INVESTOR'S GUIDE

A guide to the financial markets, investments and the economy
9 November 2018

NICO Asset Managers

"INVEST today for tomorrow "

Topic 289: Developing a saving culture

Developing a saving culture is essential to ensure a fairly comfortable future. According to Warren Buffet, one of the world's renowned investors, "*if you buy things you do not need, soon you will have to sell things you need*". And true to the fact, if one does not have a disciplined spending pattern, they may find themselves in a crisis. Thus he suggests, "*it is best, not to save what is left after spending, but spend what is left after saving*." The following tips are some of the few ways in which a person can get on track to build up their savings.

1.Determine how much you spend:

In order to begin planning on how much one can potentially save vis-a vis their income or earnings level, the first step is to track how much one spends over a period for example a month. In order to do this effectively, one can keep a record of all their expenses, in terms of both the items bought and the amount spent.

2. Make a budget:

Further it is important to organize the expenses into a budget. This should state how the expenses measure up to your level of income in order to plan the expenditures and limit overspending. Other expenses that come in regularly but not every month must also be included.

3. Set a savings target:

Once one makes budget, they can then set a savings target for example say 10 to 15 percent of the monthly income. If expenses are high such that it is impossible to meet the targeted monthly expenditure, then it would be good time to trim non-essentials such as leisure items and entertainment.

4. Choose something to save for:

It is also important goals that one wants to save up for. They could for example be education, or retirement, or saving up for a vacation. After that then one can determine how much they will need for the various goals and how long it will take to save up for them. The targets or goals can be subdivided into for example; short-term, these could be expenses such as daily living expenses, vacation, and down payment on a household item such as quality furniture or a car. Longer term projects could include down payment on a house, children's education or saving up for retirement.

5. Decide on the priorities:

After considering the income level, expenses and the goals it is important to determine what are the priorities. Longer term projects do not necessarily have to take the back seat when it comes to allocation of funds. Saving up for retirement and children's secondary or even university education should also start early.

6. Decide on where to invest the funds:

Different investment instruments can aid in saving up for different goals simultaneously. For example, everyday living expenses can be saved for in a savings or current account, where ideally funds not yet withdrawn can earn some level of interest. Medium term projects such as purchase of a car can be saved for through investing in money market instruments whilst longer term projects such as purchase of a house can be saved for through investing in equities.

7.Automate your savings:

Through the bank, it is possible to instruct how one's income should be allocated to different savings accounts. Automating savings in this manner will obviously help not to skip or forget allocating money to any project or even the temptation to overspend.

8 Review:

At the end of every month, it is essential to review your budget and also to follow up on the savings accounts to check on the return progress. This is essential for noting if there are any problems so they can be fixed quickly.

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