

## BUILDING WEALTH- MAKING THE RIGHT MOVE

**“Save a part of your income and begin now for the man with a surplus control circumstances and the man without a surplus is controlled by circumstances” Henry H. Buckley**

The question of becoming rich has always fascinated people all over the world. Here in Mauritius, we are no exception to that also. To acquire wealth people are ready to do nearly everything in a society which is driven by the force of money. Gambling, stealing or killing people are all extent where some people could reach to get money and become rich but below I would explain the process of savings money and working towards becoming a millionaire in an ethical way.

Saving and investment are important steps on the way to financial well-being. Savings is for short term needs whereas investments are for the medium and long term goals. Everybody should save in their bank account an amount equivalent to at least 9 months of their monthly expenses which is known as emergency cash. It gives you emergency cushion in the event that an unforeseen urgent expense arises. In the long term, a consistent amount of money invested enable you to accomplish your financial goals, such as retirement, financing tertiary education of child, home purchase or travelling abroad.

The necessity of budgeting and savings goes back to the fable of the grasshopper and the ant. The foolish, unwise grasshopper lavishing in the comfort afforded by the summer and its abundance of resources, fails to plan for the future while his counterpart, the intelligent ant realizes that the winter days will be lean and so saves up resources for darker days. The story is simple but yet incredibly true for the failure to plan and save might be critical for us.

Most people have a vague idea where their money goes. The solution to track your expenses is to create and maintain a budget. This will enable you to determine how to spend your money, get more out of it and make it easier to meet financial goals you've set for yourself. While you might not consider this an enjoyable activity, it is a necessity for your pursuit of building wealth. The whole purpose of detailing your budget is to find ways to improve it. The income side of the equation is the hardest to alter. So you should focus on the expenses side, where you have more control. Most people find it easier to alter the discretionary expenses which consist of recreation/entertainment, dining out, cinemas, cd's, gifts, vacation, pocket money, etc....

There are many different ways of building wealth recommended by financial advisors but they all start with the same thing – saving a portion of your income. However, the next question is how much to set aside. The first thing to do is to open a secondary bank account and to start putting monthly through bankers order an amount equivalent to at least 5% of your monthly income in it. The important thing is that you should not take any facilities like debit or credit cards for this account. This sum of money will be the starting point to build your emergency cash. However, any amount accumulated beyond the 9 months' worth of living expenses must go toward higher risk, higher reward investments. The logic behind my thinking is that too much cash sitting in a bank account is pretty much useless. It sits there earning low interest, typically eroding each year because of inflation. According to me, saving too much money instead of investing it equaled to ignorance. Nobody have I ever met in my life that was saving money in bank accounts only had any real wealth. Yes they may have been able to save a few thousand rupees here and there, but after 5 years all they had saved up was insignificant.

We often hear people saying I was born poor, I have not enough money, I have lot of other financial commitments. The problem is that we have a victim's mindset. We fantasize about starting to save money as soon as we make more money than our bills. That will **never** happen. I always remember my dad saying that it is not how much you earn that makes you rich but how much you save. Unless you save your money first, there will never be anything left over at the end of the month. That means if you set aside Rs. 500. per month into a savings account as a starting point to build your reserves, you will either increase your income by Rs. 500/m to compensate for that or your expenses will drop by Rs. 500/m. That's just how things seem to always work out. Everyone fights this logic. I used to fight it too. There is absolutely no valid excuse for not paying yourself first and saving a portion of your income. If you set aside Rs.1000 in the beginning of the month, and then you live that month and at the end you haven't made any extra money, and your expenses haven't gone down at all, and you absolutely really need to pay let say your electricity bill for Rs. 1000, then just take it out of your savings and pay it! Next month try again.

What if you put aside Rs.1000, and then at the end of the month you do notice that your income went up a bit and your expenses dropped, but you're still short Rs. 500 for that electricity bill? Well then pull out Rs.500 and pay it, but keep the other Rs. 500 in the savings account and try again the next month. You have nothing to lose and you will see how your savings account start growing. From there, you've earned the right to start investing into something a little bit less conservative. Investing around 10% of your income into an investment plan might be the right solution to outpace inflation and working towards achieving your medium/ long term goals. By putting your money in those schemes, you give it the

potential of earning attractive returns. You have the option to choose where you want your money to be invested. Either in a cash fund, mixed fund or in an Equity fund. The proportion of money that will be allocated in each fund will depend on your willingness to bear risk and your ability to bear risk. For example, a sum of Rs. 1000 invested monthly in those schemes will reach an amount of Rs 1 million after two decades based on a net return of 12% per annum. The higher the rate of return achieved and the greater the amount of money invested, the shorter will be the period to be a millionaire.

Unfortunately, in today's world, most people are looking for a quick way to get rich. We are not all born with a golden spoon in our mouth. Not everyone has enough capital to start investing in real estates or to start a business, or is lucky enough to win at the lottery. However, for people who are willing to work towards growing their capital, good luck to them and nothing would please me more than if they were to turn it around and really create and build their own wealth, and become a real, true, self made millionaire.

**Rajesh B.CHIKHURI**  
**LIFE and PENSION ADVISOR**  
**hebron@orange.mu**