

THE PSYCHOLOGY OF SPENDING

Do you ever wonder why you left the mall with \$500 worth of clothes you weren't planning on buying, or why you bought one pair of shoes over another? There's more to it than just personal preference. Psychologists have found that many forces govern our consumer behavior and cause us to make decisions that are not necessarily rational or in our best interest. However, understanding why we buy what we buy can help us make better decisions in the future.

Why is it important to make smart shopping decisions? With the use of credit cards so prevalent, it's easy to charge too much and end up unable to pay off the balance. This can lead to debt that takes years to pay off and costs thousands of dollars in interest charges. Even if you don't get into debt, overspending can take away from important saving goals, like a down payment for a house, college, or retirement.

Self-Evaluation

What types of products and services do you enjoy spending money on?

Why do you enjoy spending money on them?

In what ways do you think you are a "good" spender?

By saving today instead of waiting for tomorrow, you are contributing more and taking advantage of compound interest (interest that is earned on interest).

What spending habits would you like to change?

How do you think you can change them?

The Role of Advertising

If you watch television, read magazines, listen to the radio, surf the web, or even just drive on major roads, you are very familiar with advertising. A common tactic these ads use is to appeal to a certain fear or desire and claim that their product or service can provide the coveted quality of lifestyle. When you buy a roll of biscuits, you are not just buying a roll of biscuits – you are buying a cheerful, loving family gathered around the kitchen table for brunch. Of course, consciously, no one thinks that biscuits have some magical power of making your family happy, but decision-making is strongly influenced by unconscious thought, and advertisers know how to play to that.

The following are some emotional appeals commonly used in advertising:

- **The desire for health and well-being:** Used to sell nutritional, exercise, and other health related products.
- **The desire to look our best and be appealing to others:** Used to sell products to enhance our physical appearance, such as clothing, jewelry, and cosmetics.
- **Fear of physical harm and financial loss:** Most often used by insurance companies, home security firms, and manufacturers of other security products.

- **The desire for recognition:** Commonly used by sellers of status symbols denoting association with fame or wealth.
- **Enhancement of our self-esteem:** Used by sellers to promote knowledge-based products, such self-help courses or educational degrees.
- **Financial gain:** Used by all advertisers to promote “sale” or “discounted” purchases and also by companies to market products that claim to generate income and wealth.
- **The desire to have a perfect, happy home:** Often used by sellers of cooking and cleaning products.
- **The desire to be loved:** Used by a variety of sellers, typically to encourage us to purchase products for others.

Advertising is not solely based on emotional appeals – many are quite informative. Having product information (e.g., size, capacity, energy efficiency, number of horsepower) allows us to compare similar items and choose the best one. (Of course, you can also do independent research online and in magazines like Consumer Reports.) Furthermore, the product or service advertised may represent a real personal need we are seeking to satisfy. The challenge is to recognize the emotional appeals being made in most ads and minimize them so you can rationally judge the true value of what is being sold. As you encounter advertising in your daily life, think about the validity of the images being presented and what it is that you will actually get from the product or service. Those biscuits may not bring your family happiness, but they can provide a tasty breakfast.

Keeping Up With the Joneses

Society in part defines success by what we look like and own. It's not surprising that people are tempted to buy things that will make them appear well-off, especially when others around them seem to have more. When teenagers want their parents to buy them something, a common argument is, “everyone else has one,” and as adults, we do not completely outgrow this line of reasoning. You see that your neighbors, co-workers, friends have nice cars and clothing, so you feel that you have to buy them too to not be an outcast.

Wanting to have nice things is understandable, but you can't win if you try to keep up with the Joneses! There will always be people that have more interest (interest that is earned on interest).

than you. Remember, you are not what you buy, and you do not need to have expensive material things to have a good life. Of course, there are very few people in life who spend their money solely on necessities. There is nothing inherently wrong with spending some money on such things as vacations, dining out, and designer clothing – the key is to be conscious of your financial situation. Don't spend \$500 on shoes if you need the money to pay the rent. If you cannot afford to purchase something now with cash, instead of putting it on your credit card, start saving. You may have to wait a few months, but you won't have to worry about paying off your credit card debt, unlike many of the Joneses who appear to have it all.

Spending Habits

Every day we are faced with hundreds of choices, and it is impossible to consciously think about all of them. That is why we tend to stick to the decisions we've already made. Most people don't contemplate whether they should quit their jobs or move to another city every second of the day. This applies to consumer behavior too. You choose the expanded cable package with the premium movie channels and dutifully send in your bill every month. You buy a \$3 cup of coffee every day before work and eat out for lunch and don't give it a second thought. You get a manicure every week. It is a part of your routine.

Spending habits are easy to get into, but they are not always beneficial. Financial situations often change and what once was affordable may no longer be affordable. Or perhaps it was never was in the first place. Period-ically examining your finances can help you break out of habits you can't afford to keep. Make an effort to keep track of your daily spending, and when the end of the month comes, total it all up. (*Complete Weekly Expense Tracking worksheet on page 5.*)

If you see that you are spending more than you are earning, are not able to put anything aside in savings, or are relying on credit to pay for expenses, evaluate what you can cut or reduce. Can you get a more basic cable package? Can you bring your own coffee or drink to work? Can you pack your lunch? Can you cut back your manicures to once a month? Be honest about what is truly a need and what can be eliminated.

Impulse Buying

You go to the store with the intention of buying a new pair of jeans. Three hours later, you leave with a pair of jeans, a pair of shoes, a belt, and two t-shirts.

What happened?

Impulse buying is the Achilles' heel of the responsible shopper. You know you shouldn't do it, but finding something you like unexpectedly and buying it is exciting. And stores and online retailers encourage it. What do you see by the checkout lanes when you go to the supermarket? Magazines, soda, and candy – perfect impulse buy items. Staples, such as milk, are often placed in the back. Malls, with their winding architecture, benches, and food courts, are designed to keep shoppers there for as long as possible. Go to a store's website, and you will likely be bombarded with an array of featured products.

Research shows that the longer a person stays in a store, the more likely he or she is to make impulse purchases. You can combat that urge by being a focused shopper. Create a shopping list at home before you go to the store. Once you are there, stick to the list, and get in and out as quickly as possible. Don't browse or examine things you were not planning to get. Avoid taking free samples or trying on clothes just to see how they look. Don't talk to employees unless you have to – typically their aim is to sell to your more items. Shop alone whenever possible. If you are doing social shopping with friends, you will probably linger longer. If you are shopping with your children, you are likely to hear "I want it" or "Can I have it?" at least once or twice or several dozen times.

Bargain Hunting

People love to buy things on sale. You see a cashmere sweater at 75% off and think, How can I pass up this? The next day, you brag to all of your friends about the great deal you snagged. It's an accomplishment, a reflection of your bargain-hunting abilities. Sales that give away something for free can be especially enticing, hence the common infomercial sales pitch "and we'll throw in a second one free!" After all, what could be better than getting something for nothing?

Buying items that you need or were already planning to buy on sale is a great cost-saving measure, but you are not really getting a bargain if you bought something impulsively just because it was on sale. Let's say the cashmere sweater originally cost \$300. Your initial thought may be that you saved \$225, but in reality, you spent \$75. And that free second Wonder Mop isn't really free – you had to spend \$20 to get the first one (plus shipping and handling on both mops). When you are tempted to buy something on sale, ask yourself if you really need the item, and contributing more and taking advantage of compound interest (interest that is earned on interest).

remember to focus on the cost, not just the savings. If you weren't going to buy it anyway, the best bargain is to not buy.

Retail Therapy

Have you ever felt down and decided to cheer yourself up by going shopping? Many people engage in "retail therapy." In fact, research shows that shopping increases the level of chemicals in the brain that regulate happiness. However, the happiness that buying provides is usually short-lived, and the problems that result from overspending only cause guilt and stress.

Resist the urge to shop when you are feeling depressed. Remind yourself of the consequences of spending – will you not be able to pay your car loan because you bought \$500 worth of clothing? Instead of shopping to momentarily feel better, engage in mood-boosting activities that are free, such as exercising, taking a bubble bath, or talking to a friend. If you are unable to control your shopping on your own and feel that it has a negative impact on your life, you may want to seek professional help.

Money as Love

A parent buys a toy for his child because he had to work and missed the recital. A husband spends \$500 on a diamond necklace for his wife's birthday because he is worried about what she will think if he only spends \$50. A woman gives \$200 to her younger sister who claims she is strapped for cash, even though she is struggling with her own bills.

These are all examples of how money gets intertwined with love. We feel guilty about what we have done or cannot do and worried that we will not be loved if we don't spend. The money we spend, we hope, will make everything okay.

Periodically buying gifts or spending money on loved ones is perfectly normal. However, avoid draining your wallet trying to buy love. Not only does trying to buy love not work from a relationship point of view, but you shouldn't have to sacrifice your financial health for others. If you are feeling guilty about not spending enough time with someone, address it head on. Instead of buying a box of candy, carve out more time in the future. Need to buy a gift for a birthday or another occasion? Keep in mind that most people prefer a thoughtful gift to an expensive one. In fact, there are many ways to show appreciation and do something nice for someone that don't cost a dime, like cooking dinner or writing a letter. If you are a

giver who always feels the need to outstretch your hand to friends and family members, recognize that giving them money may do them more harm than good. Why should they learn to budget and save if you are always there with your wallet? That doesn't mean you should let them be homeless, but you may not want to give unless it is a true emergency.

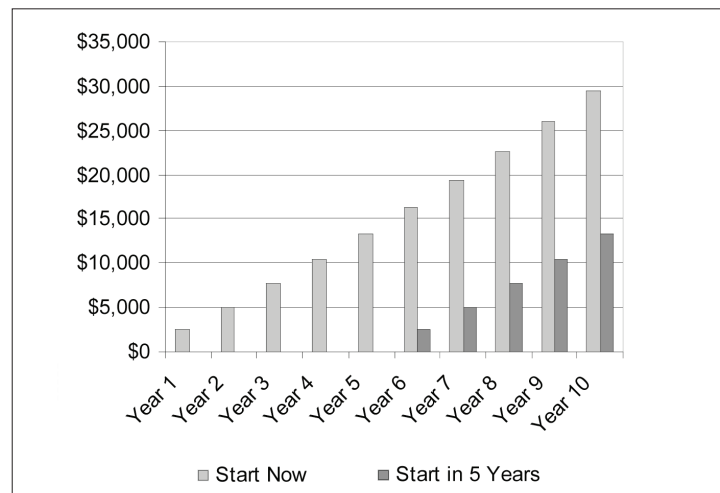
I'll Worry about Tomorrow Tomorrow

Spending vs. Saving

People tend to focus more on today than tomorrow. In many cases, that is sensible – filling an empty refrigerator is a more pressing need than saving for a vacation five years from now. However, we often put immediate desires ahead of future important needs.

Let's say you have a hundred dollars in your pocket. You can either spend it on a fancy dinner in a nice restaurant or put it into savings. If you spend it on the meal, you get to enjoy it today. If you put it in savings, you have to wait. Which is naturally more appealing? For many of us, it's the meal, of course. It can be especially hard to save for things that are far off, like retirement. We tell ourselves we can always start doing it tomorrow. But tomorrow comes, and you tell yourself the same thing. As a result, many people don't save enough to meet their goals.

Make a concerted effort to place savings in the forefront now. Put pictures of your goals on your refrigerator or in your wallet. Take pleasure in opening your account statement and watching your savings grow. If your workplace offers direct deposit, have some of your paycheck directly deposited into your savings account. If you don't see it, you won't miss it.



By saving today instead of waiting for tomorrow, you are contributing more and taking advantage of compound interest (interest that is earned on interest).

The Role of Credit

A present-focused mentality can also lead to the overuse of credit and debt. Using a credit card to make a purchase allows you to get something today without needing to immediately shell out cash. In fact, you probably won't have to worry about paying the bill for at least a few weeks. So why not buy that \$300 pair of shoes? But that due date will come, and if you cannot afford to pay off your balance in full, you will have to pay interest (plus deal with making payments until you can pay the balance off). Many credit cards come with interest rates well over 10%, so relying on credit can cost you quite a bit of money. Those \$300 pair of shoes could wind up costing you \$400.

Research shows that people spend less when they use a debit card or cash instead of credit. You feel the pain of parting with your money immediately – it is not some abstract future occurrence. Using a debit card or cash for most purchases can help you be a thrifty shopper, but you don't necessarily want to avoid credit completely. Using credit cards can help you build a good credit score, which will come in handy if you want to get a mortgage or car loan. A good way to use your credit cards is to just make a small purchase or two on them each month. If all you charge is a \$5 magazine, you should have no problem paying off the bill in full when it comes.

Be a Conscious Consumer

Earning money takes a lot of time and effort – spend your money with the same care by being a conscious consumer. Before you open your wallet, ask yourself:

- Will I really use the product or service?
- What are my motives for making the purchase?
- Do I own anything else that provides the same use?
- Did I feel a need for this item before I saw it in the store?
- What are the financial and emotional costs of the purchase, and can I really afford it?
- Can I get the product or service for less elsewhere?

By thinking about your spending, you can get what you need and enjoy it without suffering from the post-shopping blues.

Schedule your private one-on-one for personalized financial tips today!

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WEEKLY TRACKING WORKSHEET

Item	Mon	Tue	Wed	Thu	Fri	Sat	Sun	Total Expenses	Weekly Budget	Over / Under
Groceries										
Restaurants										
Laundry/Dry Cleaning										
Medical/Dental										
Auto/Gas/Parking										
Other Transportation										
Child Care										
Personal Care										
Clothing										
Bank Fees/Postage										
Entertainment										
Books/Music/Video										
Cigarettes/Alcohol										
Gifts/Cards										
Home/Garden										
Church/Charity Contributions										
Other										
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WEEKLY EXPENSE TOTALS										

The importance of money in your life is influenced by what money (having it and spending it) means to you. Examining your spending motivators can give you significant insight into how you perceive yourself and how you want others to perceive you. Take the following quiz to discover what your personal “money motivation” is.

1. Money is important because it allows me to...
 - A. Do what I want to do.
 - B. Feel secure.
 - C. Buy things that can help me get ahead.
 - D. Buy things for others.
2. I feel that money...
 - A. Frees up my time.
 - B. Can solve my problems.
 - C. Is a means to an end.
 - D. Helps make relationships smoother.
3. When it comes to saving money, I...
 - A. Don't have a plan and don't often save.
 - B. Have a plan and stick to it.
 - C. Don't have a plan but manage to save money anyway.
 - D. Don't make enough money to save.
4. If someone asks about my personal finances, I...
 - A. Feel defensive.
 - B. Realize I need more education and information.
 - C. Feel comfortable and competent.
 - D. Ask friends and family first.
5. When I make a major purchase, I...
 - A. Go with what my intuition tells me.
 - B. Research a great deal without buying.
 - C. Feel I'm in charge – it's my/our money.
 - D. Ask friends and family first.
6. If I have money left over at the end of the month, I...
 - A. Go out and have a good time.
 - B. Put the money into savings.
 - C. Look for a good investment.
 - D. Buy a gift for someone.
7. If I discover I paid more for something than a friend did, I...
 - A. Couldn't care less.
 - B. Feel it's okay because I also find bargains at times.
 - C. Assume he spent more time shopping, and time is money.
 - D. Feel upset and angry at myself.
8. When paying bills, I...
 - A. Put it off and sometimes forget.
 - B. Pay them when due, but no sooner.
 - C. Pay when I get to it, but don't want to be hassled.
 - D. Worry that my credit will suffer if I miss a payment.
9. When it comes to borrowing money, I...
 - A. Simply won't; I don't like to feel indebted.
 - B. Only borrow as a last resort.
 - C. Tend to borrow from banks or other business sources.
 - D. Ask friends and family because they know I'll pay.
10. When eating out with friends, I prefer to...
 - A. Divide the bill proportionally.
 - B. Ask for separate checks.
 - C. Charge the bill to my card and have others pay me.
 - D. Pay the entire bill because I like to treat my friends.
11. When it comes to tipping, I...
 - A. Sometimes do and sometimes don't.
 - B. Just call me Scrooge.
 - C. Resent it, but always tip the right amount.
 - D. Tip generously because I like to be thought well of.
12. If I suddenly came into a lot of money, I...
 - A. Wouldn't have to work.
 - B. Wouldn't have to worry about the future.
 - C. Could really build up my business.
 - D. Would spend a lot on family and friends and enjoy time with them more.
13. When indecisive about a purchase I often tell myself...
 - A. It's only money.
 - B. It's a bargain.
 - C. It's a good investment.
 - D. He/she will love it.
14. In my family...
 - A. I handle all the money and pay all the bills.
 - B. My partner takes care of the finances.
 - C. I pay my bills and my partner does the same.
 - D. We sit down together to pay bills.

Scoring: Count the number of times you responded with an a, b, c, or d, excluding questions 3, 4 and 7 (which are for your information only). Whichever letter you chose most frequently reveals your primary money motivation: a. freedom, b. security, c. power, and d. love.

(Source: *Money Harmony*, Olivia Mellan)