

For tightwads, spending is unpleasant; for spendthrifts, it is pain free. Here's how to balance the two extremes.

What makes some people save and create a large nest egg, while others are hopelessly oblivious to reminders to save and end up in debt? The psychology of saving is complex, and little research has been published on the subject. Here's what we do know, and how you may have a healthier relationship with money.

Two extreme examples:

The spender: A client in his 60's came to me with an income of \$350,000 per year. After review all of his documents, I found that he had a net worth of \$50,000. Knowing his lifestyle, he surely did not believe in delayed gratification!

The saver: Another client around the same age came in and is worth millions. He was developing some health problems and complained about his physician. When I asked why he didn't change physicians, he explained that he would have to go out of the network and it would cost him a higher deductible. Of course his health is not a "luxury" item!

Both men have an unhealthy relationship with money. The spender will work the rest of his life, and the saver's excessive self-control will only ensure him the richest man in the graveyard.

Here is another example, when we buy a new car we don't even think about how many more months does this delay my retirement date? Instead, we are excited to drive a new car around the neighborhood. As we earn more money, we expect to buy nicer and nicer cars, and soon enough, we are consuming all of our income instead of building wealth. I call it "being a gerbil on the wheel"; you are earning money, spending it, and going nowhere fast.

Most millionaires are thrifty. They tend to drive older cars, shop for bargains, and not tout their wealth. Most studies show we are not happier with the nicer car because we adapt our expectation quickly. FYI, did you know a couple leasing a \$60,000 car every 2 years spends \$2,000,000 more than a couple who drives an inexpensive car for 10 years?

There are two different motivators that drive us to be thrifty. The first is the pain we feel from spending money. The second is the pleasure we feel from either saving or from paying less by getting a good deal. Tightwads experience spending as unpleasant, while spendthrifts simply don't feel the pain. We can't blame our parents for our bad habits, and your gender had no pattern as to spending habits. Instead of a family pattern, tightwads tended to be more anxiety-prone and the spenders tend to be very optimistic about their financial future with a strong belief that things will take care of themselves.

So, how do you raise your children to be sane about money? A famous experiment conducted at Stanford University back in the 1960's tested how well nursery school children delayed gratification. They were asked to pick a treat from a tray of goodies, and then told they could either eat it right away or if they waited a few minutes, they could have two of what they chose. They could double their treat if they delayed gratification. The experiment then followed the subjects of this experiment into adulthood

and found that those able to pass this test enjoyed greater success in life. Delayed gratification can be taught! Willpower is just a matter of learning how to control your attention and thoughts. Understanding this can lead to great improvement.

While it is not easy to change behaviors, we have some suggestions on how to reframe your buying decisions. **

Savers	Spenders
Use plastic rather than cash.	Use cash rather than plastic and make sure you are the one getting the cash from your account.
Shop when you are depressed; you'll buy more.	Never shop when you are depressed.
Pledge to buy something by a future date; tell your friends and family.	Pledge to save a specific amount by a future date; tell your friends and family.
Bundle up; prepay your drinks on a cruise.	Pay often; sign for every drink on a cruise.
Frame the utilitarian aspect of a purchase.	Frame the hedonic aspect of the purchase and ask if it's necessary.
Treat yourself by framing the purchase as a reward for a task well done.	Treat yourself to buying something you've wanted as a reward for saving a larger amount.
Look ahead; think of your regret for missing out on a vacation.	Look ahead; think of purchases you won't be able to make or how much longer you'll be working.

Also, we have a “tightwad-spendthrift” quiz for you to take. Our hope is that you have a healthy relationship with money! **

Please click the link below to take the Tightwad-Spendthrift quiz. Be sure to tally your answers at the end to find out what kind of spender you are!

<http://www.surveymonkey.com/s/T92NG2Y>

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