

# The importance of saving

Saving is fundamental to achieve a foundation for financial stability and freedom.



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Whether you're saving for a particular goal, setting aside money to cover unexpected expenses or simply building wealth for the future, saving is an important component of a sound financial plan.

Compound interest is one of the most compelling reasons why people save. By starting to save early and consistently, your clients can harness the power of compound interest and watch their savings multiply over time. For example, R10 000 in a savings account earning an interest rate of 5% per year would earn R500 in interest after one year, bringing your total balance to R10 500. If you continue to save and earn 5% interest each year, after 10 years, your initial R10 000 investment would have grown to R16 288.95. This compound interest works regardless of the initial amount (no matter how small) as well as on both lump sum and recurring investments.

Saving is also important when it comes to achieving specific goals. Whether your clients are saving towards a deposit on a house, a new car or a dream holiday, saving allows you to work towards your goals without accumulating debt. When your client has a specific goal in mind, it is important to calculate the amount of money they need to save and set a realistic timeline for achieving that goal. By doing this, you can break down the savings plan into manageable steps and track progress towards the goal at regular intervals. Setting a goal is a great way to stay motivated and it can also help clients resist the temptation to spend money on other things.

Another important reason to save is to prepare for unexpected expenses. An emergency fund can help weather unexpected expenses ranging from medical emergencies to repair costs on your home or car, while avoiding going into debt or the temptation to use your credit card. Instead, having sufficient money saved in an emergency account means that your client can avoid paying high interest rates on loans or credit card balances.

Apart from these practical benefits of saving, there are also psychological benefits from having a savings pot. It provides people with a sense of security and control over their financial future, which can reduce stress and contribute to clients' overall wellbeing. Knowing that you have been disciplined about saving not only benefits you in these ways but can even empower you to make better decisions that are more aligned with your values and goals.

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For example, someone may be more likely to pursue a career change or choose to spend more time on hobbies or loved ones, if they aren't constantly focused on earning as much money as possible to realise their goals.

If your clients need a step-by-step process, then I'd recommend the following:

- Start by creating a budget. This is a useful tool that can help you to track your income and expenses and identify areas where you can cut back and save money.
- Set a savings goal. Whether it is a short-term or long-term goal, setting a specific target will help motivate you to save.
- Automate your savings to automatically move money to a savings account so that you are consistently saving money.
- Look for ways to reduce your expenses by cutting down or cancelling unnecessary subscriptions or luxuries.
- Consider higher yielding options such as fixed deposits or unit trusts that offer higher returns allowing your money to grow faster.
- Lastly, stay motivated. Saving money can be challenging and it requires the discipline to forgo certain shorter-term items in return for meeting your longer-term goals.

Whether you have a client that is just starting out, or a seasoned savings expert, saving is an essential step in securing their financial future. ■

Florbela Yates is the head of Equilibrium in the Momentum Metropolitan group. Equilibrium is an independent discretionary fund manager that partners with financial advisors to help them enable their advice outcomes. Equilibrium brings balance to an advice practice by delivering services and investment solutions to help clients achieve their defined investment goals.