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Delayed Financial Gratification

Love Money, Don't Waste It

By Kevin Bourke

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"People don't like money." This from a wealthy man who has been a client for over fifteen years. At first I laughed, thinking he was setting me up for the punchline. But his demeanor showed that he was dead serious.

What? Who doesn't like money? Everybody I know likes money, the more, the better.

"People don't like money," he said again, "and you can tell because as soon as they get some, they trade it away for stuff as quickly as possible. Cars, TVs, gadgets--people get rid of their money and get other stuff."

Money Talks

Having observed the way people handle money, I could immediately understand the truth of his statement. The investors I've had the privilege to work with over the last two decades have a common characteristic. They like their money, and they don't trade it readily. They think carefully, they ponder, they weigh out the circumstances carefully and compare the purchase to their internal values before trading their money away.

When financially successful folks do trade their money for other items, they typically trade it for items that appreciate in value. While life does demand that we own certain depreciating assets (like cars, computers, and televisions) these items don't garner much attention from the savvy investors I've met.

Rather they focus their attention on purchasing items that appreciate in value (real estate, stocks, education, and so forth), then use the income from those items to upgrade the items that depreciate in value.

For example, many people desire an expensive automobile. And they might decide that they can afford one because they can afford a large monthly payment.

The wise investor takes a different position. If a wise investor discerns that there is room in their budget for a large monthly expenditure, they find a way to purchase an appreciating asset which will, in time, generate the income to purchase that same vehicle. Thus, they have the vehicle they want, and they get to keep their money, or net worth.

Their desire is delayed for a time, but eventually they get everything they've ever wanted, and a great deal more. In contrast, the average consumer is stuck on an endless treadmill, always making payments, always a debtor, never an owner.

As the philosopher said, the chief cause of failure and unhappiness is trading what we want most for what we want at the moment. We want a car today, so we trade our long term goal of financial security for the immediate pleasure of that new car smell.

In my opinion, we are witnessing a seismic shift in the way the average American views money. Prior to the baby boomer generation, which comprises those born between 1946 and 1964, Americans spent their money differently. Baby boomers created a generation of free spenders, using debt in ever more creative ways to finance lifestyles their parents could not have imagined in their own youth.

Now, baby boomers are staring down the barrel of a long retirement (thanks to increased life expectancy) and realizing that they are going to need much more money to finance their lifestyles than they had imagined. At the same time, they are seeing their net worth decline dramatically.

I believe we are going to see more and more consumers adjust to a new philosophy, saving more and spending less, and carefully considering how they spend their cash.

My advice? Get off the consumer treadmill, stop spending frivolously, and start saving and investing like never before.

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