



**TEN
PERSONAL
FINANCE RULES
TO LIVE BY**



1. **Live within your means**

- Live by your personal budget to make what you have work for you
- Control your spending and aim to run a budget surplus (a penny saved is a penny earned)
- Pay down any existing debt, higher interest first, and avoid taking on new debt



2. Pay yourself first

- Deduct savings for a rainy day as devotedly as taxes
- Save at least 10% of your take-home pay every month
- Have an emergency fund sufficient enough to cater for 6 months' worth of expenses



3. Protect yourself



- Obtain life insurance to safeguard against sudden, unexpected catastrophic events for which you would not be able to pay out of your pocket
- Read the fine print on your insurance policy documents
- Also, plan to have your own home, either by saving up to buy one or taking out a mortgage:
 - » Contributions to a personal pension plan can qualify you for a mortgage
 - » After making a down payment, the balance should be less than 2x your annual income
 - » Monthly payments should be less than 30% of your income

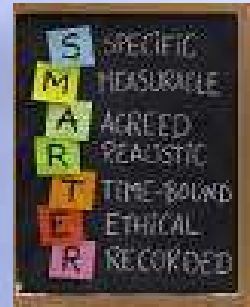


4. Invest in yourself

- Save for your education
- Further education relevant to your job increases your prospects of a higher salary
- Choose the right savings vehicle, depending on the amount of time you have
- In the words of a wise man, "The only thing more expensive than education is ignorance."



5. Set Financial Goals



- Outline “SMARTER” personal goals
- Understand the impact of your financial decisions:
 - » when to buy a house,
 - » where to live,
 - » when to have kids...etc
- Formulate a plan to guide you in achieving your goals, incorporating:
 - Where you are now
 - Where you would like to be
 - When
 - How to get there



6. Plan for retirement

- Start as early as possible
- Compare two individuals, Mary and Ann, both aged 25, who contribute to a Pension Plan earning 15% p.a. compounded annually:
- Ann contributes 3x as much for twice as long (costing her 6x more) but still falls short of Mary.

| | Annual savings | Age | Time | Cost (Kshs) | Benefits at Age 54 (Kshs) |
|------|----------------|---------|----------|-------------|---------------------------|
| Mary | 1,000 | 25 - 34 | 10 years | 10,000 | 382,146.80 |
| Ann | 3,000 | 35 - 54 | 20 years | 60,000 | 353,430.36 |

7. Take advantage of time

- Two important concepts of money:
 - Time value:** like a bird in hand...a shilling today is worth more than the promise of one tomorrow (due to certainty, inflation and the ability to earn a return)
 - Compounding:** interest earns more interest so saving up rather small amounts over time can build up into substantial returns
- Use long-term, risky assets if you have a longer time horizon (subtract your age from 120 to know how much to put in stocks)
- Re-allocate to have more conservative, low-risk assets as you draw closer to retirement



8. Consult widely

- Before making important financial decisions, consult an expert in personal finance
- Seek personalized assistance on specialized matters such as tax planning, debt elimination, estate planning
- Joining an investment group can also provide motivation for saving and achieving personal financial goals



9. Be Patient

- Nothing good comes easy!
- Building wealth requires focus, discipline, patience and perseverance
- As for get-rich-quick schemes, learn how to identify them and avoid them



10. Remember, Wealth Follows Health

- Exercise regularly
- Eat healthy
- Keep good company: In the words of a wise man, “It is better to be alone than in bad company”



Thank
You

