

BUILDING UP YOUR SAVINGS BY CONTROLLING THE SPENDING HABIT

By Michael Leonetti

Saving even a small amount today can have a big impact on future savings because of compounding. But it isn't retroactive—you must save now to enjoy the benefits in the future.

How a person spends money is far more important than how he or she invests it. It is much easier to reach your retirement goal by deciding how to live rather than how to invest. Deciding what to do with the money you earn—how to spend it—is what brings about peace of mind.

Perhaps you think the difference between a full-sized car, fully equipped, and a compact is about \$10,000. Actually, it is more like a million dollars if you consider this: Borrowing \$25,000 for a new car over four years will cost about \$634 a month, while borrowing just \$15,000 will cost only \$381 a month. If you saved the \$253 monthly difference for 35 years, earning an average of 8% annually, it would swell to \$580,352. And if you were to get monthly payments of \$4,479 from that sum from ages 65 to 90, the total amount collected would be \$1.3 million.

This is the magic of compound interest. But it isn't retroactive. You must save now to enjoy the benefits of compound interest in the future.

When should you start to save? It is never soon enough. Even 10 years can mean a difference of \$2,622 in retirement income each month in the above example. Can you imagine what 15 or 20 additional years of savings would mean when you reach age 65?

If the choice between cars can impact retirement income, imagine the possibilities when applied to lifestyle choices such as a home, vacations, dining out, entertainment, wardrobes, furnishings, etc. Here are some tips to help you develop the art of money accumulation by saving every day.

HOUSEHOLD SPENDING

Nearly 32 cents out of every dollar spent by American families is for groceries and household items. The average is three trips a week to the grocery store, and one or more stops at a drug or discount store. People are spending money they could otherwise be saving for the future because they fail to compare, shop smart, and get the best value.

Stores today are cleverly set up and well merchandised. Manufacturers and food producers fight for eye level space on the retailers' shelves. They set up elaborate, eye-catching displays. All of this is designed for one specific end: Get the shoppers to spend. In addition, there are also companies that place merchandise in the stores specifically to induce impulse spending.

Consumers may take several steps to spend smarter, reduce the number of trips to stores, and overall spend less money on household and grocery items. Many shopping techniques are habitual, such as going to the same stores, shopping on the same days, buying the same products, not using a list or comparison shopping, going with others, etc.

Economizing on grocery and household items takes imagination and requires some financial self-discipline, a bit of practice, and a little time to develop new habits. It requires full family participation. Having one spouse a saver and the other a spender provides no progress unless the spender ceases to be a shopper. It is also important for children to learn and understand the

Michael Leonetti, CFP, is the president of Leonetti & Associates, a fee-for-service financial planning firm based in Buffalo Grove, Ill.

importance of spending smarter and comparing quality, price, and value in addition to saving to buy the bigger items without borrowing.

The non-profit National Center for Financial Education, based in San Diego, offers these tips to employ before your next trip to the store:

- Use a list when shopping. Put anything you want on the list, but don't add to the list once you get to the store. Using a list will help plan for your needs in advance, so you can take advantage of sales prices and avoid impulse purchases.
- Go grocery shopping alone after a meal. If you go shopping hungry or with another person, the result is always increased spending.
- Watch for store ads. Ads are in the newspapers, your mailbox, and flyers distributed in stores. Check for sale prices on the items you regularly purchase. Compare prices with other stores, especially those you don't normally visit.
- Pay special attention to sale days. For example, some stores have no sale prices in effect on Monday, traditionally a busy shopping day. Carefully plan purchases, noting on the list items that are sale priced and items where a coupon can be used.
- Always spend cash. Take time to get cash before going to the store. Nothing impacts our mind like taking cash from our wallet or purse. Many people who use credit cards rarely know how much was actually spent until the statement comes. Many people who write checks simply do not take the time to calculate the balance and have no idea what is left over. Paying cash forces you to think ahead and plan for tomorrow's needs.
- Take advantage of coupons and rebates; they do add up. Regularly shop at stores that double the coupon value, and take time to watch the papers for grocery coupons. Look for items on the shelf that also have coupons

included. It only takes about 20 minutes a week to review grocery ads, clip the coupons, and plan a weekly or biweekly grocery spending trip.

- Always shop by the unit price at stores. In most states retailers by law must post the unit cost on the shelves. It used to be the larger the package, the better the price, but that's not always true these days. For example, a 50-cent coupon, doubled, on any size of soap detergent could make the smallest size the most economical in terms of less cash spent. Many times you may get a box of a less expensive detergent, such as a store's brand name or a generic equivalent for close to nothing, because of doubling the coupon savings.
- Plan meals in advance. Keep in mind wise use of leftovers or freezing for later use when purchasing meats, etc., and making pasta dishes, for example. Consider buying meat items that you use regularly in larger quantity, freezing for later use those portions not needed that week. This can save up to 20%.
- Be cautious about adding non-food items to the list. These include health and beauty items, paper and plastics, utensils, brooms, brushes, film, etc. These items have the highest profit margin for most grocers, which is exactly why they are prominently displayed in the stores. Usually, a better value can be obtained at discount drug stores.
- Check the checker. Note the prices as you select items and then make sure the same price is posted at the check-out. Check the register tape again after leaving the store, often unintentional mistakes are uncovered, especially with large purchases. Many times a sale price is listed in the store, but not reflected at the check-out.

CONTROLLED SPENDING

Most people love to spend money.

But spending money can be made more exciting by carefully planning it in advance, because you will be able to buy more. Sticking to a plan can be difficult to do because there are so many entities that try to convince people to spend money. The advertising messages are seemingly irresistible. As a result, many individuals, young and old, routinely take on expensive short-term debt in addition to wasting 20% to 30% of their money just because of poor spending habits and practices.

Consider the extent to which some merchants and credit card issuers go to entice people to spend their incomes. There are no-fee and low-fee credit cards, instant credit approvals, first-time buyer programs, sweepstakes and contests where chances of winning are increased with each credit purchase, extended manufacturers' warranty programs, replacement insurance programs, and, of course, "cash back with every purchase."

Some companies actively encourage consumers to buy money orders and hold on to them for emergencies. In reality this amounts to interest-free loans from consumers to the money order selling company which, in turn, invests these free loans from millions of consumers for a huge profit.

Meanwhile, some bankers encourage consumers with poor or no creditworthiness to deposit \$500 to \$2,500 into their bank in order to secure a credit card with a 21.99% interest rate. In essence, people who do so are borrowing their own money back at an interest rate of \$21.99 per \$100 per year.

It is not just credit-based spending decisions that get people into trouble. Some people who have either exhausted credit or a ruined credit rating have no trouble spending cash at all and, at the end of the day, have great difficulty determining where it was all spent.

Here are some tips you can use to help get your own spending habits under control:

- Each income period, deposit your paycheck into an account; do not keep any cash from your paycheck. In addition, set aside a portion of your paycheck to cover fixed expenses, and set aside 10% for savings and investments.
- Manage your money based on a budget—a written spending plan.
- Immediately pay all credit card bills—do not have any credit cards with a balance owing.
- Do not have any loans (excluding first mortgage) with a balance owing.
- Make sure you have received and reviewed your estimated benefit statements from pension and/or Social Security.
- At end of the day, make sure you can account for all cash spent.
- Balance checking /share drafts.
- Review all insurance coverage for duplication, higher deductibles, etc.
- Comparison-shop for quality, value, price, etc., on most purchases, whether large or small.
- Don't dine out (breakfast, lunch, or dinner) more than two times each week.
- Take advantage of seconds, rebuilt, and used items when practical.
- Separate shopping trips (when comparing prices, value, reparability, etc.) from spending trips (when actually making the purchase). Avoid carrying much cash, credit cards, or a checkbook on shopping trips.

THE BOTTOM LINE

Many people are aware of the need to set up an investment program to reach financial and retirement goals. But you need to accumulate savings before you can invest, and bad spending habits are the biggest impediment to accumulating savings.

Adding some discipline to your spending habits will allow you to build up your savings more quickly, giving your investment plan more bang for the buck. ♦

BECOME AN AAIL LIFE MEMBER

THE ADVANTAGES ARE SUBSTANTIAL

Life Membership in AAIL is your way of locking in a lifetime of AAIL investing knowledge and know-how—at one low payment. The special reduced Life Membership fee is \$450 (for current members), and the Lifetime Membership program assures you full AAIL Member Benefits for life—which means no renewal fees and a substantial savings over the years.

SPECIAL BENEFITS OF LIFETIME MEMBERSHIP

As a Life Member, you also receive your choice of either *Computerized Investing* or the *Quarterly Low-Load Mutual Fund Update* free of charge. These investing resources represent an annual value of over \$70, but with your one-time Life Membership fee, these tools are yours free ... forever.

- **Computerized Investing** is a newsletter that can assist you in making the best use of your computer equipment, software, and the Internet for your personal finances and investing. Your subscription also includes *The Individual Investor's Guide to Computerized Investing* ... this highly-acclaimed investment software guide helps you focus on the top investment-related products and Internet sites.
- **Quarterly Low-Load Mutual Fund Update** allows you to easily keep tabs on the funds you own or are considering purchasing. Coverage of risk and return data on over 900 no-load and low-load mutual funds are grouped by objective for easy evaluation and comparison. At no additional charge for Life Members, the *Quarterly Update* is also available in a computerized format that allows you to easily search and screen for funds of interest.

BECOME A LIFE MEMBER TODAY

Life Membership is a great way to get the most out of your association with AAIL—in fact, over 20% of AAIL's current members are "Lifers." Take advantage of the savings and benefits.

BECOME A LIFE MEMBER TODAY BY CALLING
800-428-2244 OR 312-280-0170

Or, send in the enclosed postpaid envelope, fax 312-280-9883 or E-mail members@aai.com.