

Are you truly wealthy or a debt-ridden wannabe?

BY JESSICA HUBBARD

For many of us mere hardworking folk, the pay cheque that (hopefully) arrives at the end of every month is a sign that we are doing okay. We are able to pay the bills, and have some moolah left over for beers and weekends at the beach house. When the number on the pay cheque

shoots up, as we acquire more senior positions, snazzy titles and salaries to reflect our progression, we mistakenly think that we have arrived. We are now among 'the wealthy'.

HIGH FLYERS... OR NOT

The sad reality is that high earners are

rarely truly wealthy people. An Australian survey conducted in 2012 highlighted that high income does not imply high net worth. Analysts drew this conclusion from findings which indicated that only about 34% of households that rank in the top 10% by gross household income also rank in the top 10% by



household net worth.

Citadel portfolio manager Dudu Tembo says that there are many South Africans – and particularly women – who fall into this category. She explains

THE MONEY SCHOOL'S DAILY STEPS TOWARD MAKING THE CONVERSION TO REAL WEALTH:

- Start with the end in mind – meet with a qualified financial planner to find out what your financial independence number is.
- If you have a spouse or partner make sure the two of you are working towards the same financial goals. Involve them in your financial planning so the numbers can do the talking.
- Get rid of debt – it is a bad habit that will chew up your investable income and keep you from becoming wealthy.
- Read Thomas J Stanley's book *Stop acting rich*.

that many of them are not “efficiently and effectively facilitating the conversion from high income to high net worth due to behaviours and belief systems that handicap the management of their own financial affairs”.

Admittedly, it is also the ever-rising cost of living that prohibits most families from mastering their finances. As Joy Immelman, founder and director of Castle Investments, notes, expenses such as taxes, school fees and soaring municipal charges are a constant burden and major obstacles to long-term wealth building.

‘STOP ACTING RICH’

“Most high earners we come across have very little to show in the way of assets,” says Gary Kayle, co-founder of The Money School. “There is an inherent confusion among high earners that income is the same thing as wealth. Living in a beautiful home and driving a luxury car is no indicator of wealth if the banks own everything.”

Interestingly, Kayle says that high incomes tend to lead people more quickly into the debt trap because lenders will help you to accelerate the altitude of your lifestyle way before you can actually afford to do so... And because of your high income you will qualify for lots of ‘favours’ from lenders.

“Having a high income can create the illusion of wealth as spending capacity is high,” cautions Citadel’s Tembo. “Despite having a high gross income/

salary, if you do not have savings, you can be a pay cheque away from serious adversity.”

She uses the below equation to illustrate the meaning of net worth:

Net worth = the difference between what you own and what you owe. i.e. gross assets – gross liabilities = net savings.

“The liabilities side of the equation has a high psychological cost as well as real, tangible interest cost,” she adds.

TRUE FINANCIAL INDEPENDENCE

Kayle provides the example of splashing out on a flashy home as opposed to a smaller flat/townhouse, which often results in the dual costs that Tembo highlights above.

“The result, instead of buying a modest apartment to live in which will allow for excess cash flow and an ability to accelerate wealth building activities, you could find all your money tied up in mortgage payments for your very impressive accommodation,” warns Kayle. “During the last interest rate hike the banks were repossessing 3 000 homes a month because property owners were caught off guard by the rising cost of debt!”

“Financial independence, in my view, is based on your ability to earn enough money from your assets to support your living expenses,” he adds. “At this point you would no longer be financially dependent on your boss or your customers.” ■

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Citadel portfolio manager Dudu Tembo provides a few tips to consider when making the transition from high income to high net worth:

“A lifestyle and values assessment is a good place to start,” she says. “This can provide a reality check.”

- How much are you earning?
- How much do you spend and on what?
- Ask yourself how much is enough. Consider identifying opportunities to be more frugal.
- Do you have any savings or investments?
- Do you have debt? Debt is a classic drain on wealth creation, both financially and psychologically.

