
How to become a millionaire

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For financial advisers and their clients

When asked who wants to be a millionaire, anyone would undoubtedly answer yes! However, the belief is often that this is impossible - unless through some stroke of luck or good fortune you get a windfall of money. We would like to disprove this theory and show you that it is indeed possible to become a millionaire through diligent saving.

What it requires are a few simple, but not easy, habits.

- 1) Start and stick to the habit of saving.
- 2) Be patient

At Morningstar, we did some work to look at the amount of time it would take for your investment to grow to R1 million based on two factors -

Factor 1: The amount of money saved each month.

We looked at realistic contributions starting at R200 per month. R200 per month is equal to sacrificing roughly two coffees per week. A small sacrifice in the quest to become a millionaire. The monthly contributions used in our analysis ranged from R200 per month to R10,000 per month.

Factor 2: The return generated from your portfolio.

As investors, we naturally want the best performing portfolio and believe this is what will make the difference in our journey to wealth creation. (Park this thought for a moment as we are going to show you something very interesting in our analysis and return to the focus on performance.) The analysis used a range of return outcomes varying from the current return investors can achieve by putting their money in a bank account up to a maximum of 17% per annum. Realistically, many investments can deliver higher returns in short periods of time, but 17% per annum was considered a large annual return and a prudent maximum, as delivering such a strong outcome would require some meaningful risk-taking.

The table below shows the number of years it takes for your investment to reach R1 million based on the two variables above – your monthly contribution and the annual return thereof. Please note, it is a broad simplification and does not account for inflation and assumes a constant return and a constant contribution.

Return assumption	17,0%	26,8	21,1	16,9	12,9	10,7	9,3	8,2	7,4	6,2	5,4	Years to becoming a millionaire
	16,0%	27,9	21,9	17,5	13,3	11,0	9,5	8,4	7,6	6,3	5,4	
	15,0%	29,2	22,9	18,2	13,8	11,4	9,8	8,6	7,7	6,5	5,5	
	14,0%	30,7	23,9	19,0	14,3	11,7	10,1	8,9	7,9	6,6	5,7	
	13,0%	32,4	25,1	19,8	14,8	12,1	10,4	9,1	8,1	6,7	5,8	
	12,0%	34,2	26,4	20,7	15,4	12,6	10,7	9,4	8,4	6,9	5,9	
	11,0%	36,4	27,9	21,8	16,1	13,1	11,1	9,7	8,6	7,1	6,0	
	10,0%	38,9	29,7	23,0	16,9	13,6	11,5	10,0	8,9	7,3	6,2	
	9,0%	41,9	31,7	24,4	17,7	14,2	12,0	10,4	9,2	7,5	6,3	
	8,0%	45,5	34,2	26,1	18,7	14,9	12,5	10,7	9,5	7,7	6,5	
	7,0%	49,9	37,1	28,0	19,8	15,7	13,0	11,2	9,8	7,9	6,6	
	6,0%	55,5	40,7	30,4	21,2	16,5	13,7	11,7	10,2	8,2	6,8	
	5,0%	62,8	45,4	33,3	22,8	17,6	14,4	12,2	10,6	8,4	7,0	
Amount invested per month												
R 200 R500 R1 000 R2 000 R3 000 R4 000 R5 000 R6 000 R8 000 R10 000												

Credit to Stealthy Wealth for the inspiration behind this table.

There are two interesting observations from this exercise. The first is that even with a mere R200 monthly saving into a savings account at the bank and generating a return of 6% per annum, if you start early enough, you can build your wealth up to R1 million. It may take you 55 years, but it proves that starting the habit of saving and being patient works.


The second observation is that if you look at the far right-hand column, you can see that by saving R10,000 a month, you reach that R1 million goal quickly and the return from your portfolio (on the left-hand axis) did not materially affect the time taken to become a millionaire. The power of compounding and the large contributions made all the difference.

This brings us back to the point raised earlier about focusing purely on performance. Yes, performance is important, particularly when monthly contributions are small, but what this exercise shows is that, more important than performance, is a consistent contribution and the size of the monthly contribution. I will agree with those who say R10,000 per month is a lot to invest, but even if you scale down to R1,000 per month, the goal of becoming a millionaire ranges from 17 to 33 years.

It is, of course, also important to remain mindful of the risk associated with investments. The above analysis assumes that your returns are achieved in a straight line, which is seldom the case. To achieve more than cash, it is likely you'll have to absorb at least one setback in your wealth journey, which can distort the outcome. With that said, remember to focus on the long-term goal and not to be deterred by short-term market movements.

In the words of Elizabeth Gilbert - "There's a wonderful old Italian joke about a poor man who goes to church every day and prays before the statue of a great saint, begging, "Dear saint-

please, please, please...give me the grace to win the lottery." This lament goes on for months. Finally, the exasperated statue comes to life, looks down at the begging man and says in weary disgust, "My son-please, please, please...buy a ticket." The same goes for saving!

Bottom line, it is both possible and plausible to generate R1 million in savings by changing our behaviour. It starts with the decision to save on a monthly basis with no immediate gain in sight. The second behavioural change is practising the discipline of delayed gratification. Waiting. Patiently. And letting the eighth wonder of the world, compound interest, work its magic. 

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