Turn Expenses into Wealth

"Do not save what is left after spending but spend what is left after saving" – Warren Buffett.

I have a family member who often justifies an expense by saying, *"It's a great investment."* This spins my mind because I firmly believe that there is a clear difference between spending and investing.

We all need to spend on necessities and occasionally on our wants. After all, we must live. However, its crucial not to forget about investing, especially when we typically spend on consumer-oriented businesses that have perfected their marketing to make us feel like we "need" their products.

To highlight the economic outcome of spending versus investing, consider an equal allocation into the shares of the company in question and then examine the outcome.

Globally, there are leading consumer brands that have widespread influence. Some companies to consider for this exercise include Netflix, Amazon, Apple, and Starbucks.

Let's explore the economic difference between spending and investing by comparing the purchase of a new Apple iPhone every 2 years over the last 12 years, starting with the iPhone 5 in 2012 for $649. If replaced every second year, the total spend on new iPhones is approximately $4,500.

In comparison, assume the same amount was invested in the stock of the company selling the product. From 2012 to 2022, spending $4,500 buying Apple stock in 6 tranches would have accumulated approximately 140 shares. At the current price of $220/share, this investment would have grown to $31,000 – a brilliant return.

Other Examples Over a 10-Year Period

Product/ Company	Amount Spent	Total Spend (10 yrs)	No of Shares	Value
Apple	$750/iPhone	$4,500	140	$31,000
Netflix	$15/month	$1,800	31	$20,000
Starbucks	$3/day	$10,800	199	$15,000
Amazon	$100/month	$12,000	250	$46,000

In addition to the growth of the investment, these shares would currently be distributing around $600 in total annual dividends.

Investing can be defined as essentially delayed consumption. With each expense, there is an opportunity cost. Directing funds to investing means giving up some immediate pleasure or utility, but the offset is the potential for greater utility or pleasure from increased wealth in the future.

In conclusion, it's vital to differentiate between spending and investing. While spending fulfils immediate needs and wants, investing has the potential to create substantial wealth over time. By always carefully considering how we allocate our resources, we can achieve a balanced approach that meets our present needs while securing our financial future.

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If you have any questions, Ian and our team would love to hear from you on global@seedinvestments.co.za.

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