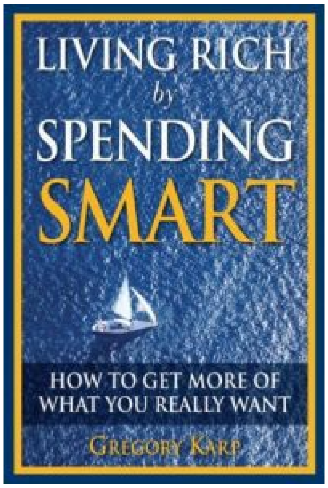

Book Living Rich by Spending Smart

How to Get More of What You Really Want

Gregory Karp
FT Prentice Hall, 2008
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Recommendation

Financial trouble is all too common. No matter how much they earn, some folks never seem to have enough money. In a rough economy, even frugal, prosperous people want to know how to save more of their hard-won earnings. Financial expert Gregory Karp, author of the popular *Spending Smart* newspaper column, read weekly by more than 600,000 people, offers proven strategies for saving money on everyday purchases and big-ticket items. *BooksInShort* recommends his savvy book to those who want to learn how to spend more judiciously. It is jam-packed with numerous tips on saving money every time you shop.

Take-Aways

- How you spend your money will determine how wealthy you can become.
- This is more important than your salary or investments.
- You cannot control your income or how your investments do, but you can control how you spend.
- Cutting back on spending immediately makes you wealthier.
- To save, spend only on the things you care about deeply.
- First control your "FIT" expenses: "food, insurance and telecommunications."
- Many people do not think logically about money. They often make cognitive errors.
- Your ideas and attitudes about money and your finances will determine if you build wealth or live in debt.
- To save money, comparison-shop.
- You really can save when you understand that the best things in life are free.

Summary

How You Spend Matters More than What You Earn

Want to become wealthy and retire debt free? Then, spend judiciously. This is the cornerstone of any wealth-building program. It is far more important than the investments you make, how much you owe or even the amount of your annual salary. Spend wisely and you can become wealthy. Spend stupidly and you never will. Carve it in stone: Money out is as vital as money in.

> "Spending smart is the only way to get out of debt and build wealth."

Generally, you can't control how much you earn. But you can determine what you are going to spend and, when it comes to building wealth, that makes all the difference. Consider: If you earn $30,000 annually, discontinuing your $50-per-month cable TV service is equivalent to a 3.3% annual raise. Find similar bills to cut and even more money will remain in your pocket. Cutting back on expenses has an immediate positive effect on your financial situation, but getting a raise could take months, even years. Earning a salary is like playing offense in a football game; cutting spending is like being on defense. Sport aficionados know that while razzle-dazzle offensive plays are fun to watch, the defense always wins the titles. You can become a wealth-building, defense-playing superstar. Here's how.

"Financial FITness"

To cut expenses, start with your "FIT" costs – "food, insurance and telecommunications." Consumers almost always can achieve substantial cuts in these areas without radically altering their lifestyles. Since these are constant expenses, you can save an huge amount over the course of your lifetime. The typical American family of four is likely to spend $13,500 a year in FIT costs. Multiply that by 25 years (more than enough time for the children to grow up and leave home) and you have more than one-third of a million dollars!

> "Most people become wealthy and stay wealthy because they care as much about money going out as money coming in."

Save on food costs by "stockpiling" – always buying nonperishable items on sale in large quantities. Store them in bulk to save 20% on your supermarket costs. Insurance rates have become incredibly competitive, so you can save money by shopping for the best deal. To save on telecommunications, carefully choose the long-distance plan that is most appropriate for you. Don't purchase the standard "bundle" of services. Instead, buy discrete services, such as long-distance calling, from vendors who are specialists. Wireless is the way to go today, so cancel your landline. You also can save with VoIP (Voice over Internet).

"Know Thine Enemy"

How you think about money, finances and savings determines how wealthy you will become. Often, people routinely make conceptual errors that keep them, if not poor, then at least struggling financially. To illustrate, most people say that they would walk five blocks to save $25 on a pair of $75 shoes. However, the same individuals will not make the same five-block walk to save $25 on a $2,500 set of living room furniture. This is schizophrenic mental accounting. The $25 you can save on the living room set is the same as the $25 you'd save on the shoes. But most people calculate it differently. Such mental errors lead them to waste money. Other common mistakes in fiscal thinking include "loss aversion" (keeping your money in a bad investment too long), "sunk costs" (throwing good money after bad, such as repairing a car you already paid for even though it is an obvious lemon) and "innumeracy" (not understanding math or numbers).

> "Many people don't take the time to examine where their money is going and to make a conscious decision about whether it's going to worthwhile use."

To begin to save, determine your "psychological income," that is, how much it matters to you to buy a product's "nonfunctional benefits," such as its upscale brand name. For example, with a few exceptions, modern cars are all safe, easy to use and efficient. They all will get you to work in the same amount of time and for the same basic fuel expense. However, some people spend extra to own a "prestige" automobile. To save more money, don't buy nonfunctional benefits.

"What a Waste!"

Some people throw money away on purchases that make no sense. Bottled water tops the list, but people spend billions on it annually. A gallon of water packaged in chic bottles can cost up to $10, far more than a gallon of gasoline. Tap water, a perfectly acceptable alternative, costs less than a penny a gallon and is the same basic substance – good, old H2O; it's just less filtered. Tap water and bottled water are equally safe. Indeed, tap water must meet stricter testing standards, so it may actually be cleaner than bottled water.

> "Controlling spending is far more important than the amount of your debt, which investments you choose or even how much you earn."

Extended warranties are another silly expense. Manufacturers love extended warranties, because they represent total profit, but this kind of "junk" insurance is seldom necessary. Other wasteful insurance policies are childhood life insurance (most children do not die and kids are rarely their family's primary breadwinners) and rental-car insurance (your basic car insurance usually includes rental vehicles). Timeshare vacations also waste money, since they lock you into a single destination and often include exorbitant maintenance fees. Just breaking even on the upfront costs can take decades. Cigarettes and cigars are boneheaded purchases; they're costly and they can kill you. Buying a lottery ticket (also known as paying "poor people's tax") is also bad news. The odds are meager; you have a better chance of becoming president than of winning the lottery.

"The Big Picture"

Comparison shopping is a proven money saver. A recent study showed that a person shopping for televisions saved $100 by spending just 16 minutes comparison shopping, which you can do online. Another basic savings strategy is to track your expenses daily for two months to see how you spend your money. To save, you also can:

- **Categorize your purchases** – This helps you identify and cut unnecessary expenses.
- **Use proven budgeting benchmarks** – For example, spend 50% of "after-tax income" on "must" purchases, 30% on "preferred" purchases and 20% on savings.
- **Negotiate with salespeople** – Most people negotiate car prices, but you also can negotiate on many other big-ticket items, such as appliances and furniture.
- **Save automatically** – Have savings taken out of your pay via a 401k program or a Christmas club.
- **Buy second-hand merchandise** – Save big, particularly on cars, which depreciate tremendously the first year after purchase. You also can save on little purchases. For example, used golf balls are terrific buys compared to new ones.
- **Protect your windfall** – If you suddenly come into a great deal of money, for example, an inheritance, don't act like most people and blow through it in a few months.

"Around the House"

Like FIT expenses, household expenses add up because they recur repeatedly. For abundant results, trim these repeat bills. Start with your air conditioning costs. Heating and cooling the typical home costs $1,000 annually. If you can cut your heating and cooling costs by a mere 10%, you will save $100 a year. To save, use compact fluorescent light bulbs instead of standard electrical bulbs. However, do not replace your windows to cut heating and cooling costs. Recovering the heavy upfront costs will take forever. Just seal your windows and doors tightly.

> "The only thing that makes you wealthier is regularly spending less money than you make."

For other savings, cut back on cable TV – a luxury not a necessity. Don't buy it unless you must (and who must?). Pets can soak up bundles of bucks for food, vet services, grooming, medicines and more. Are Fido and Tabby worth it to you? Check out the library for free books, DVDs, CDs, and other educational, cultural and entertainment resources. If possible, buy less costly medication. Ask your doctor to suggest alternatives to high-priced pills. On the road, clean your vehicle's air filter to save on gas. Travel as light as possible. Carrying heavy things in the trunk cuts fuel efficiency. Don't buy high-octane gasoline unless absolutely necessary.

"Financial Foolishness"

The financial services industry makes money by counting on the public's naiveté, gullibility and downright ignorance about money and finances. For example, avoid investing in mutual funds that classically underperform the market. Uninformed people end up buying financial products they do not need or should get for free. For instance, many people pay for credit cards, even though they constantly receive a blizzard of free credit card offers. Some people pay fees for their bank accounts, literally paying the bank for the privilege of letting it hold and use their money.

> "'I'm too busy to compare prices or to manage money.' This might be true for a small fraction of people, but mostly it's a lie."

With credit cards, you are in the driver's seat, not the credit card company, which wants your business. Never hesitate to ask your credit card company for a cheaper rate, a more liberal spending line and even fee waivers. Consolidating debt is a bad bargain. Instead, work as hard as you can to retire debt; don't shuffle it around. Be wary of identify-theft protection services; many are worthless or address a minor problem, and some are even organized to steal identities.

"That Time of Year"

Too many people do not plan ahead for seasonal expenses they know will crop up every year – Christmas, St. Valentine's Day, birthdays and so on. Thus, they often rush and overspend on last-minute gifts. Think creatively. Perhaps you can celebrate Valentine's Day a week after February 14, so you can realize terrific savings on red roses and holiday-themed candies. When it comes to holidays and birthdays, online shopping can be a real money saver. It promotes comparison shopping and makes impulse buying less likely.

> "Few events in life offer a better chance to waste money than buying a car or truck."

Consider some different tactics for "back-to-school" shopping, which has become increasingly expensive. Students today need far more than lunchboxes and No. 2 pencils. They may require PDAs, calculators and other electronic gear. New clothing can break your budget quickly. Avoid last minute shopping by planning ahead and comparing prices as much as you can. Explore sources for good used merchandise or clothing.

> "Credit card companies are masters at separating you from your money."

To save on taxes, invest in instruction manuals that suggest deductions you may not have considered. If you are a senior or have a low income, look into governmental or nonprofit free tax preparation or assistance services. Avoid high-interest "refund anticipation loans." Don't pay someone a big fee to lend you money the government will send you soon anyway.

"Life Happens"

To save substantially on big-ticket purchases, such as a home, car, medical expenses and so on, you just need to know what you are doing. When it comes to a car, don't think: "What car do I want?" Instead, ask yourself: "How much can I spend?" Don't borrow to pay for your car. Why take on expensive interest? Instead, use the "cash-only, trade-up plan." Keep your current vehicle for at least three years after you have completely paid for it. Instead of making monthly payments, put money into your savings account for that three-year span. Use the savings to buy a new car, which you should be able to afford in combination with trading in your old vehicle.

> "'I could die tomorrow, so I'll live for today.' This immature attitude justifies actions of the buy-it-now and pay-for-it-whenever class. It's the primary excuse for not saving money."

If you are buying a house, be conservative. Your monthly payments on a 15-year mortgage (fixed rate, of course) should not be larger than 25% of your net monthly income.

You can even save on college tuition and wedding expenses. You'll save a bundle if your kids start their higher education at a cheap, two-year public school, and then transfer to a more expensive university for their junior and senior years, if that is what they need. When it comes to weddings, you can save in numerous areas. For example, to save on flowers, buy them based on their color, not their name or pedigree. People won't notice the difference.

"Buying Happiness"

You can save a great deal of money on everyday purchases if you spend wisely and realize that you don't have to acquire "things" to be happy. The most satisfying lives usually do not depend on possessions. Rather, life's experiences always mean the most.

> "Poor spending decisions often stem from emotions and ignorance."

Research cited in the *Journal of Personality and Social Psychology*, and backed up by numerous similar studies, says that people derive far more joy from their experiences than from their possessions. Further, most material goods lose value as they age, but great experiences, transformed into wonderful memories, become even more meaningful over time.

> "Winning the [lottery] jackpot isn't a financial plan."

Sometimes, the best way to save money is not to spend it at all. Instead, devote your time and attention to the people and activities you truly love. After all, time is your most precious commodity. Be sure to spend it wisely.

About the Author

Journalist **Gregory Karp** writes the Tribune Company's popular *Spending Smart* column. The Society of American Business Editors and Writers named it "Best Column" in 2006.