budgeting in New York City that shows when you do participatory budgeting in the schools, it starts to influence the district and city level, budgeting it because it's local to the city. But I think if the schools were cross collaborating across school district lines, you'd see it rise up to the state level. And if the schools across states were collaborating, you'd see it rise up and influence the national level.

Speaker2: [00:24:47] So I think what you hypothesized is actually more accurate than you realize, because we do have some data from how these programs are being conducted in New York City, that that exact thing does happen. There is this influence and it's a very positive influence. Yeah, that's great. Well, it means that we have here. Well, should we cover that? We have it. Well, I think the one thing that we can cover is that first, Ruth has an amazing opportunity and a big dream, but we don't have to solve everything at once, right. We don't have to have one hundred thousand schools tomorrow. I'd be nice, but we don't have to. We're working on one school at a time. So if there are any listeners on who are associated with their school care about bringing in personal finance into the school, we would ask them to go to Dub Dub, Dub Dub first wrote that CEO and grab the resources for parents or teachers and bring it into their school.

That's great. Well, that's a good idea. We'll put that in the show notes for people to access. And is that the best way for listeners to get back in touch with you?

Absolutely. Absolutely. Great. Like I say, we'll put that in the show notes and when. Thank you for joining us today. And we hope to have you back for a follow up soon. I would love to. Thank you so much.

Speaker1: [00:26:11] Investor Cadec helps investors interested in startup funding. In this podcast series Experience, investors share their experience and advice. You can learn more at Investor Connect. Doug Alti Martin is the director of Investor Connect, which is a five C3 nonprofit dedicated to the education of investors for early stage funding. All opinions expressed by Hall and podcast guests are solely their own opinions and do not reflect the opinion of Investor Connect. This podcast is for informational purposes only and should not be relied upon as a basis for investment decisions.