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The most underrated financial principle

Frugality.

Ingé Lamprecht | 21 July 2015 23:12



JOHANNESBURG – In the world of finance there are a few themes that are repeated to the point where you really have to be quite creative to add more flavour to the topic.

The wonder of compound interest, starting to save early, the impact of inflation and of course “if an investment sounds too good to be true, it probably is” come to mind.

A financial principle that rarely gets discussed though, at least in any meaningful manner, is frugality.

A quick find search on my computer, which contains hundreds of transcripts and articles I’ve written for *Moneyweb* over the past two and a half years, suggests that the topic was raised on only three occasions. Of course this is a horribly unscientific exercise and one shouldn’t read much into it, but it does provide some insight into the point I am trying to make: Frugality is seldom considered at investment seminars or during interviews and one would be hard-pressed to find an investment firm, retailer or other business advocating it.

There are logical reasons for this: Retailers wouldn’t have any customers if they started preaching a frugal approach (assuming such an attitude could even be taught successfully). Even on the investment side, advertising companies will probably have a trying time turning the concept into something investors could relate to. Being frugal is difficult. In investment terms it means making lifestyle sacrifices that can be uncomfortable – especially where friends, family members and colleagues flaunt their new cars or boast about their holiday homes or overseas holidays.

One of the survey participants in this year's Sanlam Benchmark Survey perfectly summed up the "spend what you have" approach so prevalent in South Africa when she said: "I have learned this from my boyfriend. He says however much money you have left in your bank account, divide it by how many days there are left in the month and that's how much money you can spend today. He is brilliant with his money."

South Africa is a nation of spenders. We live in a consumption-driven economy often fuelled by credit, which means that consumers frequently artificially enhance their living standards not realising the impact debt can have on their finances over time.

Of course with very low real interest rates there are also structural reasons why consumers aren't saving and investing.

More than semantics

The Oxford Advanced Learner's Dictionary defines "frugal" as "using only as much money or food as is necessary".

But in financial planning terms being frugal is about more than this: it is about understanding that just because you can afford something it doesn't necessarily mean that you should have it. It is about realising that saving to buy a less expensive car in cash (or at least putting down a larger deposit) can go a long way when creating wealth. It is about appreciating that making sacrifices today will help ensure a more prosperous financial future tomorrow.

'No one ever got rich by saving'

Of course, the world's richest people are typically entrepreneurs who didn't primarily accumulate their billions by being frugal.

However, there are several people who have used this strategy to their benefit in a very successful manner.

The principle is preached by blogger [Mr Money Mustache](http://www.mrmoneymustache.com/2013/02/22/getting-rich-from-zero-to-hero-in-one-blog-post/) (<http://www.mrmoneymustache.com/2013/02/22/getting-rich-from-zero-to-hero-in-one-blog-post/>) who argues that "spending much less than you earn is the way to get rich".

"If you can save 50% of your take-home pay starting at age 20, you'll be wealthy enough to retire by age 37," the "financial magician" who retired at the age of 30 writes on his blog.

For most of us, saving 50% of our take-home pay is completely unrealistic, but increasing the current savings percentage (however low it may be) by just a few percentage points can make a significant difference over time.

In fact, a frugal lifestyle is something many of the millionaires interviewed for the *The Millionaire Next Door: The Surprising Secrets of America's Wealthy*, a book written by Thomas J. Stanley and William D. Danko had in common.

At a recent investment seminar one speaker told a story about the late wife of one of South Africa's billionaires who apparently bumped into a friend at the local Checkers while doing grocery shopping. She greeted the friend saying something along the lines of: "So glad to see you shop at Checkers. Only rich people shop at Woolies."

I have no idea if this actually happened, but I do believe the merits of a frugal lifestyle are highly underestimated by the vast majority of South Africans.

Closer to home

At the beginning of my financial journalism career I worked as a subeditor. While I learned a great deal during the period, rewriting other people's articles isn't really my forte and I can't remember all that much

about the stories I edited during that time.

But there is one article I recall vividly. It was a letter written by a reader in his late forties. His daughter had just matriculated with several distinctions and she was very excited about going to university.

Unfortunately the father had accumulated so much debt over the years by keeping up with the Joneses that there was no way he could help her pay for her tertiary education. By his own account his extravagant lifestyle had caught up with him.

The story struck a cord, probably because it was so strikingly different from my own situation. My parents, two middle class salary earners, made many financial sacrifices over the years to send me and my brother and sister to university. These sacrifices meant that we could all get a degree without any of us (or my parents) ever having to incur a cent of debt.

I am forever grateful for this as it allowed me to start my own financial journey without the added burden of debt.

To my mind, frugality is the most underrated financial principle.

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