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## Want to accumulate wealth? Save more than you spend

It's not as sexy as a hot stock tip or a sophisticated investment strategy, but the fact is that to be wealthy, you must save more than you spend. No matter what you have heard, you simply cannot invest your way into wealth.

This basic precept of not spending what you do not have is often ignored. Last year, according to the Wall Street Journal, for the first time since the Great Depression, Americans spent more than they made - \$39 billion more. This does not bode well for our golden years.

Sometimes we confuse affluence with wealth. Affluent people earn a lot of money, but are also tempted to spend a lot, which can leave them just one or two paychecks away from financial disaster. So, as odd as this may sound, affluence can interfere with our desire for wealth - as an affluent lifestyle is often an expensive one. Remember, when it comes to building wealth, it's not the income statement that matters, it's the balance sheet.

Americans' consumer mindset is probably behind our confusion of affluence with wealth. Despite the overwhelming sociologi-

cal evidence, we like to think that money will buy us happiness. The wisdom of the ages tells us that happiness has much more to do with who we are than with how much we spend. Wealth offers the security and independence to seek happiness, not happiness itself. It's what you do with your wealth - help your children, donate to charities or invest in new opportunities - that can lead to happiness.

To accumulate wealth, we need to recognize the stumbling blocks to saving. Housing is a big one. And it keeps getting bigger every year. Since 1970, the average family size has diminished by 16 percent. But the average size of a new home has increased by 48 percent. Too many of us are house rich and cash poor. This untenable situation is compounded by the fact that as the value and size of your home increases, so do the property taxes, the maintenance, the cost of furnishing, the utilities, etc.

The housing boom contributed to the savings deficit in a big way. Through refinancing, Americans extracted \$3.5 trillion in equity out of their homes between 2000 and 2005. The problem is that we did not save this money.

Instead, we spent it on vacations or toys. This is not a sustainable strategy for building wealth.

Far too many people simply believe that everything will all work out in the end - that retirement will come and somehow there will be enough money to live the life we want.



**GUEST COMMENTARY**

DERRICK JONES

But it just doesn't automatically work that way.

The good news is that it is never too late to start making good choices. Time, however, is not on your side and the longer you wait, the tougher it will be to secure your retirement.

What should you do? At the very least, you should be saving 10 percent of your income. Ideally, you should be saving 15 to 20 percent.

The rule of thumb is that during retirement you need about 80 percent of your pre-retirement income to live comfortably. So, if you make \$70,000 a year now, you will want to have a retirement income of \$56,000. To accomplish this, you need at least \$1,000,000 in liquid assets. That may seem like an impossible goal, but it isn't. You just have to start spending less and saving more.

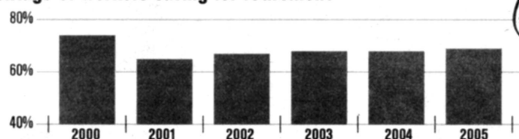
Another thing to consider is that people are living longer lives. Your retirement may last more than 25 years. So you cannot make a habit of dipping into your savings during retirement. You must keep a savings mentality your entire life.

Money doesn't buy happiness, but a nest egg that ensures your retirement can help you find it. And you will get there only if you save more than you spend.

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### Security and independence

#### Percentage of workers saving for retirement



#### How confident are you about having enough money for retirement?

	2000	2005
Very confident	25	25
Somewhat confident	47	40
Not too confident	18	17
Not confident at all	10	17

Source: Employee Benefit Research Institute, 2005 Retirement Confidence Survey



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