SPENDING YOUR WAY *to* WEALTH

Setting Your Compass Course to Steer in the Direction of True Wealth

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Spending Your Way to Wealth
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This book utilizes several assumptions on which to base likely future financial outcomes. During the past 5+ decades, the U.S. economy has experienced a yearly inflation rate that has averaged about 3% per year. Likewise, while the value of major American-based companies has also varied from year to year, one of the most common benchmarks for such companies' growth is tracked by Standard & Poors Inc. and reported as the S&P 500 Stock Index. This index has shown an average growth rate of approximately 10% per year over the past five decades. While there can be no assurance that either the U.S. inflation rate or the S&P 500 Stock Index will experience the same average rate in the future that it has in the past, the duration of time over which the averages have been calculated provides a basis for an assumption of its continuance in the future.

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Preface

Read This First!

PART 1

When I began writing this book, the word "Corona" conjured pleasant visions of happy, relaxed people sipping cold, Mexican beers, at parties or on warm, sandy beaches. Our vision of a happy, normal life involved gatherings with family, friends, and co-workers—at restaurants, theaters, a local sporting event, and of course spending money at our favorite shopping mall. It's what *normal* people do (or did).

Today, the word "corona" sends a chill down our collective spine. The new coronavirus, COVID-19, banished our thoughts of warm sand, sunshine, and relaxed social gatherings. The pandemic brought about enormous, often traumatic changes to our way of life. We had to adopt new habits in order to assure basic survival. Instead of thinking about where our next vacation will be, we wondered if our next trip from home might be to the hospital. Daily spending decisions were accompanied by waves of unaccustomed stress and panic. And instead of worrying that our retirement account was less than ideal, we realized it was probably under-funded, and feared that our ability to sustain ourselves later in life might be impossible.

In the past, all too many people consistently spent without taking sufficient time to consider the longer-term consequences of each expenditure. Such consequences include the high likelihood that a huge percentage of the money spent every day *would likely have zero financial value in the future*. However, if that expenditure had been allocated differently, into things with increasing value (financial assets, real estate, savings accounts, etc.), *it could become thousands, hundreds of thousands, and even millions of dollars* during the spender's lifetime. To do so does not require all of us to become Warren Buffett. Rather, it means we just have to make modest changes in how we approach spending. That process, which has always been essential to achieving future financial wealth, has just become far more essential.

Those spending practices, engaged in by so many people in the pre-coronavirus era, prompted the writing of this book. I hoped the book could cause some readers to slow down, modify their spending practices and establish new ones that would enhance their financial futures. My 40 years of experience spent helping to guide people's investment practices has left me keenly aware of an important reality. People are very reluctant and slow to change their habits, unless and until forced to; or until they become sufficiently motivated to do so.

Now, before the book was completed, an event occurred that was so devastating that lives throughout the world have changed forever. The adversity caused by the coronavirus has forced us to abandon our old habits and replace them with survival habits. Hopefully, our discovery that we are all capable of change, and that change can occur quickly and decisively, will be a beneficial legacy of the coronavirus era.

This book is grounded on the premise that no behavior so impacts or influences our financial situation than our spending behavior. Hopefully the new spending habits that we have adopted during the coronavirus era will enable us to return to our prior level of financial normalcy. And, if we retain many of these new spending habits and supplement them with the suggestions, recommendations and tools provided in this book, we can go beyond merely returning to our previous level of financial security, we can achieve heightened levels of financial wealth. We can brighten not only our financial future; we can start to decrease our level of anxiety associated with our financial activity. Additionally, we can find time to invest our time, our energy and ourselves in worthy and productive activities.

May your new spending habits enable you to spend your way to wealths (plural; as in a wealth of happiness, a wealth of success, a wealth of friendships, a wealth of great memories, etc., etc., etc., and, yes; a wealth of sufficient financial assets.) May we all strive to have a diversified portfolio of many wealths.

PART 2

Socrates is credited with having said, "There is no surer sign of a person's education and intellect, than their ability, willingness, and propensity, to set aside their beliefs and convictions, long enough and often enough, to discover new things on which to base them." This book is all about the long-term, positive consequences that can result from setting aside old habits and beliefs long enough to discover the enormous benefits that can result.

The concepts in this book will not be new to many readers. However, just because a concept is familiar does not guarantee it automatically will be put to good use. This is especially true when it comes to how we deal with financial matters.

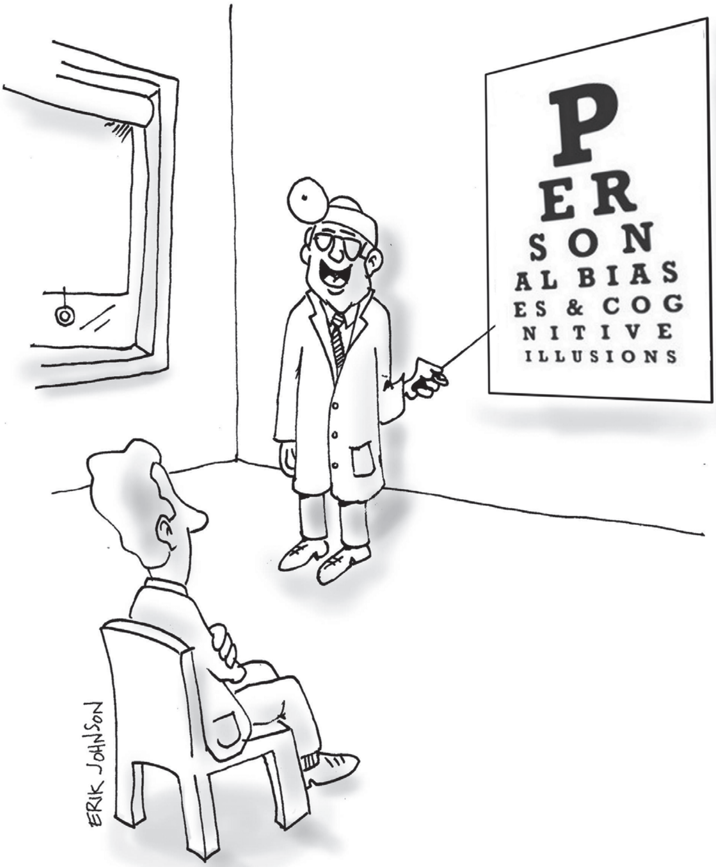
Seeing the title of this book will lead most to conclude that it is about spending money and achieving financial wealth. That assumption is not altogether wrong, but it overlooks the broader meanings of both *wealth* and *spending*—the central theme and purpose of the book.

Wealth is defined as *an abundance of something of value*. We can have many wealths (plural) besides money. They include a wealth of satisfaction, of friendships, of great memories, and scores of other good things. Since wealth—financial and non-financial—takes so many positive forms, it's right to assume that their pursuit is both worthy and noble. With this book, we hope to explain the worthiness of these many kinds of wealth, to inform the reader on the various ways of acquiring them, and to motivate every reader to pursue, embody, and benefit from them.

Spending, the other key subject of the book, is defined as *the exchange of one thing of perceived value for another thing of greater perceived value*. This requires an ability to consider whether our perception of value results from having a need or a want, and how that influences our motivation to spend. In other words, what motivates us to spend our time, our energy, our knowledge, or our financial assets—money—to meet that need or want?

To add depth to our self-understanding of these ideas, the book draws heavily on the past two decades of scientific research in the areas of brain function and the psychology of thinking—or metacognition. The science-based findings of Princeton psychology professor and Nobel Prize winner Daniel Kahneman are cited throughout the book as examples of how some people are able—and motivated—to achieve greater decision-making skills, with better results than those achieved by most normal people.

When applied to the topics of wealth and spending—broadly defined—these principles will prove invaluable. "Behavioral finance" is a term widely accepted among professional economists and financial professionals but less understood by ordinary people. This book is intended to remedy that situation.



"Good news; you're normal."

Chapter 1

On Being Normal

"Is being normal, being ordinary, really such a bad thing?
Is it something inferior? Or, in truth, isn't everybody normal?"
— Ichiro Kishimi

For most of us, life involves routine. There are high and low points, but a large portion of everyday life is familiar, ordinary, often habitual. In other words, it is normal.

As humans, we exhibit similar, predictable responses to everyday situations. These can be correct and beneficial. Driving a car (after we've learned how) or looking both ways before crossing the street are good examples. We do these things automatically, without giving it much conscious thought. It is what normal people do. Regrettably, we all too often exhibit similar, predictable responses to everyday situations that have very costly consequences, depriving of us of future wealth.

To gauge how normal you are, take a few moments to answer these five questions. Try to answer quickly, without checking the correct answers (in the back of the book) before finishing all five. Write down your answers if you wish.

1. The total cost of a bat and a ball is $1.10. The bat costs $1 more than the ball. How much does the ball cost?
2. Mary's father has five daughters. The names of the first four daughters are: **Nana**, **Nene**, **Nini**, and **Nono**. What's the name of the fifth daughter?

3. You are a participant in a race on a straight track. You overtake the second person. What position are you in?
4. You overtake the last person in the same race. What position are you in?
5. A person who cannot speak goes into a shop to buy a toothbrush. By imitating the action of brushing his teeth, he successfully expresses his need to the shopkeeper and makes the purchase. Then, a person who is blind comes into the same shop to buy a pair of protective sunglasses. How does she indicate to the shopkeeper what she wants to buy?

After you finish, check your answers against those printed at the back of the book. If you're like many, you gave answers that instinctively felt true but were in fact incorrect. (You may also find that if you did not answer quickly—contrary to instructions—you probably had more answers correct.) Don't be frustrated. Giving intuitive-but-wrong answers just means you're normal. It also means you're a perfect fit for this book!

Being Normal with Money

Being normal, and responding normally, does not guarantee being right. The easy, intuitive answer can often be the wrong one—based on popular ideas, like the (mostly) ancient belief in a flat earth, or more subtle factors. As humans, we see patterns where none exist, and assign causes to events we don't fully understand. As H. L. Mencken once said, "There is always a well-known solution to every human problem—neat, plausible, and wrong."

Being intuitive-but-wrong is especially true when it comes to money. Ordinary spending choices can have negative consequences—sometimes even dangerous ones. The problem is we make these choices automatically, from unconscious habit. We believe in the value of what we get in return for our spending, but we fail to recognize what we will likely forfeit in the long term.

Acting against our own financial interest does not mean we are unintelligent or irrational. It just means we are normal: thinking and responding *Reactively* rather than *Reflectively*. (More on that in Chapter 2.) We are certainly not alone. To quote the fictional pop philosopher, Walt Kelly's Pogo, "We have met the enemy, and he is us."

Becoming Normal PLUS

As this book will show, being normal is not sufficient when it comes to spending and wealth. Instead, we hope the reader will come to understand the importance of becoming *normal plus*. The book will provide the reader with the information, insights, and incentive to adopt a spending philosophy comparable to that of Warren Buffett and other widely recognized, financially successful individuals.

Anyone who studies the thinking and behavioral characteristics of such financial decision makers will discover striking similarities. Most possess a high level of self-awareness. Most tend to possess core competencies and tend to be steadfast in their adherence to essential disciplines. Most also have the ability to take a long-term approach and not be unduly worried about short-term noise. While outwardly quite normal, they are what is described in this book as *normal plus*. They subscribe to a core philosophy that separates them from most normal people. It is a philosophy this book describes as *Investorship*—a new word that describes a worthy and desirable financial spending practice. It's a philosophy that has enabled countless people to literally spend their way to wealth.

The Investorship spending philosophy is free to anyone with the intellectual and emotional resources to understand its importance and adopt it. Hopefully, that will be you.

This book is about spending and investing, and how normal human behavior can help or hinder our success in accumulating wealth. These ideas have been advanced by Nobel laureate Daniel Kahneman and others under the impressive heading of behavioral finance.

There are other books—long ones—on this subject. However, they are written for advanced readers. This book is intended for existing investors and non-investors—younger adults and others who avoid financial planning as too complicated or scary, as well as older adults who feel it's now too late to start investing. It is also aimed at those who are already investing to a small degree—perhaps through a 401(k) or similar program—but who are unhappy or frustrated in their progress towards greater wealth.

Most of all, the book is intended for those who believe investing is too arcane for them, when it is actually something a financial newcomer can master. My goal is to help you understand the consequences of spending and investment decisions—whether they be the small, incremental ones, or the large major ones. By slowing down and reflecting on these consequences, rather than acting reactively or "intuitively," you will be on a path to spending your way to wealth.

Special Note

While the mathematical calculations utilized in this book are straightforward and uncomplicated, a brief explanation will aid you in better understanding them:

When the book discusses current and future expenses associated with a particular item, it automatically adjusts each future year's expenditure for that item by an estimated inflation factor (3%). Thus, something which costs $1.00 today will cost $1.03 next year, $1.061 the following year, and so on.

Similarly, when the book discusses the possible future value of an investment of $1.00 in an S&P 500 Index fund (which has historically returned an average of 10% per year over an extended period of time), it shows the value of the invested $1.00 will likely be worth $1.10, the following year, $1.21 the following year, and so on.

The calculations in the book were derived from future-value tables similar to those used for the online Investorship calculator. They have been checked for accuracy by significantly credentialed individuals (accountants and financial consultants) whose calculation methodology may differ slightly based on minor formulation differences.

American consumers (people like us) are among the greatest financial spenders in the world. Certainly, we are among the most practiced. We spend more frequently, on more things, in larger amounts and in greater quantities than almost anyone else on earth. Regrettably, most of this spending is at the expense of spending on our future financial security. Since this problem tends not to manifest itself immediately, the magnitude of the problem increases each year until, it ultimately may be unmanageable.

The purpose of this book is to help the reader understand the problems that arise out of spending unchecked by reflection on long-term consequences, and to modify their spending practices in ways that make their future spending the cause of financial wealth.

This book is not intended to deprive us of the pleasure and satisfaction of spending. Rather, its purpose is to alert us to the forfeiture of enormous future financial wealth that is the likely consequence of the way we often spend—unconsciously mis-allocating our dollars. In pointing out this forfeiture, the book also shows the magnitude of potential, future financial wealth that will result from a revised allocation of our spending dollars.

The Final Chapter

Spending can be the cause of wealth.

— or —

Spending can be the cause of
wealth forfeiture—and regret.

It’s your choice.

Answers to the Questions from Chapter 1

QUESTION 1: The total cost of a bat and a ball is $1.10. The bat costs $1 more than the ball. How much does the ball cost?

ANSWER: Most say ten cents because it seems so obvious: just subtract one number from the other ($1.10 minus $1.00) and you get $0.10. But that's wrong!

Think about the ten-cent answer. If the bat cost one dollar more than a ten-cent ball, then the bat would cost $1.10. Now if you add a 10-cent ball to a $1.10 bat the total cost for both is $1.20. But the question started off saying the two together were $1.10. Therefore, the ball **<u>cannot</u>** cost ten cents. Although the cost of the ball can be calculated algebraically, it's probably easier to just try another number as the cost of the ball. Since you now know that 10-cents is too much, try a smaller number. Try **five-cents** for example. That would make the bat cost $1.05 (one dollar more than the 5-cent ball, as stated in the question). Add that 5-cent ball to the $1.05 bat and voilà: $1.10 (the number given in the question). **Obviously, the ball costs 5-cents.**

QUESTION 2: Mary's father has five daughters. The names of the first four daughters are: **Nana**, **Nene**, **Nini**, and **Nono**. What's the name of the fifth daughter?

ANSWER: Most people say Nunu, but the correct answer is Mary. As with the previous question, we tend to let our intuition take over making further thought seem unnecessary. Why spend time when the answer seems so obvious? As normal human beings, we tend to spot trends or patterns—and extend them. In this case, the vowels and consonants in the four names led most of us to conclude that the pattern would continue to the next logical combination, Nunu. But the question itself contained the answer: Mary's father's fifth daughter is named Mary.

QUESTION 3: You are a participant in a race on a straight track. You overtake the second person. What position are you in?

ANSWER: Most people say the answer is first place, but the correct answer is second. Again, our affinity for logical patterns and sequences makes it easy jump to the intuitive but incorrect answer. Because "first" precedes "second" we rely on our intuition and fail to calculate what is actually happening in this scenario. If we have only displaced the runner in second place, then we are now in second place and the leader is still ahead.

QUESTION 4: You overtake the last person in the same race. What position are you in?

ANSWER: Most people say, "last place," which is impossible. There can be no answer because no one in a race can be behind the last person in a race. We intuitively jump to the seemingly logical answer, and are disinclined to spend energy unnecessarily, so the easier mental shortcut is often substituted when no correct answer is possible.

QUESTION 5: A person who cannot speak goes into a shop to buy a toothbrush. By imitating the action of brushing his teeth, he successfully expresses his need to the shopkeeper and makes the purchase. Then, a person who is blind comes into the same shop to buy a pair of protective sunglasses. How does she indicate to the shopkeeper what she wants to buy?

ANSWER: Most people say that they imitate the action of putting on sunglasses, which is incorrect. The correct answer is that they ask the storekeeper for a pair of sunglasses!

In the first scenario of the story, the person who could not speak mimed what they wanted. So, we are predisposed to try and make the two stories consistent, rather than slowing down and thinking about what an actual blind individual is capable of doing. They have no speaking impediment, so they just ask.

Don't be frustrated if you answered any of these questions incorrectly. Most people do. In fact, some answer them all incorrectly. Giving the intuitive-but-wrong answer simply proves you have a functioning, System 1-using brain, as we all do.