

Three lessons in money management

It boils down to simple habits of mind. The next time you're in a shopping mall, realise that your self-restraint and mindfulness guard the narrow gap between what you want and what you need. In addition, have a budget; and, finally, don't blow your savings by splurging. BY MARGARETHA SHERLYANA GO

THE year 2007 marked a new beginning for me. I became an international student in the city-state of Singapore.

Leaving behind people I had been familiar with all my life in a small city in the western part of Timor Island, I found myself outside my comfort zone trying to start all over in a land where a majority of people were foreign, and everything seemed fast-paced and more demanding.

Having to manage everything on my own for the first time, I found that one of the biggest challenges was taking charge of money.

My parents had been liberal when it came to me spending money, and I did not cultivate the habit of money management. I still remember one afternoon when I nearly fainted, after a trip to the ATM showed that my bank account balance was nearly zero.

It was a jolt that shook me awake. Various expenses had begun to mount over time, including the need to hire multiple private tutors.

Sending me overseas was a huge decision by my parents as it meant that they had to work even harder and longer in their small retail shop. I knew I had to do something about the situation.

I have distilled three paradoxically trivial yet profound life lessons relating to money management.

Redefining needs and wants

It is not uncommon to hear people telling you that what you want is often different from what you need.

The simplicity of the insight belies the deep wisdom within. Only until I tried to integrate it into my life did I uncover the many layers of nuances within. Take my word: knowing the difference between the two is not simple!

For instance, is Internet access a need or a want? To most Singaporeans, it is definitely a need. The Internet has become an indispensable tool in the education landscape in countries like Singapore, and I myself rely on being continuously connected to the Internet in my education journey.

It's hard to fathom life without the Internet. However, back where I come from, an Internet connection is deemed a luxury: a want, not a need.

It is imperative to discern internally our true needs and wants. Due to the nature of our circumstances, our needs and wants sometimes will have to be redefined to adapt to our changing environment.



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And without our realising it, external factors such as peer pressure could influence how we perceive our needs and wants.

From my observations, there are some who earn an average salary but are defining their needs like those who earn much more.

This is a slippery slope that could lead to mounting debts and even bankruptcy.

The importance of budgeting

When my parents first transferred money to me for my living expenses, it was in one lump sum. After deducting school fees and rent, it was still a sizeable amount.

I ended up living like a queen for the first six months—and then like a pauper for the next six.

Having gone through the painful experience of eating instant noodles for long stretches, I started monitoring my weekly expenses. It became clear that I spent way too much on meals and entertainment.

To rein in these excesses, I allocated a certain percentage to each spending category for the week.

In just 15 minutes, I sketched out a 'budget' plan. As I see it, a simple budgeting exercise like this is akin to goal setting. It gives us motivation and helps us utilise our resources effectively. It does not require top-notch financial knowledge.

You would be surprised, as I was, that a simple list of expected cash inflows and outflows can often work wonders.

The significance of cost savings

One of the first things I did while sticking to a weekly budget was to cut a portion from my frequent expenses in order to save more.

Instead of buying meals that could sometimes cost more than S\$10, I opted for cheaper options.

Sometimes, I went even further by opting for a S\$4 meal instead of a S\$5 one.

At first glance, it would seem that I achieved significant cost savings because this spending occurred frequently; the savings would thus snowball.

Curiously, though, I realised that the savings clocked this way never amounted to much in the end.

That sounds counter-intuitive, so let me explain.

I often observe fellow foreign students spending a lot on overseas phone calls. Even if the overseas calls are infrequent, the calls could be long enough to create a substantial dent to their savings.

Another example is the penchant of young people for the latest gadgets such as new phones, laptops and cameras. Refraining from these one-time purchases of 'wants' could yield significant cost savings but are generally overlooked.

Therefore, it is not that frequent or regular small savings do not amount to much, but that such savings can easily be undone by our infrequent splurges.

I share these tips with you in the small hope that if you find yourself in a similar situation like mine—where I was naive and careless about money management—take heart, do not despair.

Money management is not rocket science; it boils down to simple habits of mind.

Next time, at the shopping mall, realise

that the narrow gap between what you want and what you need is guarded only by your self-restraint and mindfulness.

Realise that having a budget is not a restriction on your spending, but your ticket to freedom to make purchases without feelings of guilt, panic or regret afterwards.

Realise that, on top of trying hard to reduce your daily expenses, you need to put a magnifying glass to your infrequent but large expenses too.

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Jointly launched by Citi Singapore and SMU in April 2012, the programme is Singapore's first structured financial literacy programme for young adults.

It aims to equip those aged 17 to 30 with essential personal finance knowledge and skills to give them a firm foundation in managing their money, and a financial head start early in their working lives.