

PLANNING: THE KEY TO WEALTH

Most of us already know that the earlier we start saving the better for our long term wealth. However there are enormous advantages to planning **how** you save and spend your money. A report by UBS Wealth Management in Switzerland highlighted the difference in wealth of people who are good planners vs. bad planners. It showed that if you do not have budgets, investment plans and retirement plans, you are guaranteeing that you will limit your wealth over your lifetime. The report also showed that even a small amount of planning will make a massive difference to the wealth that you can accumulate over your lifetime.

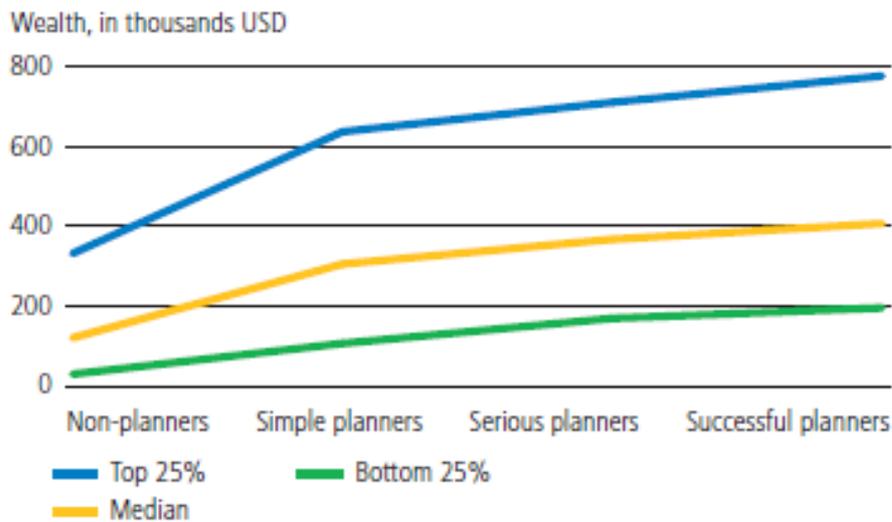
A SIMPLE BUDGET MAKES AN ENORMOUS DIFFERENCE

There are many people who get to the end of the month (usually the week before payday) wondering where their money went. If they have this experience on a regular basis over their working life, they usually get to retirement age wondering why they have no real savings. If you find yourself in this position on a monthly basis, it is almost certain that you don't have a budget. A good budget should be very simple and more importantly, very realistic. Many people start budgeting by deciding what they **SHOULD** spend, rather than what they currently spend. For example, if you currently spend R5,000 per month on food, restaurants and entertainment, there is little point in budgeting an amount of R2,000 from next month. Rather start by reducing these budgeted costs by R500.00 per month and see if you can stick to it. You can progressively decrease your costs over time to a level that is realistic and does not reduce you to the life of a home-bound hermit.

This principle should apply to all your variable expenses as some expenses like your rent or mortgage are not variable. In addition, you should start budgeting to save some money every month. As you probably know, your company pension will not be enough to live on when you retire, you will need additional savings. You should try to save 10% of your gross salary every month. So, if you earn R10,000 per month before deductions then you need to save R1,000 per month. If this is too much, then try to start slowly and progressively increase your savings as you get salary increases.

YOU NEED TO PLAN YOUR SAVINGS TOO

The graph, by UBS, below shows the difference in wealth between people who make no plans for the way they spend and save (on the left) and those who are very good planners (on the right). What is clear is that those who don't plan, place a limit on the wealth they can generate over their lifetime. This is shown by the blue line which shows the top amount of wealth of each type of person. The wealthiest "non-planners" have a maximum wealth of \$350,000 whilst wealthiest "simple planners" have a maximum wealth of \$625,000. Even the average "simple planners" are almost as wealthy as the wealthiest "non-planners". This might seem complicated but the graph is showing us that if you do a little bit of planning around your finances, you have a tiny chance of being destitute. If you do no planning, you have a good chance of being poor and you have almost no chance of being wealthy.



Source: UBS WMR

PLANS DON'T NEED TO BE COMPLICATED

If you start with a simple budget and stick to it, you will eventually get to the point where you are building up savings. At this stage you can start your investment planning. Your investment plan can be very simple, for example you could decide that you are going to build up an emergency cash fund for the first 6 months. Thereafter you can start building up an investment portfolio. An investment portfolio could be as simple as a monthly investment into an exchange traded fund (ETF), shares or RSA Retail Bonds. If you have the inclination, you can start researching investments in more detail and create your own portfolio of investments. If you don't want to manage investments on your own, make use of unit trusts or contact a professional advisor.

In summary, the research tells you that you need to take control of your money, don't let it control you. With a small amount of forethought, you could be enabling yourself to increase your prospects for wealth substantially over your lifetime.