



The Colony Group

YOUR WEALTH

Savings – A Catalyst to Creating Wealth

Saving is the catalyst to creating wealth and is imperative to one's financial success. It doesn't matter if you are just beginning your savings journey or well on your way to accumulating a substantial nest egg for retirement, the fundamental principles of saving are the same: pay yourself first and spend less than you earn so you can save and invest.

This process is simple and once mastered, provides a "rinse and repeat" approach and opportunity to yield incredible savings. This article is intended to help you identify ways to bolster your savings in a meaningful way and instill the practices that will help you build your wealth.

THE FIRST PRINCIPLE OF BUILDING WEALTH: PAY YOURSELF FIRST

You are faced with many priorities that are competing for your dollars, so you must be mindful and position yourself in the front of the payment line. Paying yourself first can be accomplished in a number of ways and, with the help of automation, a strategy that directs your money "where to go" can be created and consistently executed. One way to pay yourself first is to contribute to your employer sponsored retirement plan. If you are employed by a company that offers a retirement plan such as a 401(k) or 403(b), you can contribute a portion of your paycheck to be directly contributed to your

retirement savings account. Once initial elections have been made, this method is particularly effective in making saving and investing fully automated. Additionally, many employers will match a portion of these contributions, adding to your savings. In planning for retirement savings, one should determine how much they want to save from their salary and divide it by the number of pay periods in the year.

Another method of paying yourself first is directing funds to a dedicated savings account that is separate from the account primarily used for monthly expenses and discretionary spending. This can be done automatically via direct deposit if your employer allows your paycheck to be deposited into multiple accounts. If not, it is easy to set up regular transfers between your accounts on your own. The key is to automate so you don't have to think about it every time you get paid, helping you save consistently. Keeping these separate accounts increases the likelihood that funds intended for saving aren't inadvertently or unconsciously spent. An additional benefit of this separate account is that funds can be earmarked to



ANSWAN JOHNSON, MBA, CFP®
Wealth Advisor

Answan's positive and encouraging attitude is evident in all aspects of his life whether serving clients, supporting other advisors, or giving back to his community. He works directly with clients attending to their day-to-day financial needs, and works tirelessly behind the scenes to help them reach their goals. A consummate team player, Answan applies his broad planning, operations, and data management experience to support advisors delivering comprehensive solutions to help our clients meet their complex financial needs.

cover unexpected emergencies and expenditures. A good rule of thumb is to have three to six months' worth of expenses saved in an emergency fund. This amount can be higher for those at or near retirement, so speak with a financial professional to help determine the appropriate size of an emergency fund for you.

IN ORDER TO EFFECTIVELY SAVE YOU MUST: SPEND LESS THAN YOU EARN

Attempting to create savings while at the same time racking up debt on high interest credit cards to support lifestyle habits is not going to work. An individual will quickly discover that it is pointless to skillfully automate a savings strategy if the funds are withdrawn at the end of the month to fund their lifestyle. A saver must live within their means and that's why a spending plan is so important. Many are afraid of the "B" word ("budget") because they view them as bad and too restrictive; however, when carefully crafted to meet your lifestyle and long-terms goals, you will find budgeting to be a predicative indicator of financial success. I like to use a simple strategy when it comes to budgeting so one is more compelled to stick to the plan: the **50-30-20 Rule** is a framework in which **50% of one's income is allocated to mandatory living expenses** such as housing, groceries, healthcare, loans, etc.; these are expenses that must be paid. Next, **30% should be allocated to discretionary spending and lifestyle** and the remaining **20% designated to savings** - paid to yourself first. It's important to have flexibility when budgeting, so this ratio is a general guideline that allows you to create a spending plan that works for you.

YOUR SAVINGS HAS A "FRIEND": COMPOUND INTEREST

The earlier you begin saving the better. Compound interest enables money to grow exponentially over time when coupled with a sound investment strategy and is "interest earned on interest", an extraordinary tool for building wealth. There is the **Rule of 72** that helps estimates how much your savings will grow over time when invested. **If you divide 72 by the expected rate of return on your savings then you can forecast the number of years it will take for your savings to double.** For instance, if you earn a 7% return on your investments then your savings is estimated to double in just over 10 years (72 divided by 7 equals 10.28). The longer your savings are allowed to compound, the larger it will grow, so start early. If starting to save early isn't an option, then the best time to start is now.

When considering your savings strategy remember the earlier the better, you must pay yourself first and spend less than you earn so you can save and invest. The task may seem daunting at first but with a little automation and a lot of consistency, it will become a seamless practice. Whether seeking advice on optimizing your retirement plan, preparing your emergency fund, or creating a savings or spending plan, a qualified financial professional can help support you on your journey to creating wealth. We at The Colony Group are always here to help.

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