

STEP BY STEP WITH MONEY

By Stephen Diedericks BCom, CPA, Juris Doctor (Masters of Law)

Last week we covered ‘When to seek Financial Education. Following on from this, in week (12) I will reflect on **Frugality as a Virtue**. The Collins New Zealand School Dictionary defines *frugal* as someone who spends little money. This is a good simplistic definition. However, it can be extended to the consumption of food, time or money, and avoiding waste, lavishness or extravagance.

When do people think about living frugally? Usually when they have a need and no finances to satisfy this need. If you have a financial emergency such as a health problem, fix a leaking tap, or your car so you can get to work, can you come up with \$400. According to the United States Federal Reserve Board, 47% of Americans could not come up with \$400, without selling something or borrowing money. I reviewed New Zealand sources, however, like many financial matters in New Zealand, they are not readily available. This American statistic is likely to be reflected in New Zealand.

Who are these people who cannot come up with \$400 in an emergency? They include what is generally defined as the middle-class, people juggling credit card debt, being down to their last \$10 while waiting for their next pay cheque etc.

How did we get here? It is easy to lay blame somewhere else. For example, your parents brought you up with an entitlement mentality, society has sped up and there is pressure to have the newest things now – the annual vacation and a car for each adult etc. Governments are bailing out banks and the stock market is taking my pension so I might as well spend and spend. The government says the macroeconomic figures are good, although this does not reflect your microeconomic bank balance.

Let’s see how we can save \$400. There are two ways - we can earn more or spend less. If you have never done this before it will be hard. There is no magic wand. Once you start saving, do not fall into the trap of thinking that you are only spending (or saving) \$10 or \$15 per week. Look at the total amount, \$10 per week is \$520 per year.

How could you get Ahead with Frugality?

Pay bills on time – automate it.

Put debts in a folder and watch the folder get thinner over time.

Remove distraction and temptation, rather than going to the shopping mall, read a financial book

Seek better deals on your phone, internet, water and electricity bills.

If you save money when shopping, put the money saved to actual savings, hardly anyone does it, everyone always looks for bargains but many never place the discount in a savings account, go figure.

Buy useful things not status symbols

Reject addictive items such as \$5 lattes or that chocolate bar at the cash register.

Learn to enjoy things without owning them, e.g., borrow books, movies from the library or share them with a friend. When I DJ’d (yes, I scratched LPs – for the younger generation LP is not L&P soft drink, google it) a friend and I shared music. It was much cheaper.

Move to a cheaper area, it may not have the distractions of a big city and instead of going out, you could sit under the stars and discuss your dreams with your significant other.

Benefits of Frugality

Frugality frees us from debt and having excess stuff. With less stuff, we have time to focus on important things in life.

We create self-discipline when we control our spending. With a concerted effort, over time it will become easier to control our spending. Self-discipline in finances is likely to translate to self-discipline in other areas.

Self-reliance is a great benefit of frugality. When we are self-reliant, we are independent and our levels of self-respect increases.