Skimping on splurges

How to make smart money moves while still enjoying life

By Michael Carlin, AIF, WMS

Does money really equal happiness? It's an age old question. We always expect people with more money to be more satisfied with life and happier because they can afford to do whatever it is they want to do. But, not everyone who makes millions of dollars a year is appreciably happier than someone with better financial well-being and not everyone who has millions of dollars necessarily makes that much money each year. So, what makes people happy with their finances and how does the amount of money you have and what you do with it factor into that?

What if your time was limited?

If you had five or 10 more years to live, what would you do and might you act differently? When our clients really stop and think about that answer, it can help start to put their perspective on the value of their earnings and the value of their wealth in a whole new light. We try to get everybody to that destination where they are very satisfied with their financial well-being, and that isn't necessarily because they've achieved more. It's because they're very content with their financial situation.

Millionaires are not just cheap people. They tend to be the type who are prudent with their funds and make good, strategic long-term decisions that accumulate well over time. We understand there is a desire to have nice things and as advisors, we are constantly being bombarded by people asking us *can I afford this?* But the real question is *what's the long term cost?*

Cars

Many of the millionaires we work with tend to be people who made money during their lifetimes and achieved this objective through careful saving and investing and making critical decisions about splurges. One of the common themes we see is that clients who have more money seem to drive more reasonably priced cars. One obvious splurge to avoid if your goal is to achieve a higher level of financial independence is that flashy car. This particular splurge purchase is not an investment. We all know as soon as you buy a car, it goes down in value. Yet, we are always asked by clients what is the best way for them to purchase their car. Our answer is always the same – buy a very high quality, gently used car that is safe and reliable that you can drive for about 10 years.

Vacations

The travel splurge to avoid would be going on exceptionally extravagant vacations. Instead, substitute those for more reasonably priced family activities. It's a common theme that the families that take vacations closer to home while avoiding those incredibly expensive overseas vacation packages are just as happy as those who take the expensive vacations and over a lifetime have a significant amount more than those who spent it on elaborate trips.

Homes

One of the trickiest areas of dealing with splurges is your home. While we do recommend that people buy and own their own homes, as investment advisors, we realize that residential real estate does not have the greatest long-term track record of outstanding positive performance. In fact, historical performance shows residential real estate has only grown by 2% per year on average in the last 60 years. Understanding that it's unlikely for many people to make a tremendous rate of return on the money in their home, we would want you to identify the most important factors about what you need from your primary residence and find a home that best suits your family's needs rather than their wants.

Let's not forget home improvements. Before you make any big decisions about remodeling your kitchen or bathrooms, be sure to take a long hard look at how that affects your long-term plan.

What should you splurge on?

The types of splurges we often recommend are those that help create a better quality of life at very reasonable costs. If you're looking for splurges to improve your life, look at things like paying for a housekeeper or paying people to prepare delicious and nutritious foods for your family. These splurges will help your life feel full without being huge detractors from your wallet.

We encourage clients to do the little things such as avoiding paying full price at high-end retail stores and instead shopping at outlet malls or discount warehouses.

How much can you save?

It's amazing how much the dollars can add up over a lifetime. Even saving $250 a month by being frugal or wise with your money over a 30 year period of time comes to $251,405 if your invested dollars grow at 6%. Or, if you spend $10,000 less on vacations over a 30 year period of time earning a 6% return, you'd have $838,016.

What about buying a car in that same 30 year period? If you spend $20,000 less on a car and you get a new car every 8 years instead of every 3 years, first of all, you're only buying four cars instead of 10. Let's assume the average price of the cars you bought was $45,000 for a new car and $30,000 for a used car and we're assuming that every time you traded in your car, it was worth $15,000. Factoring all of that together, you saved $444,668.

Following these steps could save you a bunch of money over your lifetime. Added up, the above total $1.5 million in aggregate savings.

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