

NEXT WEEK IS SAVINGS WEEK!

In 1987 a major international airline noticed that hardly any of their first class passengers were eating all of the olives provided with their salads. As a result, they decided to remove just one olive from each of them. This seemingly insignificant gesture saved the airline almost R500 000 over the next year.

We can all learn something from this. It's a great example of how, with some careful planning and budgeting, you can make your money go that much further. This is especially applicable in a country that has one of the poorest savings ratios in the world. September, 8-14, is National Savings Week, and we encourage everyone to look carefully at how they manage their money. How much are you spending? How much are you saving?

Another simple example highlights how 'a little money *can* go a long way':

If you had saved just R20 per month for the last 28 years (31/05/1974 – 31/07/2002), your money would have grown to R69 193 pre tax or R35 685 after tax at a rate of 25% (assume invested in a bank*, using the money market return over that period of 13.04% p.a.).

Taking this one step further, if you had invested that R20 a month into the stockmarket and received the All Share Index return (including dividends) over the same period, your money would have grown to R185 707. Had you achieved the share returns that Allan Gray earned for its clients, then your R20 per month would now be worth R2.463 million.

The table below illustrates the capital accumulated by saving various amounts monthly and investing in different opportunities.

Monthly Savings	Total Investment (338 months)	After tax cash in bank (25% tax rate)*	All Share Index	Allan Gray Limited**
R20	R6 760	R35 685	R185 707	R2 463 887
R50	R16 900	R89 213	R464 267	R6 159 718
R100	R33 800	R178 425	R928 535	R12 319 435
R500	R169 000	R892 125	R4 642 675	R61 597 175
Compound annual growth rate	N/A	9.8%	17.6%	28.7%

* The above return would never actually have been achieved on R20 each month as the savings rates fall as the amount falls but it is a conservative comparison to our figures.

** Share returns are for all of our clients since we started the business on 15/06/1974. Please note that the minimum monthly debit order into any Allan Gray unit trust fund is R500 and also that our first unit trust, the Allan Gray Equity Fund, was only launched on 1 October 1998.

The above figures illustrate the profound impact that saving regularly (even small amounts), investing wisely and letting the power of compound interest work for you, can have on your wealth and quality of life. Also, by saving now, you will help yourself later so that you retire financially independent. You will also be helping South Africa because more saving means increased investment and ultimately sustainable economic growth for our country, which we desperately need.

Commentary by Mark Herdman, Chief Operating Officer