

Office for Financial Success – Financial Tip of the Week
A service of the Personal Financial Planning Department
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[Problem or Solution?](#)

By Jeffrey Miller¹ and Robert O. Weagley

We've been hearing a lot about the Paradox of Savings the past few weeks. The phrase was coined by Lord Keynes to refer to the fact that, when the economy is in recession and the economy needs people to spend money, people often do the opposite and save money out of fear that times may be getting worse. Many of us are doing just that, reducing unnecessary expenditures while we try to save more for our future. And, yes, this will slow the recovery. What, however, should we be doing?

I am a great believer in the power of capitalism, built on the belief that the pursuit of self-interest will generate a society that is a reflection of the values of the citizenry. Given this belief, saving money for our future continues to be a positive for each of us. Trust me, when things begin to turn, people will begin to spend.

At some time in your life, each of you have heard someone say, "Investing and saving money is hard and complicated." This is only true if you want it to be. You make it as hard and complicated as you want, by how you approach it. Saving money is like training for a race. If I told you that, tomorrow, you had to run a marathon you would probably say, "Impossible!". (I know I would.) If, on the other hand, I said you had one year to train and condition yourself before you run the marathon, you might agree that it is possible to run a marathon, assuming you have the time and self-discipline.

The same goes for saving, all it takes is time and a little self-discipline and, like most things, the first step is the hardest. When we think about improving our net-worth, we don't immediately go out and buy \$50,000 in stock. Most of us start small, with \$10 or \$20, and open a savings account at our local bank. So let us answer the question, "How do I start a savings plan?" in three simple steps: 1) Budget your money, 2) Set small goals, and 3) Have self-discipline.

1) Budget your money: First, before you start saving, you have to understand how much income you have coming into your household (or dorm room) and how much money you have leaving your household, as well as where it goes. Next, begin to budget your money with the highest priority being the category of savings. Stop spending all of your money, until the next payday allows you to do it again; week after week, month after month, and year after year. You have to be able to track both income and expenses. When you start this habit, it will work magic on your expenditures. As you track your expenses, write them down – all of them - for a period of a month. I know you will find ideas about where you can begin to save money and, typically,

without lowering your satisfaction from life. For example, if you begin tracking your expenses and find out that you buy one soda every day at work for \$1.00 per soda. If you do this for 48 weeks, you will spend \$240. That is a lot of money and you will have nothing to show for it. (Well, maybe you do. If so, you now need a gym membership to get rid of it.)

2) Start with Small Goals. You have to set a goal for your savings. It is easier to “do without”, when you know “what you are doing it for”. When it comes to saving and setting goals, set a reasonable goal, say \$20 or \$30 dollars a month. (You can always increase the amount at a later date.) Set your goals and stick to them. Target savings toward something that is meaningful to you – like a downpayment on a house. You must be able to save month-to-month, before you can reach your goals of buying a house, a car, or a fulfilling retirement.

3) Have self-discipline. You must have self-discipline. When it comes to saving money, as training for a marathon, you need to apply yourself to your goals. If you have a goal of saving \$20 a week and have budgeted for buying 5 sodas a week, do not allow yourself to buy soda number six! You must have self discipline. This is the same self discipline that one needs to train for a marathon. You will have times where you do not want to have discipline. These times are precisely the times you must have the strength to focus on your goal. As Dr. Weagley’s father used to say, “Quitting is always hardest the first time.” You have to make yourself achieve the goals you have set for yourself or, at least, fail knowing that you gave it your best.

We are not saying that this is easy. You will have setbacks along the way, but you will find that the feeling of accomplishment, from reaching your goals, is very powerful. If you train a year for a marathon, when you cross the finish line, you will know that you accomplished something. The same goes for saving money. You have to budget, set small goals, and have the self-discipline to stay on track and finish the race. When you save the money to buy your first house, buy a newer car, or provide yourself with a financially stable retirement, you will know that you have accomplished something great – Financial Success on your terms!

- Jeffrey Miller, Graduate Student and Robert O. Weagley, Ph.D., CFP^(r), Chair

Personal Financial Planning

University of Missouri

Columbia, MO 65211

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CONTACT INFO:

- WEBSITE: <http://financialsuccess.missouri.edu>
- E-MAIL: financialsuccess@missouri.edu