

PERSPECTIVES

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Financial Planning

Good spending vs. bad spending

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Every day we make purchases. Some are more important than others. What's the difference between good spending and bad spending? Let's look at why we sometimes make bad spending decisions. And how, instead, we could balance our spending to keep life enjoyable – while saving for our future selves.

Some people are natural savers. They get satisfaction from seeing their account grow. Other people feel satisfied in using their hard-earned money for things they enjoy. Often people go too extreme in either direction! The savers are so set on saving that they may not take time to enjoy life and reward themselves for their hard work. The spenders may go through life spending too much and paying little attention to their future – leaving them in a tough spot when retirement hits.

In the 1960s, Stanford researchers did an interesting study. In what became known as the *marshmallow experiment*, they presented a tray of marshmallows and cookies to some preschoolers. They told the kids to select one piece. They said if the kids ate it immediately, they would not receive more. But, if the kids waited only a few minutes, they could take another one. If the preschoolers could just postpone their indulgence briefly, they would double their holdings.

The researchers monitored those kids right up to adulthood. They found the ones who were able to delay their gratification achieved much more success in life than the ones who wanted instant gratification.

Spenders can't delay gratification. If they have cash, they go right ahead and spend it on the things they want. Savers, on the other hand, derive immense joy from having money in the bank or experiencing a major discount on a purchase.

These tendencies are hard-wired into us. They take a lot of work to change. Basically, *good spending* is paying for things we need; *bad spending* falls into our wants category.

Think you spend too much? Here are a few tips to curb that habit.

Create a plan: Look back on what you spend per month and how much per item. Figure out your base spending (rent, groceries, transportation, cellphone, Internet, etc.). Then look at what you are spending on the other things. Set a goal of what you want to save per month and stick to it. Pay for your needs and give yourself money for spending on just a few extra things.

Avoid spending triggers: Maybe these are certain shopping spots, say, or restaurants. Stay away from these triggers as best you can.

Stop and think: Before making a purchase, step back and consider if you really need it.

Reward yourself: You deserve some rewards for following your plan, whether dinner at a favourite restaurant or a new pair of shoes. Rewards will keep you from going crazy during this new process.

Think of your future self: Sure, it's daunting to think far ahead to how much money you will need. But it actually helps! It will keep reminding you why you are putting that money away. You might even decide to save more. Either way, it will set you on the right path of good spending – and keep you off the wrong track of bad spending. ■



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