Saving grace

When it comes to making money work for you, planning for the future is crucial, explains Helen Ueckermann

You don't have to be rich to enjoy life. But you do need enough money to support the lifestyle you have cultivated. Although this depends greatly on how much you earn, your ability to control your money is also a major factor.

People are often amazed at what they can do with their salary if they manage it correctly, says Nico van Gijsen, financial advisor and managing director of Finlac. 'You need to start working towards creating wealth for yourself. The trick is to spend less than you earn and to invest wisely.' To help you along, Nico has a few easy-to-understand guidelines to making your own personal fortune.

Start small

Creating wealth is a medium to long-term project. And you need to plan for it, preferably with the help of a qualified financial planner. After that, the secret is quite simple: stick to it and never lose sight of your objectives. In order to do this, be practical and break down your nest egg to what will be added to it on a monthly basis:

- Talk less on your cellphone (saving = R200 per month). Assuming 10% growth on your savings, it will pay for a holiday of R15 617 in five years.
- Cut out one expensive dinner (saving = R500). In five years you'll be able to travel overseas with R39 041 in your pocket. In 10 years, it'll be worth R103 276.
- Buy a cheaper car (saving = R1 000). In only 10 years, you'll have R206 552 in the kitty.

Do it yourself

What it means Start saving today by taking 10 to 15% of your gross income and investing it.
Pros If you have the amount moved to a savings account by debit order, you'll be used to it in no time and hardly feel the difference.
Cons Less immediate spending money.

Fixed deposits

What it means A fixed deposit involves locking a particular amount of money for a certain time period. For example, R10 000 for one year at a much higher interest rate given on an amount in a savings account.
Pros The interest varies with the state of the economy. It's much higher when inflation soars (so people save more and spend less). It can be as high as 10% or as low as six percent per annum (when the economy is healthy and inflation is low).
Cons Balance your needs to avoid breaking a fixed deposit before reaching maturity – you will be penalised if you end your agreement with the bank.

Compound it

What it means When you invest money, you earn growth in the form of interest or dividends. This is added to the amount you already have invested, in other words, interest on interest.
Pros The results can be enormous growth on an ordinary investment. This is what 'letting your money work for you' really means.
Cons It's a long-term process. Accessing your money too early would be unwise as it could diminish your earning potential.

Unit trusts

What it means Unit trusts offer an easy way to invest in shares and bonds. They're an ideal way to build up a well-diversified investment portfolio tailored to your specific needs, risk profile and investment requirements.
Pros You get full-time professional management of your money, you can access your money at any time and it's a tax-efficient way of investing.
Cons Shares are prone to short-term dips and rises,so you're advised to adopt a long-term view of your different portfolios.

Endowment policy

What it means You enter into a contract with an assurance company and undertake to save a certain amount each month for a fixed period, for example, over five or 10 years.
Pros It's a disciplined and secure way of saving and the proceeds are paid out tax-free.
Cons Management fees are usually higher than those of unit trusts. ■

Lingo low-down

Interest is the growth on your investment. It is either added by simple interest (you earn interest on the original amount in your investment) or compound interest (you earn interest on the interest that has been accumulating).
Inflation refers to the decreasing buying power of your money – you can buy less for the same amount of money.
Debit order is an instruction to your bank to pay a certain amount of money to another party.
Maturity is when the investment term on your policy has expired, paying out the proceeds to you or a beneficiary.
Risk profile is a person's willingness to take financial risks. High growth is usually associated with high risk, meaning that you may lose your money in an attempt to share in the potential bigger growth. A person with a low-risk profile would look for safe investments.

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