

THE POWER OF MONEY

By Carol Yip

Money is power, freedom, a cushion, the root of all evil, the sum of blessings.
~Carl Sandburg~

Money is a very important part of our lives, as it helps us achieve many things.

As a young adult, understanding the importance of money will give you an extra edge in terms of building your financial success. By learning early in life, good money habits and how to avoid mismanaging money, you will be taking the first step towards building wealth for your future.

Gaining personal financial knowledge is just as important as going to school to get an education, because financial knowledge empowers you to make good decisions with your money. And this will in turn, help ensure a successful financial future!

Creating a successful financial future is no different from building your dream house. You must know what you want for your financial future, just like how you know what you want your dream house to be like.

The idea of your dream house starts with you, right? In your mind, you imagine the house that you want.

To turn your dream into reality, you first need to draw the house design on paper, and translate the design into an architectural plan. You make sure you get all the expert advice you need from architects, engineers, house builders and interior designers before you decide to build the house. You then need to work out how much it will cost you to build the house.

Most importantly, you must make sure that it is a house that you will be happy and comfortable living in, because you do not want to have any regrets once the house is built.

Sometimes, the house that you dreamt of may not be a practical one for living. For instance, your dream house may have many staircases or large windows that may be dangerous for young children, should you have a family later in life. Or it may not be suitable for your aged parents, who may find it difficult to climb many stairs to their bedroom.

Along the way while the house is being constructed, you may face many challenges. People may give you the wrong advice, or you may be tempted to spend more than you can afford on expensive building materials. The cost of construction may increase due to inflation, and you may not have enough money to pay the bill. Or you may be cheated by a dishonest contractor.

Similarly in constructing your financial future, you will face a lot of challenges. Not knowing what you want in life and how much wealth you wish to create may result in many wrong decisions, and you may end up wasting time and money along the way.

People may cheat you of your money, or you may be tempted to spend more than you can afford due to the influence of the people around you. You may invest wrongly because of bad advice, or you may use your money unwisely simply because you did not educate yourself in personal financial matters.

That's why it is important to learn the right skills to manage your money well, and this is exactly what this book is about.

In this book, you will also learn about the financial tools necessary to construct your financial future, from bank accounts and loan facilities to different types of insurance and investments.

I believe you do come across stories of people who have suffered financial difficulties because they did not manage their money well. Do take this opportunity to learn valuable lessons from the mistakes they made, so that you can avoid their fate later in life.

The power of money

Many people underestimate the power of money, and end up suffering from the lack of it. As a result, they become victims of money.

The power of money can never be taken too lightly. It can be used for many good results; to buy wonderful things and experiences like a nice house, good food, and holidays; to pay for the best education and healthcare; to help others by giving to charities and contributing to good causes.

At the same time, a lack, or misuse, of money can bring misery. It is a very unpleasant experience to find yourself short of money to pay for groceries, rental, petrol, or medical bills, and sometimes this can be a result of misuse of money to pay for drugs, alcohol, or gambling. Lack of money can also lead to arguments, family breakups, and illegal activities such as theft, murder, prostitution, and drug trafficking.

Unless you know the purpose of having money and what it can do to you, you will not be able to appreciate its power in being able to create the type of life you want. And if you are not careful, money can also make a mess of your life!

There are two important things in life that money cannot buy – your time and your life. You cannot use money to buy time that you have lost or not used properly. And neither can you use money to buy back the life you would have lost upon death. So, do make use your time wisely to learn good money management skills, and to create opportunities to build wealth.

How money grows

Keep your money like treasures in life – that is the first rule of thumb with your money. In order to build your wealth, you need save as much money as you can.

This is because money can grow if you know how to save and invest your money wisely; it's known as the multiplication effect.

Let's say you put aside as savings, \$3.35 a day (equivalent to a bowl of noodles or a plate of chicken rice at the coffee shop); this works out to about \$100 a month, and

\$1,200 a year. Watch how your money grows over time if you put it in a savings account that pays interest (see Table 1.1 below):

Table 1.1

No. yrs	5	10	15	20	25	30	35	40
Interest rate / yr	\$	\$	\$	\$	\$	\$	\$	\$
2%	6,315	13,294	21,006	29,529	38,947	49,355	60,856	73,566
3%	6,481	14,009	22,754	32,912	44,712	58,419	74,342	92,837
4%	6,652	14,774	24,691	36,800	51,584	69,636	91,678	118,590
5%	6,829	15,593	26,840	41,275	59,799	83,573	114,083	153,238
6%	7,012	16,470	29,227	49,435	69,646	100,954	143,183	200,145
7%	7,201	17,409	31,881	52,397	81,480	122,709	181,156	264,012
8%	7,387	18,417	34,835	59,295	95,737	150,030	230,918	351,428
9%	7,599	19,497	38,124	67,290	112,953	184,447	296,385	471,643
10%	7,808	20,655	41,792	76,570	133,789	227,933	382,828	637,678

Now that you can see the power of money in how it multiplies, wouldn't you want to start saving and investing?

Imagine this: you are 18 years old now and you save \$100 each month in an interest-bearing account that pays 2%. In just 5 years when you are 23, you will have \$6,315 in your bank account (see above table), which you can use as a down payment for your first car. Of course, we know that the first car is very important, as you will need it to take you to work to make more money!.

If you decide not to use the money in five years' time but continue to save \$100 each month for 15 years, you will get \$21,006 (see above table) when you are 33 years old. You may then use this as an initial deposit towards your first property investment worth \$250,000.

By doing so, you would have just converted your \$21,006 savings to a \$250,000 investment that may give you rental income and increase your wealth later in life.

So, the earlier you can create your savings fund and the more money you can save, the faster you can achieve your first million!

It's not difficult to do; as a young adult, you should be able to put aside \$100 a month. It's a matter of managing your spending patterns, like shopping less, eating cheaply, or reduce the time spent hanging out at coffee bars and cyber cafes.

Now you see the power of money and how it can help you to grow your wealth

But where does money come from then?

The Source of Money

As the old sayings go:

“Money does not fall from the sky,” and “Money does not grow on trees.”

Where does money come from? You and I have to work for it. Many people work hard for money. Unless you receive money in the form of a gift, lottery win or inheritance (and not from gambling!) you will need to find a job or start a business to make money.

You have to use your time, energy and effort to earn money. Therefore, it is only logical and sensible that you keep your money safely and spend it wisely so that you can use your hard-earned money to be successful in achieving your life goals instead of living in debt, and be miserable in life.

Aside from working to make money, whether in your career or your own business, you can borrow money from the bank or a friend. But this money doesn't belong to you, and you will have to repay it to the bank or your friend, with an interest charge (unless your kind friend lends it to you without any charge).

Why would you have to pay the bank or your friend for using the money? Well, it is only fair and logical for the bank or your friend to earn some money from you because you are using their money to get what you want.

In this case, you have to make sure that you make effective use of the money that you have borrowed, which is to make more money and not to pay for things that will not create higher value for you.

When someone says, “There is no free lunch in this world,” this means you never get anything for free; you either pay in terms of your effort or time (because you have done some work for the person), or because you are nice to the person who buys you lunch, or because the person wants you to do something for him or her, or because you have bought him or her lunch the last time.

Neither is there “free money.” Money that you take for ‘free’, at no cost, may come with some personal sacrifices like possibly losing your family members (or kidnapping of your child) if you don't pay your debts to the loan sharks.

Or there may be payback in other ways that could be morally damaging to you like you are forced to steal money from others, be a prostitute, sell illegal drugs or stolen goods. Even in winning a lottery or a gamble, you run the risk of losing money in terms of buying the lottery ticket and not winning, or losing money as you continue to gamble because you are addicted to it.

What is money then?

Money comes in the form of notes and coins, and it is used as a medium of exchange for the things that you want in life. But why it is so important?

Money gets you what you NEED and WANT: Spending Wisely

If you want an enjoyable life, you use money to get it.

You have to spend money to buy what you NEED for your survival, like food and shelter (home rental or mortgage), and what you WANT to make you feel good and happy.

It is only natural for you to spend some of your money, but not to spend more than you have. Also remember that you should put aside some money for unexpected expenses, such as a speeding ticket or a medical bill.

And if you want wealth and financial success, you must save as much money as possible and use it to buy assets that will grow in value, as this will increase your wealth.

So how do you save money, especially when you are managing on a small allowance, or are just starting out in your career and don't have much left at the end of the month? By spending wisely on important and necessary matters.

“Needs” VS “Wants”

In today's materialistic world where young people are constantly exposed to influences from advertising and media to live a certain lifestyle, there is plenty of temptation to spend your money on all types of goods and services. Peer pressure, i.e. your friends can also have an impact on how you spend your money.

Why is this so? Part of the answer lies in your perception of what you believe you NEED. A NEED can be defined as what you don't have or don't have enough of, and the goal of your actions is to get enough of it for peace of mind or satisfaction.

For instance, when your need for food is not satisfied, you will act to get more because you need food to survive. You can however, choose what and where you eat; you can eat a simple lunch in a inexpensive coffee shop or in an air-conditioned “nice café.”

Here lies the difference between what you NEED and what you WANT. You NEED to eat food, but you do not need to eat at the nice café that would cost you three times more for similar food you can get at the coffee shop. You may choose to eat at the café however, because you WANT to enjoy your meal in a comfortable setting.

Another example is your need to keep in touch with your family and friends. What you NEED is a handphone that allows you to make and receive phone calls and text messages (SMS). You are however tempted to buy the latest (and most expensive) phone with features (like 3G, for instance) that you don't really need.

It would be nice to have, if you can afford the latest electronic gadgets. But if your current phone already serves your purpose, you should ask yourself: “Why do I perceive this need to upgrade my phone? Is it because my friends have the latest phone and I want one too?”

In other words, do you NEED to be affiliated with your friends, i.e. feel good living a lifestyle similar to your friends' or giving in to peer pressure of having the latest electronic gadgets?

Think about this: The money you save when you choose to eat at the inexpensive coffee shop, or not to buy the new hand phone, can go towards building your wealth instead. Over time, you will be able to gain more money and live a comfortable life in the future.

This is known as 'delayed gratification' – not spending on your WANTS now in order to enjoy them better later when you are more able to afford them.

Of course, you will have a list of important NEEDS and WANTS, but it is crucial that you ask yourself an important question: "Can I afford to spend money on them?"

If the answer is no, then you need to reassess the priorities of your needs. If the answer is yes, you should then consider if you can spend less than what you have budgeted for the NEED or WANT, so that you are able to save more money.

Manage your "needs" and "wants"

It is wise to analyse your NEEDS and WANTS; ask yourself if it is necessary to spend on something, and whether or not you can afford it. Don't make a decision that may create financial difficulties for yourself and others, such as taking on financial debt that you cannot repay.

Prioritizing your NEEDS and WANTS is a sensible and logical step to take when you are working towards your financial goals. Take your time to find out more about the NEEDS or WANTS that are important to you and that you want to spend money on.

There is a sample of a NEEDS and WANTS Activity [Worksheet](#) which you can use as a money tool to help you understand the definition of NEEDS and WANTS. It can help you learn to make wise spending decisions that you can afford.

Be mindful that there are two types of WANTS: "nice to have" and "must have." How do you tell the difference between the two? By asking yourself "What will happen if I don't get what I want? Will I be worse off personally or financially, and how will I feel?"

Knowing the difference of an important NEED, a "must have" WANT, and a "nice to have" WANT will have a significant impact on your spending behaviour and eventually, your financial future.

Substitutes for your "needs" and "wants"

While you would like to fulfil your NEEDS and WANTS, there are times in life when you will need to make choices such as whether or not you are able to forgo the NEED or WANT by not having it at all, or by replacing it with a cheaper substitute. Or perhaps you may choose to only get it at a later time.

There are so many choices of similar products and services nowadays. Before making your choice, you will need to do some research, read more and make comparisons. Talk to more people and to friends who may be more informed of the choices in the marketplace.

Sometimes, if you change your self-perception and your feelings about your NEEDS and WANTS, or the situation you are in or the friends that you have, you may find that some of your NEEDS and WANTS will no longer be a NEED or WANT to spend on or you may find a better substitute or choice.

While you are getting to know your NEEDS and WANTS better as you analyse your daily spending pattern, I would like you to continue to be mindful with your daily spending behaviour so that your personal observations will become an automatic habit that will help you spend wisely and within your financial means!

I would love to hear from you, your experience and views of your money experience, please email to info@abacusformoney.com.