

Lesson 18

Don't Beware . . . Be Aware!

On more than two occasions in this study I have mentioned that adequate savings would have prevented major financial crises. We will explore creative ways to save in this lesson, but before we do, let's come to understand why saving is so difficult in the first place.

Based on my counseling experiences, I've learned that one of the biggest obstacles to wise money management and the resultant saving shortfall is the lack of awareness of where money is being spent. This is the primary reason the tracking of expenses has been so emphasized in the action steps. This lack of awareness, which is a first cousin to the near-sightedness we discussed previously, can be seen in every type of purchase - from homes, to major appliances, to vehicles, to a pack of chewing gum. I don't think this condition is intentional. It's just that our fast paced, throw away, instant gratification society doesn't promote more awareness. As a matter of fact, the marketplace is anticipating our lack of awareness to maximize sales.



Let's consider major purchases first. We touched on this in Lessons 15 and 16, but go a little deeper with me. When someone is considering a home purchase, they usually don't investigate the real estate tax rates - why the taxes are what they are and the likelihood of increases. They don't consider routine maintenance costs. (As I am typing this, the HVAC technician is conducting the winter check up - it's not free). They don't consider tree pruning or removal required to keep from interfering with the house structure. I could go on, but I think you get the point. How about the hidden cost of purchasing a vehicle - the cost of the personal property tax, either paid in a lump sum or annually? Don't forget insurance. What about the cost of replacement tires now that the rim size is an inch larger than the previous vehicle? What about the exorbitant cost of the filter for a major appliance which, by the way, can only



be purchased from the manufacturer in many cases.

I'm not suggesting that we spend months prior to every purchase conducting an exhaustive investigation to determine every single potential problem that might cost a buck or two. What I am suggesting is that we go into every purchase with our eyes open aware that the price tag is only a portion of the total cost. The "after costs" can easily cause you to exceed your spending plan.

Another lack of awareness issue is an extremely costly one, and it doesn't involve large purchases. In fact, the small purchases, generally cause the largest problems. You may remember the two counseling examples I shared in Lesson 8 - one spending too much on lunch at work and the other too much in vending machines. This phenomenon of spending a lot of money for insignificant items has become a favorite of mine during counseling sessions and teaching. I think the reason is that if we would increase our awareness just a little bit, the rewards would be huge. Here's another example:

I was teaching a budgeting class and the group had just returned from their lunch break. Sadie was near the front of the room and had just placed a 20 ounce soda on the table in front of her. I saw a potential opportunity for a teaching moment - I didn't know at the time that I would share her experience for years to come. I casually asked her how much she paid for the soda (or pop, if you're from the Midwest, or "coke" - even if it's not a Coke, if you're from the South).



She replied, "\$1.15". I then asked her how often she might buy one of those 20 ounce drinks. Sadie surprised everyone in the room, including the instructor, when she replied, "Four a day." I think I said something like, "Man, not only are you a sodaholic, but you're going to be a great seminar illustration!" As soon as I regained my composure from the "Four a day" response, I did the math in my head. When you do the math of \$1.15 plus tax x 4 per day x 365 days a year, it comes out to be a little over \$1,700 per year. I then asked Sadie, if she chose to spend \$1,700 per year for her variety of soda. After she picked her jaw up from the table, she said emphatically, "No!" You see, she was spending an enormous amount of money in a way she didn't realize. She worked across the street from a convenience store, and she would literally walk across the street 4 times a day to buy her soda, plus she also drank them on the weekend. I don't know if her blood sugar level suffered, but I definitely know her bank account did! Here is the point: we all do this sort of stuff. Oh, we may not drink and pay for that much soda, but we all do things unconsciously that cause us to spend money in ways we are not aware.

Let's analyze Sadie the sodaholic for a minute...

What if she could cut her soda intake by 50%? That would equate to an \$850 annual savings. What if she continued to drink the same amount, but bought the soda from a wholesale club for ¼ the cost? She would save over \$1,250 per year.

In other words, what if she became aware of what she was doing, and became motivated, disciplined and creative to cut costs? She would take control of something that was controlling her.

The Key: Become Aware!

Today's action step will help you become aware of the small expenditures you are making and help you benefit by that awareness. This is a powerful and practical way to start saving money.

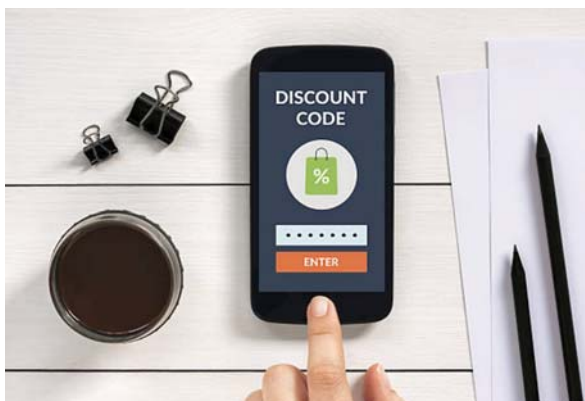
Another awareness related issue can dramatically impact your spending. In Lesson 10 you computed your AI (remember, that is the amount of income you actually see after all of the withholding). Now I want you to take that one step farther - divide your AI by the number of hours required to generate it. The end result is the amount of money you are earning per hour after everything is held out of your pay.

The next time you consider a purchase, determine how many hours, or days, or months worth of work will be required to pay for the purchase.

For example, I counseled Joe, who at the time was making \$10 per hour (about \$8 after taxes). The \$80 pair of jeans he purchased didn't just cost him \$80, it cost him 10 hours worth of work (\$80 divided by \$8 per hour). **This awareness puts an entirely different perspective on your spending!** It gives us something to which we can relate - work. I've looked at potential purchases before and thought - that will take me 3 hours, or 3 days, or 3 months, or even more to pay for it. The conclusion for me was that it wasn't worth my time. That's the key point on this one: ask yourself if whatever you want to buy is worth the time and effort required to pay for it?



There are other ways to reduce spending for eventual saving. My wife is a super shopper. Not only does she like to shop, I will put her up against any other person on this planet who shops smart and pays amazingly less than others pay. She does 95% of her shopping at very nice stores that sell name brand, quality labels at a fraction of the retail price. The store system she frequents (3 different stores in the conglomerate) issues a credit card that provides a 5% rebate on every purchase. Each month she receives a credit certificate for several dollars. Over the years, she has spent thousands upon thousands of dollars less than her contemporary shopper, because she searched for the bargains and used the credit offer to receive the rebate.



Many people use coupons. Some are experts at the technique. I have had testimonies from seminar attendees that save 90% of their grocery bills by working the coupon system. Many are full-time moms. I point out to them that their coupon savings would exceed any part-time job income they could find, plus they are able to stay home with their kids. A good website that can provide not only coupons, but also training on how to make the system work for you is www.couponmom.com.

Selling online is another tool that many use to save on purchases, but also generate cash for savings by selling items. I've talked to many who claim to make \$400 to \$600 average per month selling online. When I ask where they find the things to sell, answers range from "I find it" or "I shop garage sales." It's amazing to me how many people are looking for things to buy online. Here's my personal example: A couple of years ago a laptop I had purchased about 18 months earlier (just out of warranty, of course) decided to give up the ghost. It stopped booting. I was finally able to get it to boot one final time to get my stuff off. Before I threw it in the trash, I mentioned the situation to my daughter, who suggested I sell it online. So, I sent her a photo and description and she listed it for me. At the time I didn't have my own account (I since do). The dead computer sold in a couple of days for \$100! There was this guy in Texas who bought computers for parts and sent me \$100 for something I was just about to throw in the trash.



online resale sites

GENERIC BRANDS

coupon apps

yard sales

per unit cost

DISCOUNT STORES

What are some other ways to reduce costs and generate excess cash for savings? How about buying generic? If truth be known, many of the generic brands are produced and packaged by name brand producers. I can't mention the brand, but my wife was at the supercenter and noticed her brand of coffee was off the shelves. The store personnel told her that the company had an interruption in their supply chain and they expected shipment the next week. He said that's why you don't see our store brand cans either - they are made by the same company!

Another technique in grocery shopping is to check the unit cost. But don't be fooled. On occasion a smaller size is actually cheaper than a larger container, when the unit cost is compared. It's an easy thing to check and the savings add up considerably over time.

Phone apps from different supermarkets and other retailers frequently transmit sales and coupon information. The apps are user friendly and the discount coupon can almost always be scanned from your phone.

We could continue this lesson for several more pages discussing garage sales, reducing tax and travel expenses by internet shopping and a host of other methods, but I'm thinking by now you see the point. But just in case you missed it:

The point is to become a consumer who is aware of where you are spending money and why you're paying what you're paying. Look for ways to not only save on purchases, but ways to generate extra cash that can be directed to savings.

Refuse to pay retail prices. Talk to merchants. Ask about upcoming sales. Ask about discounts. Do all of the things a smart consumer should be doing, because **remember who's money we're managing. We want to manage it well.**



REFLECTION: Think about personal situations similar to some discussed in this lesson where you have saved money or generated excess cash. Are you an informed shopper? When you shop, do you spend time finding the best value, or are you more impulsive? **Record your thoughts:**



ACTION STEP: On the chart below list one or two items or expenses you incur on a regular basis. (Examples: Snacks, drinks, DVD, hair/nails, hobbies, books, etc) List the average cost, then compute the annual cost. Determine if there are alternatives in order to reduce the annual cost. Could you use the amount you could save to help reach the savings goal you established in Lesson 9? And while you are at it, compute your hourly AI and determine how much work was required to pay for your incidental purchases. Don't get me wrong, if you determine that you spend several dollars per year on an item, and you're okay with it, that's your decision. The main purpose for

you in this exercise is to help you become aware. Once you become aware, you have more information on which to make a decision. Continue tracking your daily expenses using the spending areas listed on page A-4.

Item	Individual Cost	Frequency	Annual Cost	Hourly AI	Hours Work Required
(Example) Latte	\$ 4	4/week	\$ 728	\$ 14	52
Total					