

# MAKE YOUR FIRST MILLION

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JOHANNESBURG: It is simple but not easy to make R1million from investing, all you need is: R5,000 per month, some patience and discipline.

## THE FORMULA

There is no easy way to get rich quick. People who have become wealthy in a short space of time have either gambled or been extremely lucky. Your only guaranteed way to get rich is to follow a few simple (but not easy) steps and be patient for a few years.

### **Step 1: Get out of debt**

You cannot get rich if you have short term debts such as credit cards, clothing accounts and overdrafts. If you really want to become wealthy, you need to pay off these bad types of debt as quickly as possible. Thereafter you can keep your good debts such as home loan and car debt.

### **Step 2: Build an emergency fund.**

You need to build up a cash account that is accessible at short notice. Try to keep 3-6 months worth of your monthly expenses in this account. It is not an investment and should only be used to pay for emergencies such as a car breakdown or insurance claim. The purpose of this account is to avoid the situation where you have to sell investments at the wrong time.

### **Step 3: Start saving**

Younger people can invest all their savings in shares because they have the time to let these investments grow. In your lifetime as an investor, you are going to see many stock market crashes and recoveries, your job is to simply keep saving through all of them. Ignore all the people and pundits who will try to scare you out of saving, just keep your head down and stick to the plan. Ideally you should save as much as possible in the beginning. Try to ensure that you save a minimum of R5,000 per month. I realise that R5,000 might seem like a large amount in the beginning but you have to decide - do you want to be financially independent or do you want to work for a salary for the rest of your life? As I mentioned at the start of this article, it is simple but not easy to get rich.

### **Step 4: Where to invest**

The ideal place to start saving is in an exchange traded fund (ETF) or indexed investment. ETF's are low cost investments that will generate fantastic growth over the long term. If you want to start making a million rand every 2 to 4 years, you will first need some capital. As they say, "Money makes money." By now, I am sure you are wondering how on Earth you are going to make this kind of money so quickly.

### **How it works**

- You need to save R5,000 every month for a period of nine years.
- Try to invest all this money in the stock market e.g. in an ETF.
- After nine years, you will almost certainly have a R1 million worth of investments.
- If you keep investing R5,000 and add it to the first R1 million, you should have another R1 million within 4 years.
- By sticking to the plan, you should have your R3m in total within 16 years.

Whilst 16 years might seem like a long time, you can reduce the period by saving more money as your salary increases over time. Any bonuses or other lump sums that you can add to the investment

will speed up the process significantly. There is a real-life example below of someone who has saved R750,000 in less than four years.

## WHY THIS WORKS

It is possible to save this kind of money because of the growth potential of the share market and the power of compound growth. Since the year 1900, the stock market has generated an average return of 7% above inflation per year, which equates to a nominal return 12.5% per year. That means you don't need to be a rocket scientist or have any special stock market knowledge to be a successful investor - you just have to be disciplined and patient.

## THE REAL-LIFE EXAMPLE

In February 2007 I met a young person who asked me to advise her on how she should start investing. She was 25 years old and had R9,000 to invest every month. We worked out a plan very similar to the one outlined above and she implemented it on her own for the next 3.5 years. In June this year, she emailed me to say that she had more than R700,000 in her share portfolio (primarily ETF's) and was hoping to have R1m by the time she was 30, she is nearly 29 now. As her career progressed, she started earning very good money at an early stage in her career but she maintained a low-cost lifestyle. She did not buy fancy cars and she continued to rent a small apartment – this was the difficult part of the plan but she did it relatively easily. Most of us would be tempted to start spending more money as our earnings increased, she avoided this trap and is now on her way to financial independence. She is now considering the option of starting her own business in a few years because she will have enough savings to live off. That means she won't need a job or a boss, she will be financially independent before she is 35 years old. To me, this is the best reason to save when you are young – it gives you the freedom to make great life-changing decisions.

## CONCLUSION

I realise that most people can't earn the same salary as the person in my example but everyone can follow her formula. As you can see, there is no secret recipe, you just need to save constantly and keep your lifestyle costs in check.