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# THOUGHTS ON WEALTH CREATION

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From the desk of Adam Khoo

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## The Frugality Habit

*A man once came up to me on a plane to Kuala Lumpur looking rather shocked. He asked, “How come a millionaire like you is travelling by economy class?” My reply was, “That’s why I am a millionaire.” He could not wipe the look of puzzledness from his face.*



This anecdote confirms the greatest lie ever told about wealth. Many people have been brainwashed by the media to think that millionaires have to wear Gucci, Hugo Boss, Rolex, etc. (I shop at G2000 by the way) and sit on first class in air travel. That is why so many people never become rich — the moment they earn more money, they think it is only natural that they spend more, so they end up going back to square one.

In fact, these people who believe that all wealthy people lead extravagant lifestyles couldn't be more wrong. Sure, we see well-to-do individuals everywhere sporting luxury brands and driving expensive sports cars. Yet in reality, the true wealth creators go by a totally different book: the book of frugality. To illustrate this, author & researcher Thomas Stanley has pointed out that the number one car brand bought by millionaires was... the Toyota! That's right — most millionaires favor not the Lamborghini, Mercedes or BMW, but the good old Toyota. Do you know what this means?

Truth is, most self-made millionaires are frugal (that's different from being stingy)! They spend less than what they earn and only spend on what is necessary and of value. That is why they are able to accumulate and multiply their wealth so much faster. In my earlier years, I save about 80% of my income while today I save only about 60% (because I need to support my wife, 2 kids, mother-in-law, 2 domestic helpers, etc.) Still, it is way more than most people who save 10% of their income (or less!). I refuse to buy a first class air ticket or a \$300 shirt because I think it is a complete waste of money. However, I happily paid S\$1,300 to send my then 2-year old daughter to Julia Gabriel's speech and drama class without thinking twice.

Now, “Does being frugal mean that I should never buy big houses and nice cars?” you ask. Well, yes and no. Let me put it this way — is buying a Mercedes at S\$350,000 extravagant? It depends. If you are earning S\$6,000 a month and have to take a super huge loan just to feel the prestige of owning such a car when you can actually save the money for growth, then I think it’s kind of pointless. But, if you are earning S\$5 million a year, then it would be a relatively average and affordable expense. To put it simply, your luxury spending should take up only a small percentage of your total income.

For example, I bought myself a S\$200,000 BMW and a S\$2million house. Since these expenses are considered relatively low based on my income, it is affordable to me. But if I were to buy a S\$2million Lamborghini and a S\$10million house (which I could afford by taking on a huge loan and stretching my finances), then I would call myself silly. The other important thing is to make purchases only because you have a need or strong passion for it and not because you just want to impress others. For example, I bought my house primarily because I need lots of rooms for my whole family, while I have a personal passion for convertibles and sports cars. So, indulging once or twice is fine, as long as you don’t overdo it.

If you think that perhaps being frugal is just a personal belief of mine and does not hold true for other wealthy people, you’d be surprised. Take Warren Buffett for example. At my point of writing, Warren Buffett is one of the richest people in the world, with a net worth of over fifty billion US dollars. Yet, he continues to stay in the same 5-bedroom house that he bought more than 50 years ago, when he could well afford multiple lavish mansions. Why? Because wealth creators understand and value the importance of saving their money to invest in growing assets. And that, is the money management principle shared by numerous others on the billionaires’ hall of fame, like IKEA founder Ingvar Kamrad, Facebook founder Mark Zuckerberg, and many more.

At this point, I can hear your alarm bells of scepticism ringing. You may think I can preach the frugal way so easily because I am rich and have

no money woes. But what if I told you that even ordinary people who earn an average income of S\$3000 a month can also achieve a million-dollar wealth if they put their heart (and mind) to it? Yes, you may not have tons of money at your disposal, but you can surely start small. By just saving 10% of your income a month and investing them in appreciating assets, you too can become a millionaire through the power of compounding (but that's another idea altogether and I will not talk about it at length today). The point is, it doesn't matter whether you earn more or less — being frugal is an important habit that all wealth creators (or aspiring ones) should cultivate.

**So, there you have it, the 3 key principles in my handbook of frugality:**

**1) Save more, spend less**

**2) Spend only on what is necessary and of value**

**3) Invest your savings in assets that grow your wealth**

Remember, forgo your instant enjoyment today, and you can lay the way to a wholesome wealth tomorrow. *Be frugal.*

**Adam Khoo**  
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