Santa Barbara Independent WHO. WHAT. NOW.

Good Saver, Bad Saver

You Too Can Become a Prodigious Accumulator of Wealth

By Kevin Bourke

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Dear Kevin,

We consider ourselves pretty good savers, but how do we know if we're saving enough? How can we further trim our budget?

Claire in Santa Barbara

Dear Claire,

Here's a formula to measure your status as savers. Dr. Thomas Stanley, in his must-read book *The Millionaire Next Door* says to **multiply your income by your age and divide by 10**. This is the amount you should have in savings and investments as a minimum. If you've saved above that amount, he says you qualify as a PAW, a Prodigious Accumulator of Wealth. Less than that in savings? That would make you a UAW, an Under Accumulator of Wealth.

So, if you are 40 and earn $75,000 annually, you should have a minimum of $300,000 in savings (40 x 75,000 = 3,000,000; divided by 10 = $300,000).

If you find yourself a UAW, then it's time to make changes in your spending habits, or find a way to earn more money.

The #1 mistake people make when trying to save is to pay all their bills before they pay themselves. (I addressed that topic in my June 29, 2007 article.)

A quick review: You always want to pay yourself a minimum of 10% of your pretax income before paying your other bills. If you wait to pay all of your other bills before paying yourself, what will be left at the end of the month to go toward savings? Right, nothing.

Ideally, use something that forces you to save automatically, like a 401(k) plan at work. You'll find that a systematic savings plan like this can add up very quickly.

Another mistake I find people make is to think of their automobiles as "investments." **There is certainly nothing wrong with buying a car, but please don't call it an investment**, not even a "bad" investment.

The word investment is defined as "the investing of money or capital in order to gain profitable returns, as interest, income, or appreciation in value."

Cars, unless they qualify as a collectible, have no chance of appreciating in value and therefore are, by definition, NOT an investment. Not good, not bad, not ever. Cars are simply an expense. Put them in the same category as a purse or a pair of shoes. Yes, you get some use and enjoyment from them, but they only go down in value, you can never sell them for what you paid for them, and along the way, they may need expensive repairs. Many, maybe most people spend way too much money on their cars. Look at your monthly outlay for your vehicles. You may be shocked by what you see.

Frequently dining out at restaurants is a staple of the American lifestyle, but it's not a good habit to get into if you're trying to save money. **Have you ever stopped to add up just how much money you spend each month eating in restaurants**?

Let us take a family of four as an example:

If a husband and wife both work outside the home, and each eat in a restaurant 3 times per week, they could easily spend $10 per meal.

Total = $60/wk.

Twice a week they are too tired, or too busy, to make dinner, so they grab food on the way home to feed the family. Let's say they can swing a meal for under $25 (which would be tough for a family of four).

Total = $50/wk

On weekends, one breakfast out with the family could cost $40. And one dinner could cost $60.

Total = $100/wk

If one week in this family's life could total upwards of $210 in restaurant charges alone, that's more than $800/month. Even if you cut that in half to $400/month spent eating out, that's still $4,800/year spent on dining outside the home. Most Americans don't commit that much money to savings every year!

Look at it this way. Over 20 years, $4,800/year, if invested at 8% annualized would amount to well over $200,000.

Amazing, isn't it? If you cut down on dining out, you'll probably be doing the best thing for your waistline as well.

The issue of budgeting is never ending and I'm sure we can all find ways to save in every area of our lives, but first try focusing on the above three budget drainers, which can make a huge difference in your ability to save, right now.

Kevin Bourke is a registered principal with and offers securities through LPL Financial, Member FINRA/SIPC.