

Are you a saver or a borrower?

It is difficult to be a fence sitter when it comes to investing and wealth creation. Either you are a saver, and are providing for your needs, both present and future, from the sweat of your current labour, or you are a borrower, borrowing from your future to fund your current lifestyle.

Sadly, most of us are borrowers, allowing our current lives to overshadow our future needs. This has an impact not only on our individual long-term financial security, but also on the economic wellbeing of our country.

South Africa has one of the worst gross savings rates in the world at 15% of GDP, according to the Reserve Bank. We do not save enough as a nation and, as a result, we have to look towards foreign investors to provide us with the much-needed capital to build our productive capacity and fund national infrastructure requirements. We all worry about the future of our country and what this means for ourselves and our children, but saving more as a nation, and increasing our national productive capacity, starts with us saving more as individuals. This is necessary for higher economic growth rates, job creation and higher tax collection needed to fund various important poverty reduction initiatives.

When we save for our own future, we make a difference to the future of the country. But to save more, we need to spend less.

How to get started

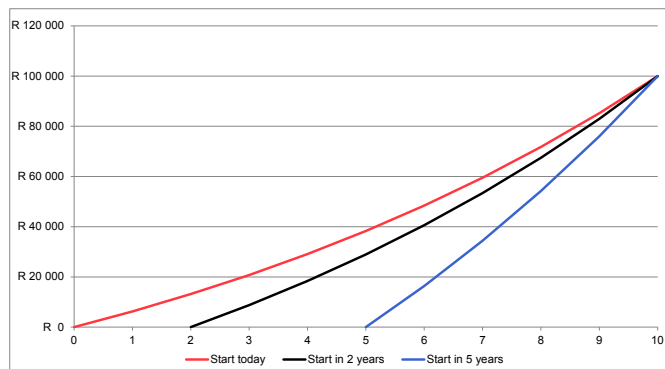
Saving has nothing to do with how much you earn, but everything to do with the percentage of your monthly income you spend. Whether you earn R4 000 or R40 000 a month, the only way to save is to spend less than that amount.

A trap many of us fall into is believing that investing is only for very wealthy people. We tend to put off investing for a time when we will 'have enough money'. Taking steps to develop a savings habit or a lifestyle of saving and living within your means, is more important than the amount you can start with. It is about getting started rather than how much one starts with. Procrastination only makes us poorer.

Once you get into the habit of spending less than you earn, you can look to save an increasing portion of your earnings over time. If you get a salary increase or bonus, rather than using the whole additional income to upgrade your standard of living, break the cycle of spending more and invest the difference. If you commit to investing via a monthly debit order, consider agreeing to an annual percentage increase up front – this will help you to slowly increase your contribution without having to think about it.

While it is never too late to save, it's invaluable to start early, as illustrated in **Graph 1**. The graph shows that if your goal is to save R100 000 by a specified date 10 years away, you could achieve this objective by investing R500 a month (assuming a 10% return)

Graph 1 | The price of procrastination



Source: Allan Gray Research

if you start today. Delaying saving for 24 months will increase the amount you need to save per month by almost 40% (or R200 per month). As you can see the blue line on the graph is significantly steeper than the red line: with less time on your hands, the cost of a delayed start naturally becomes even more pronounced. Waiting five years means you will need to save around R1300 per month, more than double the amount than if you started immediately, to achieve your goal in time.

Tips to change from a lifestyle of debt accumulation to a lifestyle of saving

- Start as soon as you can: the sooner you start the sooner you can benefit from the wonders of compound interest – earning interest today on the interest you earned yesterday.
- Avoid taking on debt and the tyranny of compound interest in reverse.
- Pay yourself first: save before you spend. Instead of thinking of your savings as what you can afford after expenses, think about your expenses as what you can afford after saving.
- Do 'the debit card test': If you can't pay for it using your debit card and have to use credit then you probably can't afford that item and should consider not purchasing it.
- Commit to an annual percentage increase in your contributions to avoid having to negotiate annually with yourself.

The most successful investors are usually either well informed or well advised. Before you start investing it's important to take a good look at your personal circumstances. Get a clear picture of your finances, tax situation, and your goals and timeframes for achieving them. If you are not sure where and how to start consider using the services of a well-qualified and reputable independent financial adviser to help you put a plan in place and to choose the right investments to suit your specific goals and circumstances.

Adopting a lifestyle of saving and investing will not only improve your own personal finances but also, as a collective, those of the country as well.