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MONEY WISE

WHY DIETS AND SAVINGS PLANS FAIL

Dieting and saving may be two entirely different aspects of our lives yet there are similarities in the way we approach both and the resulting degree of success – or lack of it – in achieving our goals.

Firstly we should consider our main goals in dieting and saving. There may be subsidiary goals such as losing or gaining weight for a specific event or saving for a particular reason, such as a holiday. But the long term goals are likely to be permanent weight loss or gain in the case of dieting and financial independence in retirement (or earlier) in the case of saving.

How successful have people been over the years? If we look at statistics in Western countries the results are not encouraging. Many studies have been carried out on the success of dieting plans and most show failure rates of 85% or higher. If financial independence is the target for long term savers the success rate is not that much better. Various studies would indicate that only a small percentage of the population can expect to achieve true financial independence by the age of 65.

So why do many plans fail?

People abandon their plans for a number of reasons.

A new diet may prove unpalatable, there may be unpleasant side effects and it may be just too hard to give up some of the things previously enjoyed.

A commitment to a lifetime savings plan may prove equally unpalatable and it is easy to succumb to the temptation of resuming the former lifestyle without any sacrifices.

Often someone or something motivates you at some point to make the lifestyle change. You react by undertaking extreme measures such as a crash diet or deprivation of your favorite foods or in the case of savings plans you commit to a contractual investment plan at a level which proves unsustainable. In the case of the abandoned diet it will serve only to increase the feeling of

failure. If a contractual savings plan is abandoned or contributions reduced the cost in terms of charges and penalties can be substantial. If a client tells me he can comfortably save a certain amount a month I would recommend committing no more than a third of that amount to a single contractual plan. Other options should be considered for the balance.

In both cases the temptation is to look only at the ultimate goal while failing to take into account the challenges and pitfalls of the journey on the way to achieving that goal.

So is there a formula for success?

There is, although it doesn't come with any guarantees. We can look at six principles that apply to a successful diet plan and then relate them to the world of savings.

- 1. The plan must be realistic.** Where savings are concerned you don't want to radically change your lifestyle in exchange for a better life 20 years down the road. Some sacrifices will be necessary but there has to be a compromise.
- 2. The effects should be gradual.** Don't be tempted to aim for high returns and quick results. Plunging 100% into aggressive investments for example may hit an early setback which could discourage you from maintaining course. The plan should be reviewed periodically rather than daily.
- 3. You need a variety of nutrients.** In terms of dieting that means a wide range of foods that provide all the right vitamins. Where savings are concerned you need an equally varied 'diet' to include assets such as cash, currencies, stocks, bonds, property, commodities and alternative investments.
- 4. You need adequate calories.** Some foods may be nutritious but unless you consume adequate calories you will not have the energy to keep you active and healthy. Similarly, cash is an essential component of a healthy portfolio but if you place too much emphasis on cash holdings at the expense of more growth-oriented assets (as

in no. 3. above) your plan will lack the energy to ensure real growth over time.

5. Permanent weight loss (or gain if appropriate). To be successful a diet must maintain its results throughout a lifetime. The equivalent in terms of saving would be the achievement of financial independence which means that your wealth is sufficient to generate not only sufficient income to meet all your reasonable needs but it should be self-sustaining and continue to grow without further external assistance.

6. Determination to succeed!

One final similarity between dieting and saving is that in both cases it would be wise to follow professional advice!

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