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January 15, 2024

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### Executive Summary

It is very common for people to make financial resolutions for the new year. In 2024, resolve to save more money.

My clients are excellent savers, and I get to watch how they do it. Here are some observations and tips:

Wealth is determined by how much you save, not by how much you make.

Save a percentage of your income. Make your savings program automatic. Live well within your means. Learn how to master your cash flow. Create reservoirs of savings separate from your household checking account. Plan for irregular expenses, like vacations, gifts, and home/car repairs.

Use homeownership to increase your wealth. And use debt wisely.

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On the other hand, good savers steadily accumulate wealth month after month, year after year. They make good spending choices. They pay down their mortgages. And they avoid unnecessary debt.

***Eventually, they become financially independent, which means that their savings can support them indefinitely. For them, work becomes optional.***

### **Market Data as of December 31, 2023**

		<b>2023</b>
US Equities	S&P 500 ETF	26.14%
International Equities	MSCI EAFE ETF	18.07%
Emerging Markets Equities	MSCI Emerging Mkts ETF	8.90%
US Bond Market	iShares US Core Bond ETF	5.59%
Commodities	S&P GSCI Comm ETF	-5.34%
Real Estate	iShares US Real Estate ETF	11.86%

### **Save More Money in 2024**

At the beginning of each year, many of us make resolutions regarding our finances. ***In 2024, resolve to save more money.*** Learn to focus on your wealth and not just your income.

### **Wealth and Income Are Not the Same**

Remember, ***wealth is not determined by your income, it's determined by how much you save.*** As Benjamin Franklin once said, "A penny saved is a penny earned." Franklin's point, I believe, was that you don't earn your money until you save some of it. The money you spend is gone forever.

Many people believe that if someone has a high income, they are wealthy. That's not true. Some people who earn high incomes spend every penny they make. Others even outspend their income by using credit cards or home equity loans. They save nothing. They accumulate debt, not wealth. They must work harder for longer to keep pace with their spending. Retirement is a distant dream.

## **I've Learned a Lot From My Clients – You Can Too, and So Can Your Children**

Many of my clients are excellent savers, and I get the privilege of watching them do it. They use most of the tips and tactics I've included here. If you are a good saver, give this newsletter to your children and share your tips (as well as your struggles) with them. Avoid lecturing them and instead talk about your own financial journey and what you wish you had known about money when you first started out.

***Financial literacy is woefully lacking in this country, but your children are not destined to make all the same mistakes you may have made.*** As we all know, if they get a good start, they will do very well.

If you struggle to save money, this newsletter is for you.

## **The Balance Between Spending and Saving**

Deciding between how much of your current income to spend versus how much to save is an important personal decision. Striking the right balance is key. You must find a way to enjoy your current income but also honor your future self by setting aside some savings for future spending. Everyone's balance and priorities are different, but ***finding your balance is critical.***

## **It's Never Too Late to Start a Savings Program**

While I am about to deliver a sermon on the merits of saving money, know that I have personally made just about every mistake mentioned below. If you are like me, do not let your past financial sins prevent you from turning things around. ***The best time to start is now, and small steps are way better than doing nothing. Waiting is a huge mistake.***

## **Tip #1 – Save a Percentage of Your Income and Increase That Percentage Over Time**

How much to save is different for everyone. It depends on your goals for retirement, your income, your age, how much you have already saved, your investment strategy, and so on. A good advisor can help you put together a solid savings plan to achieve your goals.

But you don't need an advisor to get started. If you are not sure how much to save, begin with 10% of your income. If you feel like you are behind, work your way up to 20%. If 10% is impossible, start with 1%. The key is to get started with something, anything.

If you have a 401(k), this is a great place to start saving a percentage of your income. If your employer offers a match, do everything you can to capture it – it's free money. Many 401(k)s now have a Roth component. If you have maxed out your traditional 401(k) and employer match, consider directing some extra savings to your Roth 401(k). For some higher-income earners, this may be your best option to access all the benefits of a Roth.

If you receive a bonus once a year or so, commit to saving a certain percentage before you spend a dime – something like 50%. ***I have known several people who have been able to retire just by saving their bonus compensation over the years.*** The same concept applies to any ***inheritance*** you may receive, except that you should aim to save almost every penny of it. Honor that gift by continuing to let it grow.

***If you are having trouble achieving your savings goals, use a budgeting process to look for more opportunities to cut expenses so you can start your savings program.*** Begin by printing your bank statements for the past three months and looking at your expenses. Do you see any opportunities to cut expenses and increase savings? Any monthly subscriptions that can be terminated?

## **Tip #2 – Make Savings Automatic**

Automate your savings program to “pay yourself first.” Here are some ideas:

1. Set up your 401(k) contributions to automatically come out of each paycheck.
2. Depending on your tax situation, set up automatic monthly transfers from your checking account to your traditional IRA account or a Roth IRA account (if you qualify).
3. Set up automatic contributions to your kids’ 529 accounts.
4. Set up another automatic transfer to your savings account to accumulate money to cover emergencies, or just to have additional savings.
5. Set up another automatic transfer to an irregular spending account to protect your savings from irregular expenses (discussed below).

When you automate your savings program, you will begin to forget about these automatic, monthly contributions, and ***you will be surprised how your savings steadily accumulate over time***. Don’t make the mistake of telling yourself that you will save money later when you get a chance. If you are like me, you will find a hundred ways to spend every extra dollar and will save nothing.

### ***Business Owners***

If you are a business owner who does not receive a steady paycheck, that’s okay. ***You must match your savings with the timing of any income you receive***. If you get paid once a quarter, or once a year, make sure your savings come out at the same time. Also make sure you are reserving estimated taxes with each income event and making timely and conservative ***estimated tax payments*** so that you do not have a large tax bill in April. If that happens, you will likely need to dip into your savings or access your line of credit to meet your tax obligations, and that means another year goes by without saving any money at all.

## **Tip #3 – Master Your Cash Flow**

Flowing water is difficult to hold. You can dip your hands into a stream and try to hold water in them, but after a few seconds it runs out. Cash works the same way – it is elusive and difficult to conserve. ***To be a good saver, you need to master your cash flow.***

***And you will never have any excess cash to save unless you live well within your means.***

### ***Use Separate Accounts for Saving***

Most people’s cash flows into and out of a household checking account. Their paychecks are directly deposited there, and most of their bills get paid out of that account. It is a chaotic place. ***To become an efficient saver, you must divert cash flow away from the chaos of the household checking account.*** You must create separate reservoirs to hold cash for saving. A 401(k) account is such a reservoir. IRA and savings accounts are also great reservoirs for cash. ***Do not commingle your savings with the money in your household checking account.*** Creating separate places to save money protects cash from being washed away with your monthly expenses and bills.

Make it easy to transfer cash into your savings accounts, but make it difficult to transfer cash back into your household checking account. For example, I keep my emergency savings in a money market account

at another bank. I do not have a debit card for that account. The electronic link between my household checking account and my emergency savings account only works one way. If I need to dip into my emergency savings, I must write a check or go to the bank, which is just one more inconvenient step that makes me think twice before spending my savings.

***By using separate accounts, you can watch the balances grow every month. It is easy to see the progress you are making, which can be very satisfying.***

### ***Irregular Expenses Deserve a Special Account***

A serious threat to a savings program is irregular expenses that wreck your monthly budget – things like vacations, holiday spending, gifts, car maintenance, home repairs, property taxes, annual dues payments, and insurance premiums, to name a few. When these expenses arise, they can cause a cash crisis. Many people pay for these items by dipping into savings or using a credit card. This sabotages a savings program.

A wise old accountant once gave me a great tip. He told me to list all my irregular expenses for the year, including things like vacations, holidays, and gift spending. Total that number and divide by 12. Take that amount and create an automatic transfer from your household checking account to a separate irregular savings account each month.

As your irregular savings account balance builds over time, you will be able to pay for your vacations, holidays, and other irregular items with cash. Go ahead and use your credit card to earn miles and other perks, but pay off the balance immediately with cash from your irregular account. ***No more post-holiday and vacation debt regrets.***

I have found this strategy to be invaluable, and it ends up protecting my savings and keeping me out of debt.

### **Tip #4 – Avoid Too Much Lifestyle Creep**

Remember when you got your first real job? For many of us, we thought it would make us rich. Your initial salary seemed like so much money. Saving would be easy. One year later, you ended up saving nothing and instead built up credit card debt. How did this happen?

As we all figured out, we lived a certain way as a student and quite another as a working adult. As we earn more money, we tend to spend it. After all, we deserve to enjoy the fruits of our labor and career success. The trouble is that we tend to spend more and more as our income increases. It's called lifestyle creep. It is so easy to add new expenses that eat up all our income increases over time.

### ***Earning Those Raises***

Ideally, when you receive an increase in income, it would be best to save some of that success by increasing your savings percentage. For example, save half your raise by increasing your overall savings rate from 10% to 11% or 12%. Make this change to your automatic savings transfers. Enjoy the rest of your raise. Over time, you will be saving more money instead of just trading water.

## ***Country Clubs, Private Schools, and Bigger Homes***

There are certain financial decisions that can have a huge impact on your ability to save money. In my experience, these decisions usually revolve around joining a country club, sending children to private school, or buying a more expensive home.

All these things can bring joy and opportunities. However, these decisions require extra deliberation. Country clubs and private schools come with monthly dues and tuition bills. A nicer home comes with additional expenses and increased taxes.

You should make sure that these items do not interfere with your savings program. If you must cut back or eliminate savings to afford these items, that should be a warning sign. ***And once you go down this road, it can be hard to quit the club, pull your children out of that private school, or move back to a less-expensive neighborhood.*** Proceed with caution.

### ***Tip #5 – Use Debt Responsibly***

As most of us know, debt can be both a good thing and a bad thing. A prime example is homeownership.

#### ***Homeownership***

Your home is primarily the place you live with your family – a sanctuary. Of secondary importance is the investment potential. When looking for a new home, keep these priorities in the right order and don't justify a huge stretch by saying, "it's a great investment." And for most people, homeownership is not possible without taking on mortgage debt, ***so it only works if you can afford the mortgage payments and other expenses that come with owning a home.***

Homeownership can be another way to accumulate savings. Each month, as you pay your mortgage, your loan balance decreases and your equity increases – just a little bit. If the home appreciates in value, it can further boost your net worth. ***Hopefully, when you retire, the mortgage is paid off and you have a debt-free roof over your head.***

Homeownership is not necessarily attainable for everyone. Some cannot afford the mortgage payments, taxes, and other expenses that come with it. If an appliance breaks the day after you move in, do you have the resources to fix it? If homeownership is too much of a financial stretch, you could be one job loss or major expense away from losing that home. Also, homeownership should not interfere with your savings program. If it does, that may be an indication that you should think twice before jumping in.

#### ***Refinancing and Home Equity Lines of Credit***

***The financial benefits of homeownership can be eroded by the overuse of credit.*** Homeowners who refinance (and pull out cash) often or use home equity lines of credit are destroying the equity they have built up over time.

Many homeowners justify accessing their home equity to make expensive improvements, often reasoning that they are increasing the value of their home (when they really just want a nicer kitchen – and who doesn't?). Sometimes improvements are good investments, but not always. The fact is that the return on investment for most home improvements is not as good as many think. ***When considering accessing home equity to make home improvements, make sure you can pay off this additional debt by the time you plan to retire.***

***Having a large mortgage payment in retirement is neither advisable nor sustainable.***

### ***Watch Out for Credit Cards***

With respect to credit cards, proceed with caution. Credit card companies will entice you with many perks, such as airline miles, to get you to open an account. I have seen some people use their credit cards responsibly to pay many of their expenses, earn the perks, and pay off their balances each month, which is great. But many do not, and for those people, all the perks are not worth the price. ***Paying 25% interest to purchase a pair of jeans with a couple of airline miles thrown in just does not make financial sense.***

***Credit card debt can sabotage all your financial goals, especially your savings program.***

### ***Conclusion***

Creating and implementing a solid savings program creates financial peace of mind. You know that you are ready for emergencies and that you are making good progress towards your long-term financial goals. Stress levels come down. And all of this work will someday result in financial independence. Work becomes optional and you are truly free to live your life the way you want.

***If you have questions about your savings program, your portfolio, or your long-term financial plan, please give me a call.***

Thank you.

D. Austin Lewis

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