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Avoid the 'new diet' approach to investing

If you want to be financially independent, you need to save at least 20% and preferably more.

HEALTH AND WEALTH

Every July I revisit a lady (let's call her Julia) who started her investments as a 26 year old in 2007. She used a simple investment plan that I developed for her and began with a lump sum of R60,000 and agreed that she would save 33% of her salary every month because she wanted to be financially independent by the time she was 40. It was clear from the first moment of our conversation, that she was serious about her goal and she was prepared to prioritise this goal above some others.

I wrote about her in my book, Become Your Own Financial Advisor and she has featured as Julia on 702/Cape Talk because she has been such a fantastic example of what you can do with your savings. We chatted again on the radio recently and she has now accumulated R3.03m in seven years! She has physically saved R1.8m and her capital growth has accounted for the balance i.e. R1.23m. Whenever we do the update with her on radio, my inbox is inundated by people asking for her formula or plan. They are all hoping that there is a magic recipe that they can follow to make them wealthy. Sadly, they are usually disappointed with my reply because the real secret to success as a saver and investor starts with you, no one else.

THE LATEST DIETS DON'T WORK FOR EVERYONE

One of the current themes of conversation among my family and friends is about Prof Time Noakes' new book, The Real Meal Revolution. Some people are raving about how much weight they have lost and others are complaining that they have seen no change. Still others (like myself) are really sceptical about any new dietary fashion. To me there are many similarities between money and health. In essence our own behaviours are massive determinants of how healthy and wealthy we will be over our lifetimes. If you want to control your weight, the best solution is to eat a balanced diet of moderate proportions and to exercise – every single day. The same principle applies to saving and investing, you need to spend less than you earn every month and you need to save the money in a reasonable investment for as long as possible. If you do this, you are certain to become financially independent. If you are lucky, you might even become wealthy.

The reason some people derive a real benefit from a new diet is that they start to instil some discipline in the way that they eat and more importantly they monitor what they eat. The same principle applies to saving, you need to monitor your actual expenses so that you see how you spend. This is the only way that you can then start to reduce your expenses in order to increase your savings. Some people, like Julia, have the discipline to maintain their savings over a lifetime which is why they accumulate capital – their own behaviour with money is the reason they are successful, the actual investment that was selected is not the secret to her success.

WHAT DID I SUGGEST TO JULIA?

I told Julia to avoid debt at all costs and to continue renting her small apartment for as long as possible. We also discussed vehicles and she agreed to keep her small car that was paid off for as long as it was safe to drive. She then saved 33% of her salary every month in a stock broking account and started buying indexed Exchange Traded Funds. At the time, our choices where limited, so she started with two ETF's and we agreed to chat again in 12 months. We stuck to this general formula for the next seven years and as her income rose (dramatically) so he maintained her savings of 33% of her salary. In time, she got engaged and moved into a two bedroom rented apartment with her fiancé. They have also travelled extensively to Europe, Asia and around South Africa. She has bought a new, small car for R130,000 cash at a time when she could easily have financed a R1m vehicle.

She also changed jobs and because she was in such a good position financially, she was able to negotiate a great exit package because she was bargaining from a strong financial position.

DO YOU WANT TO FOLLOW HER EXAMPLE?

It is simple to follow in Julia's footsteps, your choice of investments is far better than she had when she started out. I would suggest you look at an indexed unit trust that invests in shares. You will be able to start small, from R300 per month and you will not pay any initial fees, debit order costs etc. Make sure that your annual fee from the unit trust is less than 0.60% per year. Julia has always saved 33% of her salary, no matter what was happening in her life. If you want to be financially independent, you need to save at least 20% and preferably more. It is important to remember that there are ALWAYS reasons to stop saving. I'm sure I could think of 10 great reasons but you cannot become financially independent on excuses. You have to find the motivation to save and build your wealth, there is no magic formula that will make it easy for you. It takes years of dedication.

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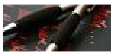

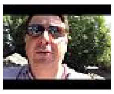

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