

It All Starts With Saving!

The amount of your income or assets you start with is not nearly as important as what you have left. The fastest way to financial security is to reduce your expenses below your income, save and time will do the rest. Saving is good from us for many reason; first it prevents having regrets later. Another reason for saving is most of us enjoy the extra comfort and feeling of accomplishment that comes with the process of saving and having more flexibility of choice now and in the future; it puts us in control of our lives.

One of my favorite quotes is from David Copperfield, Charles Dickens' character Wilkins Micawber states: “Annual income twenty pounds, annual expenditure nineteen pounds nineteen and six, result happiness. Annual income twenty pounds, annual expenditure twenty pounds ought and six, result misery.”

The real purpose of savings is to empower you to keep your priorities. Your goal is to enable you to feel better about your life and the way you are living it by making your own choices. Saving can give you the opportunity to take advantage of future opportunities that are important to you. Savings puts you on the road to a secure financial future and ultimately an enjoyable retirement. As my son has heard me say many times, saving is a way to more of what you really need, want and enjoy.

The first step of saving is to stop spending. Research has noted that Americans spend 12% of their income without a clue of where it went. Most of us who have ever kept track of every dollar we spend for a period of time are surprised as to how much and where we spend our money. Try it sometime, track every dollar for 3 months and I am sure you will be surprised how much you spent on certain items. Research has shown that when we use plastic to pay, we automatically spend more. In behavior finance they call it “layering”; the layers or distance between you and your money. Credit cards, casino chips, hotel room number are great examples of putting the joy of spending distant from the pain of paying.

Start early! When I talk to students in high school, I always ask them; “How many want to be a millionaire?” Most raise their hand; then I show them that if they are working and would invest \$85 dollars monthly in a Roth IRA, until they can reach retirement, they would have \$1,000,000. Then I point out that if they wait 10 years, the amount jumps to \$213 and another 10 years of procrastination means it takes \$546 per month. The secret of getting rich slowly but surely is the miracle of compound interest; put time on your side not on the opposition.

Set a goal. Center your thinking on enjoying the benefits of achieving your goals; most savers take pleasure in the process of saving. They do not think in terms of deprivation; they think in terms of making good progress toward their goals, they have the satisfaction of achievement. The easiest way to save is to skip impulse purchases. You have always heard of make a list before you go shopping. Personally I do not like to shop. I go to a store with one purpose in mind; that is to buy.

It all starts with saving, so let saving be your friend.

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Charles Buck CFP®

Ask the CFP®

Q. Are Coverdell Savings Accounts really expiring?

A. As the law stands now, there are some major changes coming. Their use for elementary and secondary education will be eliminated. The earning portion of these accounts will only be tax free if used for college expenses. But, if your child is headed for college, you can roll the funds into a 529 savings plan, as long as the beneficiary stays the same. If college is not in the future, then start spending. Beyond tuition and fees; money can be used for tutoring, books, supplies, uniforms, transportation, even computers, and internet access.

Also note contribution limits will be reduced from \$2,000 to \$500 annually.