



**Don't save enough money**



**Build wealth through savings**

**Sasin** | School of Management

**Andrew Stotz, PhD, CFA**





# Learning outcomes

---

- Prioritize saving money over spending it
- See how those on a salary can create wealth

# Learning outcomes

---

- Learn how to generate more income from your work
- Define financial independence

# Building wealth starts with saving

- ★ In order to secure your financial future, you must save your money



# Building wealth starts with saving

- ★ It's not easy, but unless you are lucky enough to have been born or marry into wealth, you cannot build wealth without saving

# Building wealth starts with saving

- ★ Most people know that they should save, but don't realize just how much is necessary

# The world wants you to spend, don't do it!

- ★ To start on the path of saving, you must break the consumerist cycle that is so prevalent these days

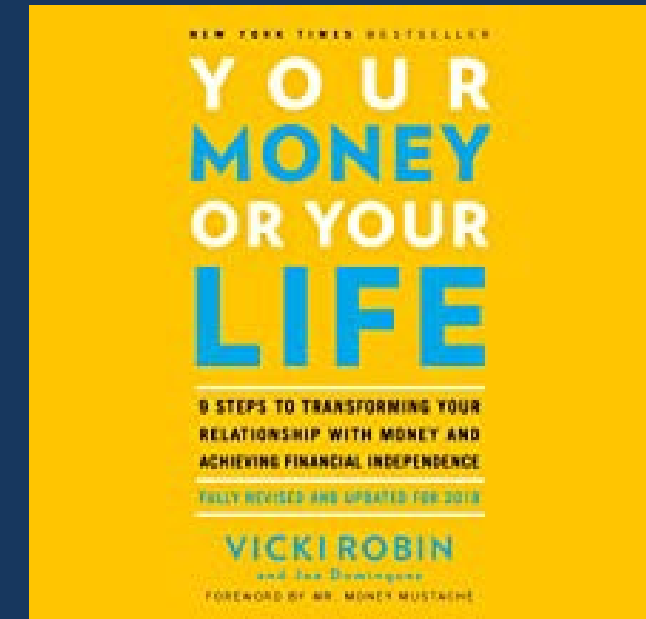


# The world wants you to spend, don't do it!

- ★ We are constantly bombarded with advertisements to buy things, but we will never build real wealth by buying everything we see

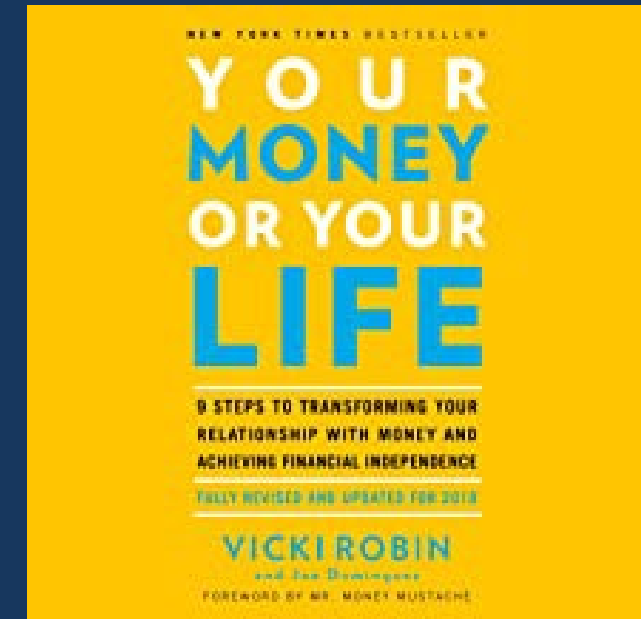
# Take pride in spending much less than you earn

- ★ One of the best books I ever read on this topic was *Your Money or Your Life*, by Joe Dominguez and Vicki Robin



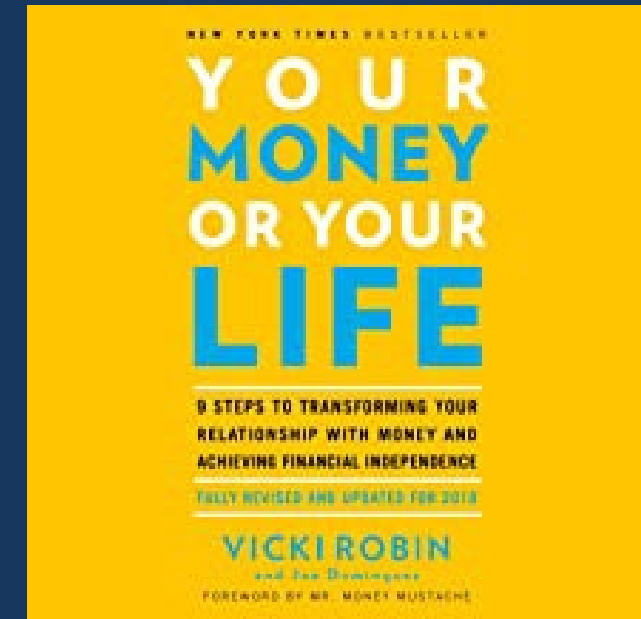
# Take pride in spending much less than you earn

- ★ They explained how to transform your relationship with money



# Take pride in spending much less than you earn

- ★ From them I learned to graph my monthly income and expenses
- ★ This helped me understand the truth about what I was making and spending





# Take pride in building your investment accounts

- ★ For many people, the trouble with living a frugal life is that nobody will see their wealth
- ★ They won't drive around in a fancy car or have expensive material possessions

# Take pride in building your investment accounts

- ★ And, of course, nobody will see their bank account and money building up

# Take pride in building your investment accounts

- ★ But I challenge you to get your satisfaction from knowing that you can take care of yourself financially

# Take pride in building your investment accounts

- ★ The satisfaction of self-created, long-term security and independence far outweighs that of the short-term envy of those around you



# Take pride in building your investment accounts

- ★ And, this independence can be yours if you have the foresight to save and invest your money

# Wealth is not created by cost-cutting alone

- ★ But also remember, that you cannot get rich by cutting costs alone
- ★ There is a limit to how much costs you can cut out of your life

# Wealth is not created by cost-cutting alone

- ★ To move beyond cost-cutting and move toward building real wealth,
- ★ You need to find a way to increase your income over time

# Become more valuable through education

- ★ In my case, study and self-improvement allowed me to add more value at work, which led to higher income



# Become more valuable through education

- ★ While you find a way to achieve this, you should reduce your debt, save to build up emergency cash, and then set aside money for investment every month

# Become more valuable through education

- ★ Remember, it is up to you to make a financial plan that allows you to build your wealth

# Keep learning and improving your financial plan

- ★ This course is meant to show you how to look at the stock market and help you understand the steps you can take to become financially independent

# Keep learning and improving your financial plan

- ★ We can't cover the specifics of every aspect of your personal and financial life
- ★ To succeed, use the knowledge gained from this course and apply it to your own life



# Let's consider an example

- ★ To understand a bit more of the challenge of reaching financial independence let's consider a very simplified model of what it would take

# Let's consider an example

- ★ In the following example, we assume that at the point of financial independence the person's only income comes from their portfolio, no pension, no social security, etc.

# Let's consider an example

- ★ This is a conservative approach, but I would rather be more conservative and build up more wealth, than to end up with not have enough

# Let's consider an example

- ★ Meg is a 22-year-old college graduate
- ★ She was given a \$70,000 graduation gift from her family, and is about to start her first job out of university

# Let's consider an example

- ★ She has started her first job and earns an annual salary of \$48,000
  - The average for a college graduate in the US as of 2019 was about \$45,000 a year

# Let's consider an example

- ★ That's \$4,000 per month ( $\$48,000/12$ )
- ★ Of course, her after tax income will be lower

# Let's consider an example

- ★ Let's also assume she expects an inflation rate of 3%

# Let's consider an example

- ★ Also, due to the growing value she adds to her company, she expects her salary will jump by 20% every five years



# Let's consider an example

- ★ She wants to achieve financial independence at 60 years old
- ★ To understand how much she needs to be financially independent she thinks of it in today's terms

# Let's consider an example

- ★ She imagines she is financially independent today and tries to think what level of monthly income she could live on and be comfortable

# Let's consider an example

- ★ She feels that the right number is \$6,000 (or 1.5x her current monthly income of \$4,000)

# Let's consider an example

- ★ Next, she expects an 8% return from the stock market and a 3% return from bonds
- ★ She plans on investing 20% of her pre-tax income

# Let's consider an example

- ★ This will allow her to become financially independent at age 60

# Have the power of compounding work for you

- ★ Save and focus on financial independence so many years from now your investment income will exceed your expenses

# Have the power of compounding work for you

- ★ You cannot reach that point unless you leave your money in the stock market, avoid spending your dividends and interest from your investments in any year, rather, always reinvest them

# Have the power of compounding work for you

- ★ Don't take money out or else you will end up with less money than you could have earned through the magic of compounding



# Start building wealth through savings

- ★ Now you understand the importance of saving and investing your money throughout your life in order to build wealth

# Story time...

**Sasin** | School of  
Management

**Andrew Stotz, PhD, CFA**



# A story of “Dave”, born in 1934





# Some things to know about Dave



## Andrew Stotz, PhD, CFA

- ★ He has no interest in finance
- ★ The stock market bores him
- ★ He would rather play golf

# Dave meets Kathy



**Sasin** | School of Management

**Andrew Stotz, PhD, CFA**

- ★ A happy young man with a bright future...
- ★ ...meets a lovely young woman.

# It's 1958 and they get married



**Sasin** | School of Management

**Andrew Stotz, PhD, CFA**

- ★ Dave's financial obligations begin and his career starts
- ★ He wants to be the man his wife and kids can rely on



# It's 1965 and Dave finishes his education



**Sasin** | School of Management

**Andrew Stotz, PhD, CFA**

- ★ He earns his PhD in chemistry and gets the job of a lifetime at DuPont
- ★ In the same year he has his third child, his only son

# Now, back to our story. It's family time



**Sasin** | School of Management

**Andrew Stotz, PhD, CFA**

- ★ Dave and Kathy have a growing family
- ★ They've started implementing their financial plan



# Dave and Kathy buy their first house



**Andrew Stotz, PhD, CFA**

★ This is their first major financial decision

# Colorful family life



**Sasin** | School of Management

**Andrew Stotz, PhD, CFA**

- ★ They're a family now...
- ★ They must prioritize saving and investing

# Good news for Dave and Kathy



**Sasin** | School of Management

**Andrew Stotz, PhD, CFA**

★ Back in 1965, US companies such as DuPont helped their employees' take care of their financial needs



# Good news for Dave and Kathy

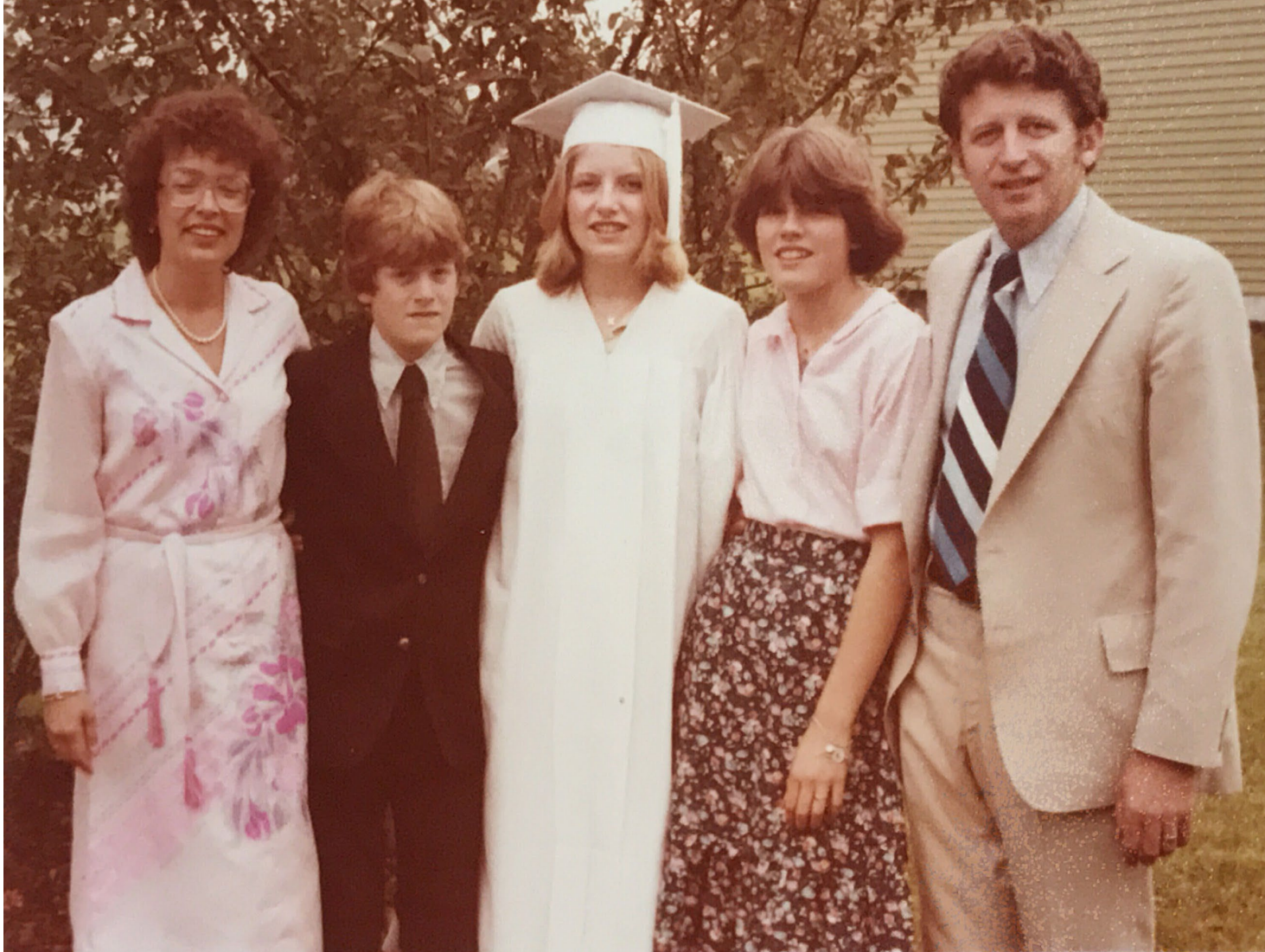


**Sasin** | School of Management

**Andrew Stotz, PhD, CFA**

★ In addition, Dupont had a defined benefit plan so that employees didn't have to worry much about their pensions

# Dave and Kathy must spend on education



**Sasin** | School of Management

**Andrew Stotz, PhD, CFA**

★ Their first daughter graduates from high school



# Growing family, growing education costs



**Sasin** | School of Management

**Andrew Stotz, PhD, CFA**

★ Now comes the cost of education for the two remaining kids

# Dave's hair is greying, and the kids are growing



**Sasin** | School of Management

**Andrew Stotz, PhD, CFA**

★ Thanks to responsible financial advice, careful budgeting, and good investments, Dave is able to retire at 60



# Happy family



**Sasin** | School of Management

**Andrew Stotz, PhD, CFA**

- ★ Dave has reached a level of financial success!
- ★ He and Kathy are enjoying a happy retirement
- ★ Their kids are happy



# Dave and Kathy grow closer, love grows deeper



**Sasin** | School of Management

**Andrew Stotz, PhD, CFA**

- ★ Careful savings and investing means they spend 22 happy years in retirement
- ★ They are not a burden on their kids

# 58 years of marriage, growing financial needs



**Sasin** | School of Management

**Andrew Stotz, PhD, CFA**

- ★ But eventually, health care costs rise
- ★ Long-term care becomes a serious question to deal with



# Achieved 22 years of comfortable retirement



**Sasin** | School of Management

**Andrew Stotz, PhD, CFA**

★ July 2016, Dave, my dad, had a cup of coffee with me, enjoying his happy retirement in Charlotte, North Carolina

# Mom and Dad focused on the long-term

- ★ They knew the importance of saving a large portion of their monthly income
- ★ They invested with a long-term focus

# Mom and Dad focused on the long-term

- ★ Dad was a professional at Dupont all his career and mom was a housewife
- ★ They were not rich, but they grew their retirement savings over a long time

# Mom and Dad focused on the long-term

- ★ They achieved 22 years of comfortable retirement



# Remember this picture?



**Sasin** | School of Management

**Andrew Stotz, PhD, CFA**

★ What I didn't tell you was that this was my father's last day on Earth

# Remember this picture?



**Sasin** | School of Management

**Andrew Stotz, PhD, CFA**

- ★ My story of Dave's life ends here...
- ★ ...but things got worse for our family



# Kathy, my mom, had further strokes



**Sasin** | School of Management

**Andrew Stotz, PhD, CFA**

★ We lost my oldest sister to cancer in 1998 and now, with the loss of my father our family of five was now three

# Kathy, my mom, had further strokes



**Sasin** | School of Management

**Andrew Stotz, PhD, CFA**

- ★ My sister, Sharron, and I, smiled through the tears
- ★ But times were tough



# Mom and me at my home in Bangkok



**Sasin** | School of Management

**Andrew Stotz, PhD, CFA**

★ Thanks to careful saving and investing mom and dad did not have to worry about retirement

# Mom and me at my home in Bangkok



**Sasin** | School of Management

**Andrew Stotz, PhD, CFA**

★ And their wish of never being a financial burden on their kids has come true



# Though we lost Dave, he left us in good condition

**Sasin** | School of Management

**Andrew Stotz, PhD, CFA**



# Building wealth starts with saving

- ★ In order to secure your financial future, you must save your money

# Four questions to answer

- ★ Your current monthly income
- ★ Your expected annual inflation rate

# Four questions to answer

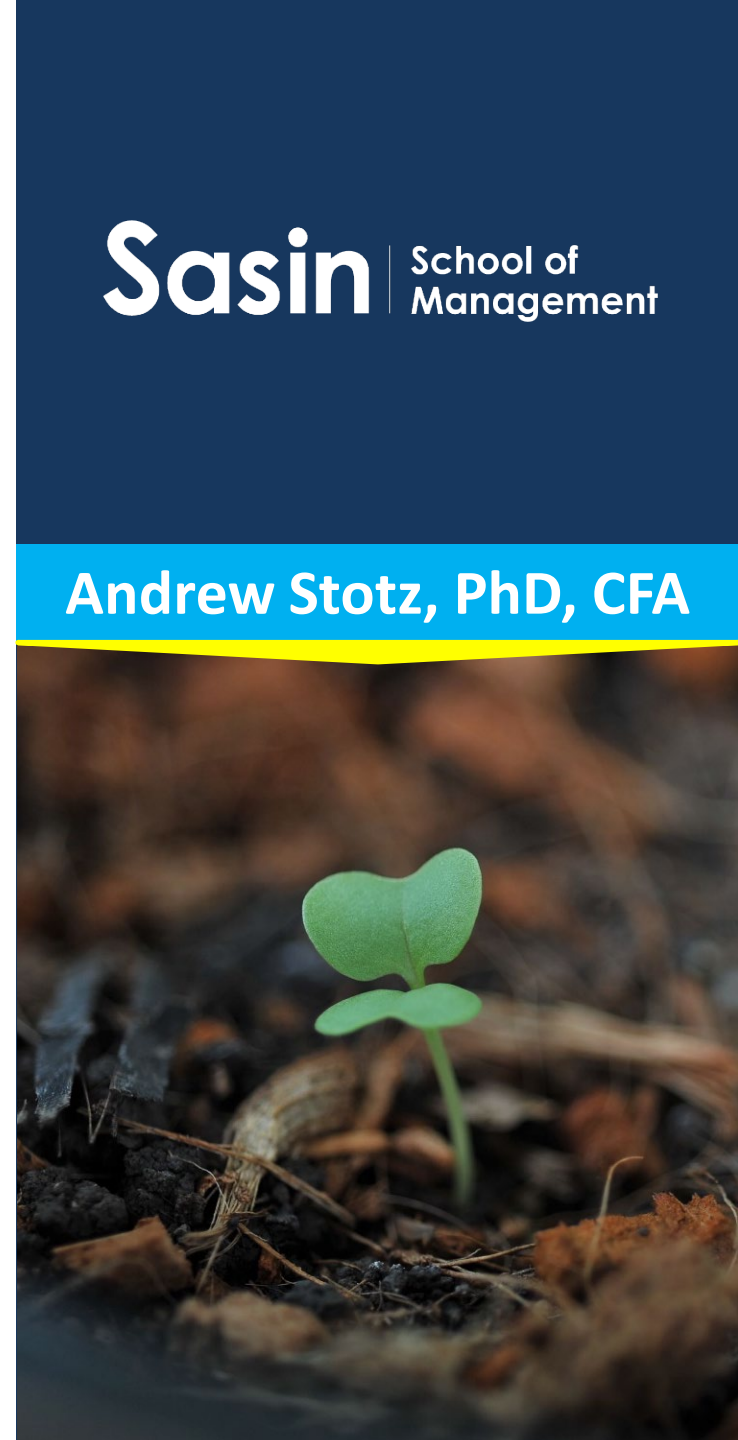
- ★ What percent do you expect your income to jump every five years?
- ★ Estimate how much of your monthly salary or income you will invest



# Open the financial plan file and enter this info

## Estimate how your monthly income will grow

Your current monthly income	4,000
Your expected annual inflation rate	3.0
What percent do you expect your income to jump every five years?	20



# Open the financial plan file and enter this info

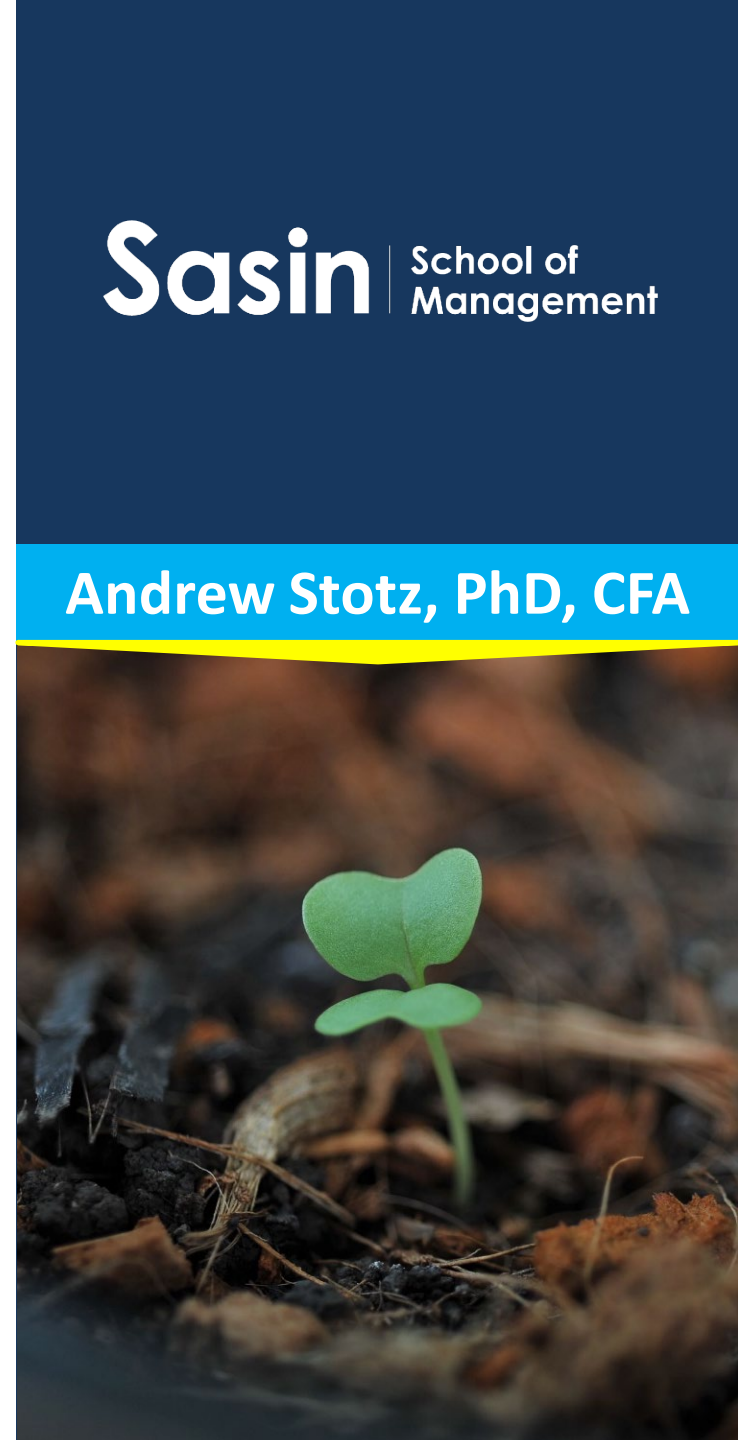
---

Your expected income at various ages based upon income jumps

---

15	-
20	-
25	4,000
30	4,800
35	5,760
40	6,912
45	8,294
50	9,953
55	11,944
60	14,333
65	-
70	-

---



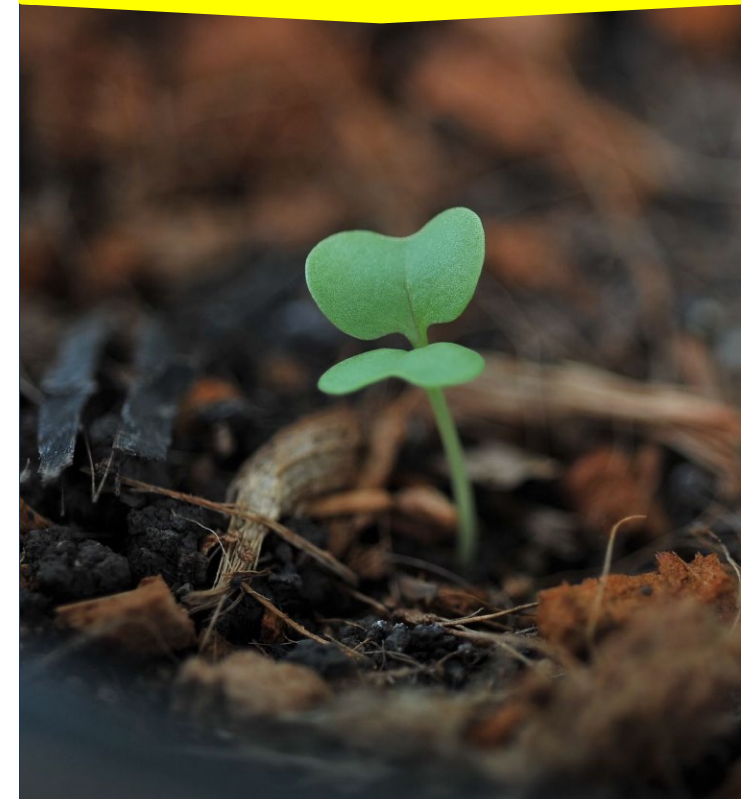
# Open the financial plan file and enter this info

## Estimate how much of your monthly salary or income you will invest


Your estimate of the percentage of income you will invested at various ages

Age	% of income invested
15	20
20	20
25	20
30	20
35	20
40	20
45	20
50	20
55	20
60	20
65	20
70	20
The average percent of your salary you plan to invest	20

**Andrew Stotz, PhD, CFA**








What you  
have  
learned

**Sasin** | School of  
Management

**Andrew Stotz, PhD, CFA**

- Start saving today. Right now. Take pride in how much you save, not how much you spend





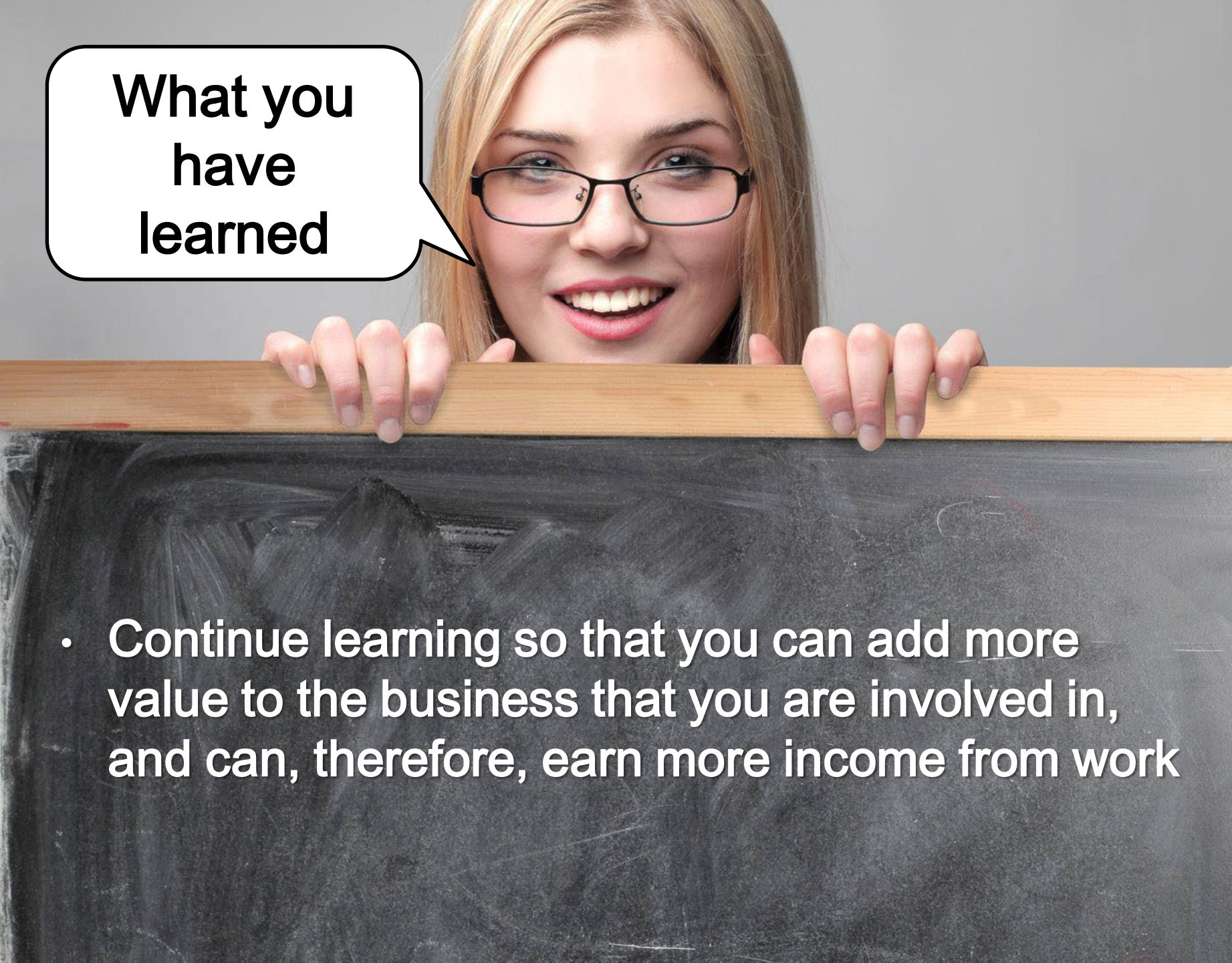
What you  
have  
learned

**Sasin** | School of  
Management

Andrew Stotz, PhD, CFA

- Keep your monthly spending well below your income

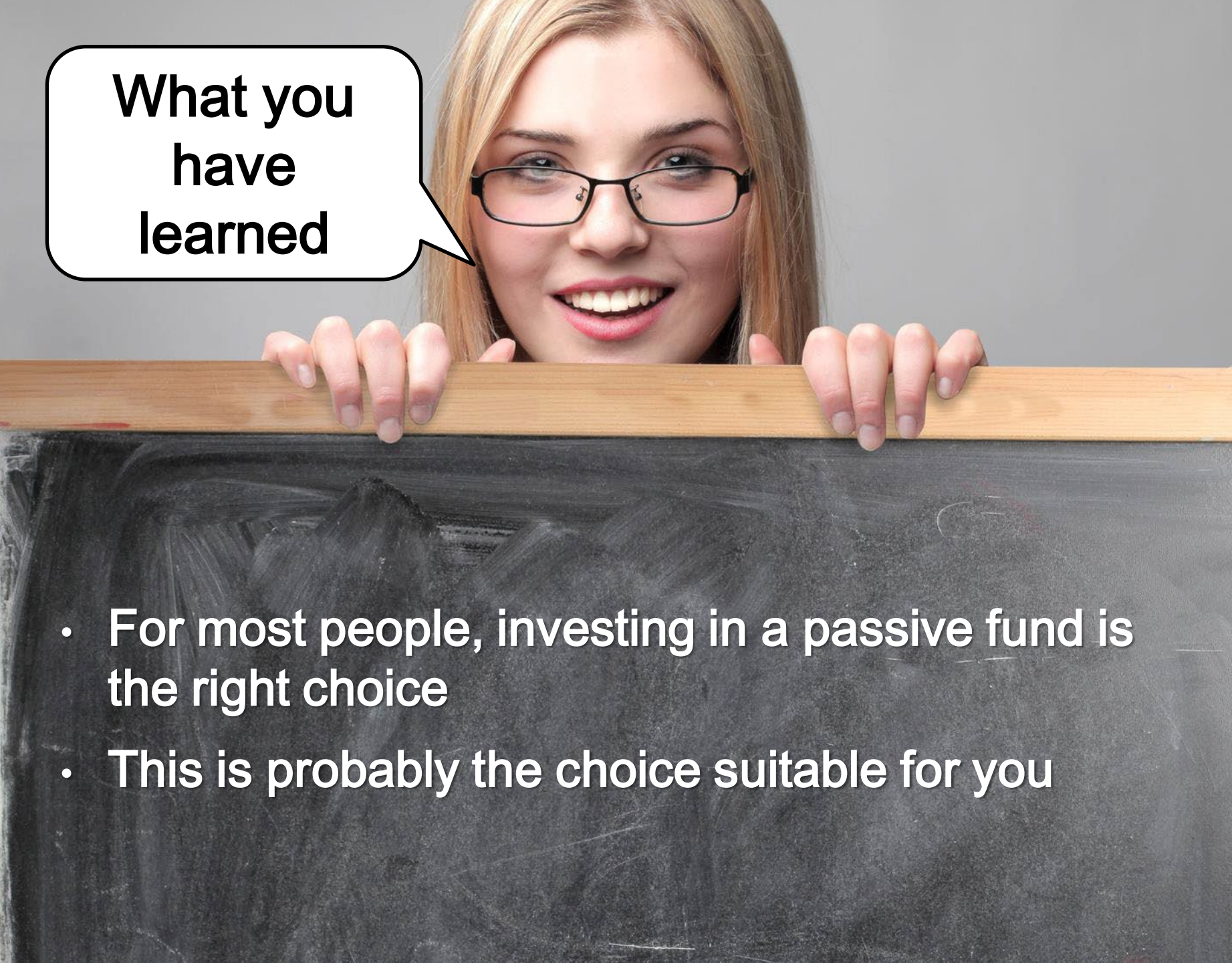




What you  
have  
learned

- Continue learning so that you can add more value to the business that you are involved in, and can, therefore, earn more income from work





What you  
have  
learned

- Focus on “financial independence”; this is when income from investments pays for your monthly expenses



**Don't save enough money**





**Build wealth through savings**

**Sasin** | School of Management

**Andrew Stotz, PhD, CFA**

