FINANCIAL SNACKS

The power saver

IT is important to be committed in order to reap the power of financial savings. Set a realistic inflation benchmark and spend on what you need rather than what you want, writes MAY ML YAP.

WHEN I started working, my mother taught me to save a portion of my income monthly into an FD account. Every year, I looked forward to the interests and enjoyed them being compound the following year.

After some time to my amazement, I had saved enough to buy a brand new car – thanks to the beauty of compounding interest and also to my mother for teaching me well.

Now I have shifted my regular savings from FD to unit trust, a better investment vehicle that provides an inflation-proof return. Yes, we now live in a world of 8% to 10% personal inflation rate, unlike my mother's era.

A word of advice when you are planning for a specific life goal: avoid using a low inflation rate as your benchmark. Just check the prices of the usual things you pay for; none of them is close to the national inflation rate. Use a personal inflation rate instead in the region of 8% to 10% to fund the cost of an average lifestyle.

To be successful in reaping the power of a saving, one needs to be committed no matter what. The rule of thumb is to save at least 10% of your income every month. A good friend of mine saves 60% of her income and is now a multi-millionaire because from her savings, she is able to invest regularly in various asset classes.

Illustration by HAFIDZ MAHPAR

"Save a little every day and in time, you'll be able to live in the lap of luxury like me!"

When you spend on what you need instead of what you want, you will find that you have excess to save. Initially you can start with an amount you are comfortable with and then gradually increase it as your income escalates. Keep your bonuses for special "high probability events" during a market downturn because this is when you can capitalise on the discounted prices of unit trust funds and other equity investments when markets correct or react to external economic events.

The other key factor is to start as soon as possible because the earlier you start, the bigger the compounding effect becomes. Keep at it for at least 10 years and you will really be amazed at the growth. Be a power saver!

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