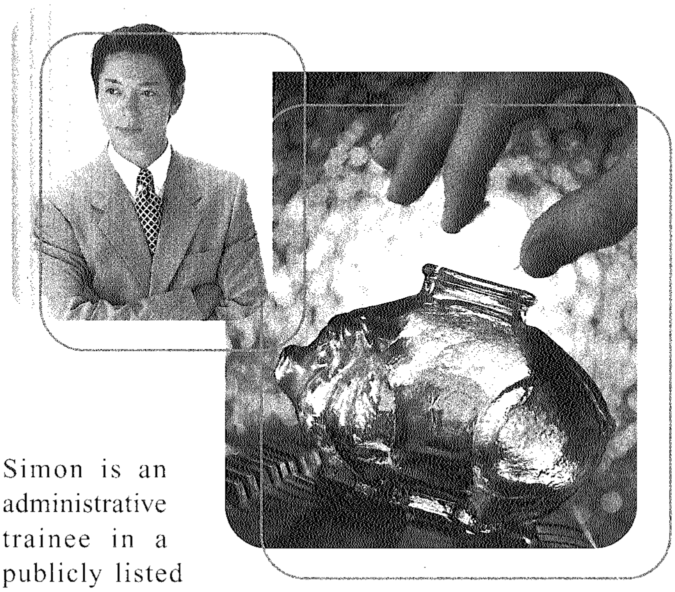
## Achieving your financial goals

# Become a millionaire by saving just HK$3000 a month



Simon is an administrative trainee in a publicly listed company. His monthly salary is HK$9,000, and will be increased to HK$15,000 on completion of two years' training.

He is single, lives with his parents and spends HK$5,000 a month on day-to-day living. However, Simon enjoys dining out with friends and buying clothes so there is not much left from his HK$9,000 salary. Although he manages to maintain a positive bank balance, as money becomes tight towards the end of the month, Simon has to rely on his credit card to see him through.

It is already clear to Simon that this situation cannot go on, so he has enlisted the help of a financial advisor to help him better manage his finance.

## Financial management strategy

The crucial factor in financial management is the time-span over which it takes place rather than the amount of money. If Simon can reduce his unnecessary expenses like the frequency of his dining out and the amount he spends on clothing, he should be able to save HK$3,000 each month.

Fortunately, Simon is still young – and if he can realise the disadvantages of late financial planning and capitalise on the power of compound interest, it will not be difficult for him to become a millionaire.

The following example demonstrates the benefits of starting to save early in life:

If Simon starts saving HK$3,000 a month for a period of 10 years, his total contributions at the age of 32 will be HK$360,000.

Another person, Peter, who has not recognised the importance of saving early, starts saving HK$3,000 a month at the age of 32 for a period of 25 years – that is 15 years longer than Simon will have been saving for – at the end of which his total contributions will be HK$900,000, an amount that's two and a half times greater than Simon's.

On the assumption that the average yearly return is 6%, Simon's cumulative savings at the age of 57 will be HK$2,206,124. Even though Peter will have been saving for 15 years longer than Simon, his cumulative savings at the age of 57 will only be HK$2,089,376 because he starts saving 10 years later. The result is that Simon's cumulative savings is 5.6% more than Peter.

**Case Study for Financial Planning**

| | Simon | Peter |
|---|---|---|
| Age commenced saving | 22 years old | 32 years old |
| Age stopped saving | 32 years old | 57 years old |
| Saving period | 10 years | 25 years |
| Monthly contributions | HK$3,000 | HK$3,000 |
| Total contributions | HK$360,000 | HK$900,000 |
| Cumulative savings at age 57 (with interest return) | HK$2,206,124 | HK$2,089,376 |

*Assuming yearly return rate of 6%*

## The power of compound interest

### What led to this result?

Most people would think that by saving for 15 years longer than Simon at the same rate of return, Peter's cumulative savings over 25 years would amount to more than Simon's savings over 10 years.

The reality, however, is quite different. The critical factor was that Simon started saving when he was younger. This, together with compound interest and good financial planning, puts Simon way ahead even though Peter has been saving for 15 years longer.

The case study of Simon clearly shows the importance of setting, and sticking to, your financial objectives.

It is important to consult a financial planning advisor, as there are many factors that may vary greatly such as the savings amount, time period, rate of return, risk factor for different investment products as well as the general market environment.