



# Wealth Is What You Save,

## Not What You Spend by Jennifer Waters

We may not all be millionaires, but there are plenty of financial and life-planning secrets that we can learn from the well-heeled.

Most people know that wealth in the U.S. is in the hands of a small percentage of the total population. Today, most of those folks with a net worth of \$1 million or more have earned it themselves.

They are mostly entrepreneurs who create everything from high-speed networks to garbage haulers. They dig ditches and build houses. They grow corn and make jewellery. They deal stamps or coins or artwork and control pests and cut lawns. They also cure people and give them new teeth. Others will defend their

neighbours or even feed them.

They are not big spenders. In fact, most of those with big bucks live well under their means - think about Warren Buffett still living in that modest Omaha home. They put their money instead toward investments that help them stockpile more wealth.

“Wealth is what you accumulate, not what you spend,” according to Thomas Stanley and William Danko, authors of the seminal tome on America’s wealthy “The Millionaire Next Door,” first published in 1996.

“It is seldom luck or inheritance or advanced degrees or even intelligence that enables people to amass fortunes,” the authors wrote. “Wealth is more often the result of a lifestyle of hard work, perseverance, planning, and most of all, self-discipline.”

Wealth is defined in many ways, though it’s generally determined as the value of everything you own minus debts. But there is a difference between marketable assets - things you own that could be liquidated rather quickly, like stocks, bonds, real estate - and possessions like cars, clothing and household items that you use

regularly and aren’t likely to sell.

Income alone does not make one rich. It helps, of course, to build wealth, but the financially independent look to their salaries as a means to an end, which is that pile of cash.

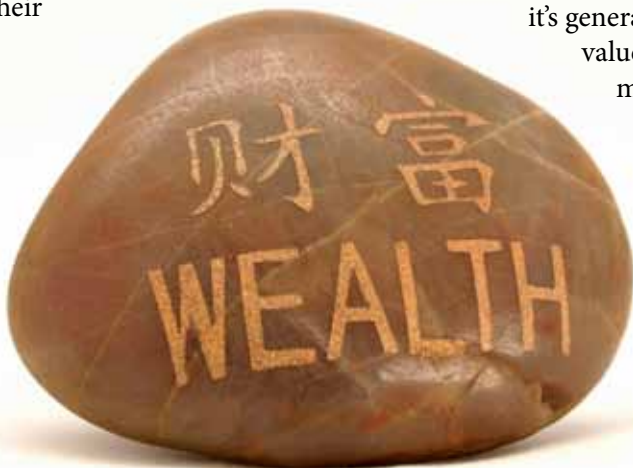
**Wealth is more often the result of a lifestyle of hard work ....**

“The wealthy don’t spend their wealth on discretionary purchases,” said Pam Danziger, founder

of Unity Marketing, a consumer market-research firm specialising in luxury goods and experiences. “They get rich by maximizing the value of their investments.”

That does not mean they don’t pay big bucks for pretty shoes or outfits. It means that most choose those items carefully and shop for value and quality. “They truly evaluate the purchase as an investment, not an expense,” Danziger said.

What they do though, is diversify those investments, which gives them more flexibility to ride out difficult times. “The wealthiest clients have very, very diversified portfolios that go



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way beyond just stocks and bonds into hedge funds, currencies, commodities and emerging markets,” said Leslie Lassiter, managing director of the JPMorgan Private Wealth Management. “There are many, many mutual funds out there that will allow you to get exposure to those types of asset classes,” Lassiter said.

Among the biggest differences between those flushed with cash, and those wishing they were, is in how they pay for things. Millionaires tend to use cash for most of their purchases, including cars, homes and boats.

For the average wage earner, of course, that’s not always an option but it still holds this lesson: Don’t look to debt to fund your lifestyle.

Most wealthy people use debt for investment purposes and are careful not to over-leverage themselves. “A prudent use of debt is an appropriate thing for anyone,” Lassiter said.

They also plan very well and spend a lot of time at it. Many are compulsive savers and investors who often say the journey to riches was far more fun than reaching the goal.

They are also patient, willing to invest in the long term and wait it out. “They stick with their investments and are more likely to have a financial plan,”

## Recommendations for accumulating wealth

### Live below your means

People with high incomes who spend all that money are not rich; they’re just stupid.

### Plan

That means plan for today, tomorrow and 30 years after retirement. Take time doing it too and spend time monitoring it every day. Use budgets and stick to them.

### Diversify

As Lassiter said, look for mutual funds that allow you exposure to asset classes that aren’t related to each other.

### Reduce use of credit and turn to cash

It is easier, of course, for a prosperous person to pay for a house in cash than

it might be for most folks. However, credit-card debt for luxury purchases or extravagant vacations will never pave a road to riches.

### Have access to cash:

While the rich keep much of their wealth invested, they can get cash when they need it. “Have some kind of line of credit available, like a HELOC (home-equity line of credit) that you never use,” Lassiter said. “It’s a safety valve.” She suggests a year’s worth of cash to cover expenses; Danziger thinks three years’ worth is a better bet.

### Spread cash around

When the wealthy pulled money out of the equities markets two and three years ago, they opened a bevy of bank accounts, all guaranteed up to \$250,000 of deposits by the Federal Deposit Insurance Corp.

said Sanjiv Mirchandani, president of National Financial, a subsidiary of Fidelity Investments.

Many take the long-term approach to investing because they are working at being financially independent. When they retire, for example, many will know exactly how much they need to live on, to give away and to leave as a legacy.

“The best ones really understand how much liquidity they need to cover their expenses and make sure they have that much cash on hand,” Lassiter said. “That’s something the average person should do as well.”

At the same time, Lassiter said most are very careful about leveraging debt. “The wealthy tend to balance between the two,” she said.

## Simple Tips for a Healthy Mind

Take time out of a busy schedule to look after yourself. After all, part of wealth is good health. Try these simple tips.

### Rosemary

According to some research, catching a whiff of this aromatic herb may increase alertness and improve memory. To stay sharp, try smelling fresh rosemary or inhaling the scent of rosemary essential oil before a test or meeting.

### Peppermint oil

Tame tension headaches by rubbing peppermint oil into your temples.



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