A Complete Beginner's Guide to Saving Money

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Updated November 03, 2021
The Balance

Saving money, or the "saving habit"—as American author Napoleon Hill put it many years ago—is the foundation of all financial success.[1] Having money saved is what provides the means for you to take advantage of situations—whether it's going back to college, starting a new business, or buying shares of stock when the market crashes.

Saving Money vs. Investing

There is a huge difference between saving and investing. Both saving money and investing money have a place in your life, but they play very different roles.

How you handle these two things can have big implications for your financial success, stress level, and how wealthy you ultimately become. It can even mean the difference between suffering through a recession or depression and sleeping soundly through the night knowing that you have enough spare liquidity on hand.

Saving money is the process of parking cash in extremely safe accounts or securities that can be accessed or sold in a very short amount of time. Investing money, though, is the process of using your money or capital to buy an asset you think has a high probability of generating a safe and acceptable rate of return over time—even though it may decrease for years. Typically, this means stocks, bonds, and real estate.

Saving a Few Dollars Really Does Matter

Even if you are committed to saving money, you may find yourself falling into the trap of spending an extra $5 here, or $10 there, thinking, "It's not that much. I'll never miss it."

Depending on your age, this could be a huge mistake.

One of the cornerstones of saving money is understanding the time value of money, that is, the concept that $1 today is more valuable than $1 a year from now. This one money saving tip could help you transform your balance sheet over the next 10 years as you free up cash to put into reserves.

The longer your money has to grow, the better for you.

How Much Money You Should Be Saving

Everyone knows that saving money should be a top priority, but how many people know the exact amount of money they should be saving? Most individuals mistakenly believe that saving more money is better, and saving less money is bad.

While that's true in a general sense, the amount of money you need to save depends on your needs, lifestyle preferences, and income. The amount you need to save and have available in the event of an emergency or golden opportunity could be very different from your friends, family, and neighbors. The general rule of thumb is to have three to six months of living expenses saved in an easily accessible account.

The Key to Saving Money Is to Pay Yourself First

The single best way to begin saving money is to use a technique called "pay yourself first." This technique has been proven time and again to influence people to change their behavior.

Simply put, it's establishing the discipline to put a certain amount of every paycheck into savings for your future before you pay any other bills. Most individuals choose a specific percentage to take out each month, like 10% for example.

Ways to Make Saving Money Easier

Sometimes, saving money can be difficult. Life often throws us curve balls, like unexpected emergencies or injuries, that tend to impede our savings schedule and routine.

If you are struggling along the path to financial freedom, there are ways to make saving and investing easier.

Try making a game out of finding ways to spend $100 less each month. For example, you can walk home rather than take the bus, or order water when out for a meal instead of tea or coffee. Set up automatic transfers from your checking account into an investment or savings account, and do the same thing with your paycheck, or use an app, like Digit, to help you save automatically. The money you never "see" accumulates without it feeling like punishment. Reward yourself, and set goals for what you'll do when you reach certain savings levels.

Ways to Generate Cash for Your Savings

If you want to know how to get rich, history has shown that investing in strong businesses is a good place to start. However, you must first have the money to invest in these businesses, which means saving.

To help you start saving money today, change your habits. One way to do so is to pay off your credit card balance monthly. Also, it's important to do your research and find a card that awards you with points for purchases that can be used to earn cash back.

Consider getting a side hustle, adding a part-time job, or selling items for a little extra cash, and use that income for your investments. If you're creative or trying to declutter, there are plenty of online hubs for selling a variety of objects, including Etsy or Poshmark.

Paying Off Debt vs. Saving Money First

Debt is often a big hurdle to get over before you start truly saving money. If your debt is charging you 15% interest, and you don't have much cash left over after your expenses, it's easy to see why saving money can be a difficult task.

When deciding whether you should start saving money or paying down debt first, focus on paying off any high-interest credit card debt. If you can cover more than the minimum payment, that would be ideal.

It's also important to tackle both high-interest-rate debt and to contribute to an emergency find simultaneously, so that when an emergency does happen, you don't have to rely on taking on more debt to fund that emergency or unexpected life event.

Store even $25 per month to begin establishing some emergency funds so you don't have to depend on using your credit card for all emergencies. Ideally, a better approach would be consolidating your debt into a lower interest rate card or 0% balance transfer to help lower the payments and interest, allowing you to save more.

Low-interest debt can be worth paying off slowly so you can get started with putting money away with the potential to compound over the long-term for your retirement.

How to Save the First $100,000

Billionaire investor Charlie Munger is known for saying that the most challenging hurdle to becoming financially independent is saving the first $100,000.

Once you cross that threshold, you have the money necessary to get bank loans to build a business or acquire real estate or make investments in the stock market that can have a real tangible change in your net worth, if things work out well.

Understand the tax code to get every last cent that is coming to you. Reinvest your dividends, and look for opportunities with low fees.

Where to Save Money for a Down Payment on a House

If you are saving money for a down payment on a house, you want to find safe places to invest it so the money stays secure until you are ready to make a purchase.

FDIC-insured savings accounts and certificates of deposit are guaranteed by the government, so they are safe, but they won't generate a substantial return.[2] Money market accounts at a bank are also safe for storage.

How Saving $19 Made Some Families $5 Million

In 1919, families who got their hands on $19 by saving money were able to buy a single share of a well-known, hugely successful blue-chip stock. Today, that single share, with dividends reinvested, is worth more than $5 million.

This was all possible due to the savings habit. No matter how small your savings account is now, with wise stewardship and disciplined cost-cutting, you can one day be financially secure. U.S. savings bonds are one of the safest places to save money if you don't need to touch it for at least one year, as each bond is guaranteed by the United States government to never lose money.

Source: https://www.thebalance.com/the-complete-beginner-s-guide-to-saving-money-358065