



MoneySmart Online Course #4

Spending Smart. It's Not How Much You Make but What You Do With It That Counts

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Notes for MoneySmart Online Course #4

Spending Smart.

It's Not How Much You Make but What You Do With It That Counts

If you take a good look at those that are in really good shape, financially, that most of them, by far, got there by spending smart, not because they made a lot of money.

In subject #1, how to ask for and get a better price or deal on almost anything I already gave you some very valuable stuff to help you to spend smart. In subject #6, How to buy your cars smart, you'll find that there's a heck of a lot more money yet you can save there. But I don't want you to stop there. There's a lot more on the table waiting for you.

There are 6 spending rules you need to follow. After that we'll get into creating a winning spending plan

Spending Rule #1- Have a written spending and saving plan and stick to it.

You need a plan and you need to stick to it. This doesn't mean you never change it as you go.. you always do. But at any given moment your plan is your plan, and you follow it. The only reliable way to see to it that your money is spent on what you want, not on what "they" want do that is to decide, on your own, all by yourself, where you'll spend your money and in what sequence, what priority sequence, and how much you'll save

In subject #2, The critical importance of having a plan for your life and your money we already covered the big things.. what you plan to work at, where you'll live, buying the big stuff, like houses, cars, education for your kids and such. But this still leaves us with the rest and, added up, the rest is a really big chunk of your money.

You start by sitting down and making a list of every immediate smaller purchase you want or need to make. I'm talking everything except normal weekly food purchases. New underwear, dishwashing liquid, toothpaste.. you name it. Then add to this list any larger purchases that are now at the top of your priority list.. a new couch, a new TV, next year's vacation, and so on. Then just keep changing this little list whenever there's something to add or delete, or whenever your priority sequence has changed.

Next.. when you are out shopping and see something you want to buy other than normal food or household supplies, and it's not at the top of your list, don't buy it, even if it's something inexpensive. Instead sleep on it. If you still want to buy it when you wake up the next day and it involves a significant amount of money, look at your priority list and decide what you're willing to trade to get it. If you like the trade, then fine, go buy it.

Also, now that you have your little list, you know what you're going to be buying fairly soon, so when you're out shopping and feel like it, do a little pre-shopping. Figure out exactly what you want to buy when the time comes.. color, make and model, or whatever.

Spending Rule #2: Always Look at the Annual Cost

To understand the real impact of your spending choices, always look at the annual cost involved. Say you spend \$4.50 at Starbuck's, or \$10 a day eating lunch out five days a week. Those seem like small expenses, but the annual costs on those 2 are \$1,100 and \$2,500. To cover that you need to make an additional \$1600 and \$3,500 a year, respectively.

Better yet, that's from \$42,000 to about \$100,000 in 20 years at a 6% investment return. **A hundred thousand dollars! \$148,000 if you put it in an IRA, pre-tax.** This is what you are actually trading away with those small purchases.

I'm not telling you not to have your cappuccino. Your priorities are all yours. All I'm saying is know your trades. Every time you spend, you're trading

something for something else. So know the **real** cost of your trades and what you're trading it for.

Spending Rule #3: Buy from the right places.. Costco, the Internet, etc.

Buy from the right places.. Costco, the Internet, and so on. Shop the malls.. buy on the internet. Go out of your way to buy your food and a lot of your other stuff at Costco. Get your gas there. It's not uncommon to save a couple of hundred dollars a year doing so. Get their credit card.. 4% cash on gas, 3% on travel, 2% on what you buy at Costco and so on.

Spending Rule #4: Always ask for a lower price..

We already covered how to do this this in course #1.

Spending Rule #5: Never Respond to Service Advertising or Infomercials..

When it comes to services, it's almost always the worst choices that advertise the most. Almost all successful service businesses get the vast majority of their business from repeat business and referrals. The businesses that don't get enough repeat business or word of mouth don't have a choice. They **have to** advertise. And they're the very ones you want to avoid.

As for infomercials, never buy anything from one.

Spending Rule #6: Buy Quality..

When you do you almost always win. You're far more likely to be happy with what you bought, and it won't need to be replaced as often as a lower quality product.

Creating Your Spending and Saving Plan..

Once you've got your plan, you need to compare it every month against how you actually spent your money. And when you do, particularly at the start, you'll learn a **lot**. Once you see what's actually going on you then decide whether you want to continue spending the same way or not. That way you're completely in charge, and 100% aware of the choices you're making.

And as you do these things you need to be realistic. Being unrealistic won't work, and it'll just discourage you from continuing with this critical process. You may find that you need to make some pretty big changes and that they won't be easy, but never doubt you can do it. Just decide that it's worth it, because it is.

As you proceed, you need to keep track of how you're doing, overall. Either of the following sites will help you list your assets and liabilities and keep track of your net worth. At least a couple of times a year take a few of minutes and update things to see how your net worth is growing.

[Net Worth Calculator - Bankrate.com](https://www.bankrate.com/net-worth-calculator/)

[Net Worth Calculator | Investopedia](https://www.investopedia.com/net-worth-calculator/)

Next, here are some key steps you need to do when creating your plan and, of course, as you actually do it.

Step 1: Create an emergency fund of no less than \$1000 You absolutely have to have an emergency fund. This is so important that even if you have a lot of debt, don't pay down a penny of it until you have some emergency money set aside.

Never touch that money unless you get hit by something and, trust me, you probably will.

Step 2: No added debt Don't go increasing your debt.. don't increase your credit card balances, no home equity line of credit. Avoid these things like the plague, unless you've been hit with something really disastrous.. something where you just have no other choice.

Step 3: 50% to emergency fund, 50% to debt reduction until you have 3 month's expenses If you have debt other than a mortgage or a car loan, use half your free money for debt reduction. Put the other half in your emergency fund until you have 3 month's worth of living expenses.

Step 4: If your employer matches what you save in your 401(k), match them

Step 5: Eliminate all remaining debt except your home and your car

Step 6: Pay off your car and start saving \$250 a month in a car fund

Step 7: Save for your large purchases Set aside some money from each paycheck. No more buying on credit. Buy when you have the money.

Step 8: Save for Financial Freedom Start with no less than 7% or 8% of your pay and look to increase this percentage as soon as you can to at least 15%, preferably 20% of your after-tax income. **No way** less than 7 or 8%. If you own a home, you can use some of this money to begin to pay it off if you wish. If you don't and wish to own one, you can use some of these savings for your down payment.

And finally, be sure to compare what you actually spent to your plan and then adjust it as you go forward. Do this every month... for sure for at least for the first few months. Seeing how you actually spent your money almost always shows you something that can help you as you go forward.

Also, there may be months where you fall off the wagon a little. That's no big deal, just get back to your plan. Success is never hurt by temporary setbacks unless you quit, and no way do you want to do that.

And any time you find yourself wavering, think financial freedom. Think about what you'll do, how you'll spend your days, how it will feel. Think of what a great life that will be and don't ever back down. Go get it. Don't sell yourself short. Trust me, it's there waiting for you.

And remember, most spending is *optional*. Even the big stuff. Here are some examples:

Rent or house payment eating away at you? You can always move to a smaller, cheaper place. I understand you don't want to, but you can if you have to. You can even go farther and live in a shared living arrangement. Tens of millions of people do just that.

As for house size, the average house size in 1973 was about 1600 square ft. Now it's 2600.. a thousand ft. bigger. Do we really need all that added space? As for my family, my wife and daughter and I, we live in a 1250 sq. ft apartment and its plenty spacious.

Some other ideas.. Sell your car and buy a cheaper one, or if you have two cars maybe sell one and use occasional rentals, Uber, or public transportation instead. Cut back on eating out, or whatever.

In subject #2, The critical Importance of having a plan for your life and your money, I talked about higher education and what a waste it can be. Think about what I said there. Look at your notes from that session. You may very well see there's just a huge opportunity these days to save when it comes to paying for an education.

Just not enough income coming in? How about adding a small part-time side job or a little side business, then saving whatever you make from that. I'm not suggesting you work yourself to death, but a few extra hours a week can often make a heck of a difference.

As for tracking your spending, there are a lot of systems out there on the internet. In looking at them Mint.com seems like a good one to consider, and it's free, but you can also just go with some simple lists if you prefer. It's your choice.