

Invest In Your Debt Part Three: Understanding The Trap

First Edition

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Part One of our Invest in Your Debt series, The Basics, explained the basis for this very powerful debt elimination program. Part Two, The Spend Smart Factor, explained how to come up with some extra money each month to pay toward your bills. This part, Understanding the Trap, is presented to help prevent you from falling into the most common financial trap ever to have sprung upon an unsuspecting victim – the credit card – by helping you to understand why you do what you do, and how to change what you do. So here we go with Credit Cards and The Psychology of Buying. Enjoy.

Credit Cards

Have you ever had a craving for chocolate? Chocolate cravings are challenging in the inner battle they create between a person's head and his stomach. Your head says you probably shouldn't eat it...but your stomach reminds you it will taste soooo good!

See if this scene sounds familiar. You want chocolate, but you don't want the extra calories. But when you really think about it, what harm would a little taste do? You reassure yourself – “I have will power! I can have just a taste of chocolate, satisfy my craving, and I won't have any more!” So you take a little nibble of chocolate, and it tastes so good – oh that tastes good.

Now, since you've already broken your diet, you may as well eat a little more. Pretty soon you've eaten half of the chocolate by nibbling. Perhaps you're feeling a little guilty. You tell yourself, “I don't want to eat any more chocolate.” You also don't want to be tempted to eat more chocolate later. Therefore, it makes perfect sense to finish eating all of the chocolate NOW – that way, you won't have to worry about it later.

This chapter is about credit cards, so it makes perfect sense to talk about chocolate, doesn't it? You see credit cards are a lot like chocolate. If you don't use your credit cards very often and don't eat too much chocolate, you'll probably be OK. But like chocolate, credit cards exist on a slippery slope. The more you use credit cards, the easier it is to use them again. If you eventually find yourself where you've overdone it with credit cards, you could spend a lifetime trying to pay them off just as you could spend a lifetime trying to work off the extra padding around your middle from chocolate.

Now we don't want to turn people off here – we're not saying everyone has or will get into trouble with credit cards. If you've never had the credit card blues, congratulations! Even if you've never fallen into the minimum payment trap we encourage you to study this chapter thoroughly anyway. Just like the analogy of fire, credit cards could still “burn you” one day if you aren't careful. Even if you pay them off each month!

A friend of mine tells the story of when he got his first credit card – while in college of course – he was excited! Maybe you can relate to this story. It felt like someone had given him a bunch of money. He decided he and his friends were going to play “Cavalry” – you know, they ran all around town and yelled “CHARGE!”

One of the first things he learned was that the “green” card was so “exclusive” that it wasn't accepted everywhere. So when he treated his friends to dinner, he had to make sure the place they went to was “sophisticated” enough to take his card. If they did not, then they certainly did not deserve his business since “membership has its privileges.”

He and his friends lived high on the hog for about 30 days. But then, suddenly a dark cloud appeared over this free-spending lifestyle. THE CREDIT CARD BILL CAME IN THE MAIL! He was surprised when he saw the total. It didn't seem like that much money when he signed the receipts! And guess what...one of the “privileges of membership” was that the entire amount had to be paid in full each month.

As you can imagine, as a college student with little or no income, he was in trouble. Fortunately, he had the most vital financial resource any college student can ever have: Mom & Dad. They paid the bill and allowed him to pay them back. Nice of them, wasn't it? They only asked for one item in return – they got to keep his precious credit card until he had a job.

Now most of you reading this book were probably not as impulsive as he was as a college student, but do you remember when you got your first credit card? Did you buy some things right away: items that you didn't have the money for right then, but you felt you could afford the “low monthly payments?” Most of us have.

Perhaps there was a time when you decided your credit cards would be used only for emergencies. Your definition of emergency included items like

surprise car repairs and such. Over time however, your definition of “emergency” evolves. After a while, a sale at the mall before payday qualified as an emergency. Perhaps eventually your definition of emergency could include “I want to go out for dinner and fun but my wallet says no!” Do you have any credit cards? Chances are you do since in the United States alone there are over one billion credit cards in circulation¹. ONE BILLION CREDIT CARDS! That’s almost four credit cards for each man, woman and child. Now we assume that most of the 50 million grade school children and younger don’t have credit cards, so...that means some of us have many more than four credit cards!

For many of us, credit cards have become a reflex, an automatic way we pay for items when we are shopping at certain stores or when we spend more than a certain dollar amount. You could say credit cards are a habit. Some habits are good and some are bad. As with any habit, it can be beneficial to “ask why” now and then. We hope, after reading this chapter, you will ask yourself “why do I need credit cards?”

Most of us have probably never even questioned the reason why we have or use credit cards. They seem like a normal and necessary part of our financial lives. It’s interesting when you consider however, that credit cards have really only been around since the mid-1960s. Then, when you saw someone using a credit card it was a novelty. It wasn’t until the mid-1980s that credit cards really became prevalent. Now, credit cards are used so frequently, it’s almost a novelty to see someone using cash!

This is one example of how things have changed over the years. There was a gentleman, age 86, who remembers baling hay for 50 cents a day. He paid cash for his house, and once burned a credit card offer that came in the mail. His daughter, age 53, is slightly more liberal with her finances. She has a car loan and carries a balance on her credit card periodically, but normally gets it paid off quickly. Her daughter is 29, and believes that just because she doesn’t have the cash doesn’t mean she shouldn’t buy something. She has \$8,000 on credit cards and a car payment of more than \$430 a month on her \$40,000 a year salary. She does not believe that debt is a sin. She does believe that she is living in a style that she wants to become accustomed to.

6 "Zero Balance-Getting the Credit Monkey Off Your Back", Family Money Magazine, July 2000

There is one simple reason why most people accept and use credit cards so willingly. The credit industry has been very successful marketing their products to us. You've seen the commercials – “MasterCard – it's smart money.” We are taught to think it is good financial strategy to use credit cards at the grocery store, because it allows us to “track our spending.”

A big part of the successful credit card marketing has been the sheer volume and amount of it. Credit card companies are always big advertisers during big TV shows. And how about all that mail we get? Many of us get several credit card offers a week. According to Consumer Reports, credit card advertising has been very successful in shaping our thinking. We've been told that credit cards help us enjoy life more; they help us get the finer things in life. Credit cards are marketed as tools of the financially-savvy. We are led to believe that credit cards will somehow improve our financial lives when in reality...

Instead of helping us financially, credit cards actually rob typical families of the ability to achieve true financial freedom!

In other words, for most people...

If you use credit cards on a regular basis, you probably will never be able to retire!

Does this seem a little harsh? Let me put it to you in another way...

You have a choice. You can continue using credit cards or you can begin to build real wealth: wealth such that you can become financially free!

These statements seem a little preposterous, don't they? It's OK to admit it because most people in our classes don't believe it at first either. But it is absolutely true. For most people, **credit cards do nothing but drain their future wealth!**

LET US SHOW YOU HOW!!!!

According to CardWeb.com, a Frederick, Maryland firm specializing in on-line publication of credit card information, trends and statistics (formerly known as RAM Research), at the end of 1998 the average household owed

\$5,751 on their credit cards². Like other debt, credit card debt has risen in the last few years as well. Since CardWeb also tells us there are 79 million households with at least one credit card, and the Federal Reserve tells us that the total credit card debt (revolving debt) in the US is about \$633 Billion³, we can use some simple math to determine that today's average credit card balance for the typical household is \$8,013.

Now for those who think, 8,000 bucks, that's not too bad...consider a number of facts that keep this average lower than it might have been. First, refinancing mortgages and "consolidating debt" programs have been very popular conventional financial tactics the last few years, though they are often financial suicide. When people consolidate, they often "pay off" their credit cards. Of course, that debt doesn't disappear; it just now is part of the mortgage. So it is reasonable to assume that credit card debt would be much higher were it not for the mortgage refinancing binge of the last few years.

Another factor that keeps the average credit card balance low is the fact that a number of people pay off their balances in full each month. When you include many people who pay their balance off each month, it makes the average balance seem lower for the people who do carry a balance. Further information from CardWeb tells us in fact that 42% of people pay their cards off each month⁴.

So if 42% of the 79 million households with credit cards pay them off each month, that means that 58%, or 46 million households carry credit card balances, and don't pay them off each month. So if we want to know the average balances of those who carry a balance, we need to divide the total credit card balance (\$633 billion) by the total households carrying credit card balances.

If you carry balances, and were thinking the \$8,000 average is low compared to your balances, maybe you will realize that you are closer to "normal" than you might have thought when you realize the average balance, for those who carry credit card balances, is actually \$13,761!

With credit cards, most people are doomed to a lifelong merry-go-round ride of using credit cards, slowly paying them down, using credit cards, slowly paying them down. Credit cards are the fastest route to financial disaster.

² <http://www.cardweb.com/cardtrak/pastissues/oct99.html>

³ <http://www.federalreserve.gov/releases/g19/>

⁴ <http://www.cardweb.com/cardtrak/pastissues/oct99.html>

The purpose of this chapter is not to lecture about the evils of credit cards, though the statistics speak for themselves. The purpose is not to convince people to cut up their credit cards (though you may choose to once you see how much wealth those credit cards are costing you). The purpose of our credit card discussion is to simply encourage you to re-examine your use of credit cards from a more educated perspective. Here's the "Rest of the Story."

First, let's look at how big the number of credit cards in circulation really is. Think about how much one billion is...

One billion days is 2,739,726 years
One billion hours is 114,155 years
One billion minutes is 1,902 years
One billion seconds is 32 years

A BILLION CREDIT CARDS IS A BUNCH OF CREDIT CARDS!

What do we do with all these credit cards? Well of course, we SPEND A LOT OF MONEY! According to CardWeb, credit card purchases topped \$1 trillion in 1999⁵. As you'll soon learn, for most people, spending money with credit cards is the same as SPENDING MUCH MORE MONEY THAN YOU WOULD WITH CASH. For now, it's important to understand the scope of our credit card usage.

How much is a trillion? Well, it's simply a thousand times a billion. So you simply add three zeros to the end of the examples of a billion above and you learn that one trillion is...

One trillion days is 2,739,726,000 years (almost THREE BILLION Years!)
One trillion hours is 114,155,000 years
One trillion minutes is 1,902,000 years
One trillion seconds is 32,000 years

So a trillion dollars spent with credit cards is a lot of money. Some would say however...

10 "Zero Balance-Getting the Credit Monkey Off Your Back", [Family Money Magazine](#), July 2000

“What does it matter how much is charged since most people pay off their credit card balances each month?”

Here is a chance for you to begin to see “the rest of the story.”

According to the Federal Reserve, the outstanding balance on credit cards continues to rise each year, much faster than income rises. Typically, personal income grows about 2% each year. How does that compare to the growth of outstanding balances on our personal credit cards?

Look at the latest statistics about the total outstanding credit card balances and it’s growth from year to year...

Total Credit Card Balance

	1995	1996	1997	1998	1999	2000*
\$ Balance (Billions)	\$443	\$499	\$531	\$561	\$596	\$633
Balance % Growth	21%	13%	6%	6%	6%	12%

The growth in outstanding credit card balances had been slowing the last few years, but even 6% growth is high. What this means is that our outstanding balances are growing faster than our income. If balances are rising, can we not also assume that minimum payments are rising as well? It doesn’t take a math whiz to realize...

When expenses (payments) grow faster than income, this is a financial disaster waiting to happen!

Why do we have so many credit cards and use them so much? Maybe it’s because credit cards are “smart money.” Maybe it’s because we can earn free travel and other “goodies” with the award programs. Maybe we like those cash back bonuses. Maybe we like the convenience. Maybe we like the prestige (didn’t you think you were really special when you got your first gold card?). Whatever we may think is the reason we have a wallet full of credit cards (that is if we’ve even ever stopped to think about it), there is one major factor that probably contributes to the large number of credit cards more than any other reason...

There are so many credit cards in circulation today...BECAUSE CREDIT CARD COMPANIES MAKE IT SO EASY TO GET THEM!

You've heard all the stories about dogs, cats, 8-year-old kids or deceased people being sent pre-approved credit cards in the mail. Obviously, those are mistakes, but there are many people who get credit cards that you would never imagine. People with bankruptcies and bad credit can easily get cards today. We'll talk more about these people later, but let's continue with the discussion of "Why do we have so many credit cards?" There is a deeper reason to consider.

Why do credit card companies make it so easy to get credit cards?

SIMPLY BECAUSE CREDIT CARDS ARE VERY PROFITABLE FOR THE CREDIT CARD COMPANIES!

It's a simple fact folks, the credit card industry is very profitable. We all think about Bill Gates as the richest man in the world, but do you know who the second richest American is? The fellow who owns MBNA, a credit card company that targets people with bad credit histories. Now you might wonder, how can one become wealthy by giving credit cards to bad credit risks?

MBNA does very well because their customers tend to be people who have no choices. That is, their customers typically can't get cards from other credit card companies. So, they are more likely to pay not only higher interest rates, but also higher fees and service charges.

SUMMARY

Like any good business, the goal of credit card companies is to make a profit and maximize value for their shareholders. Yes, businesses should serve their customers, but unless they make a profit, they won't be able to stay in business. If they go out of business, they won't be able to serve many customers, will they?

So don't get angry at the credit card companies because they are trying to be good businesses. Just understand how their businesses operate and how they make their money. That way, you can make sure that you minimize your

costs, and your money goes toward building your wealth instead of building the credit card company's profits. Hopefully, these four secrets give you some insight you did not have before.

The best approach to credit cards is to change your financial life so you never need them again. If you follow the linear math / variable path process we teach for investing in your debt, you can quickly reach a point where you never use a credit card again.

The Psychology of Buying

We all make purchases every day - maybe it's stopping to get gas, grabbing lunch or picking up some milk or bread on the way home. In these frequent purchasing situations, we have a very specific purpose, a very specific need.

We also have purchasing situations, usually on at least a weekly basis, where our purpose is much more general or perhaps even completely undefined. We need groceries. We need some new shoes. We have to get a gift for someone. Or maybe, we're just going to the mall.

In this section, we are going to look at the psychology of buying: why we buy the things we do, when we do and how we can recognize the difference between what we need and what we want. If you want to learn how to Spend Smart, it is crucial to begin to understand the psychology of buying.

Let me ask you a question. Do you KNOW SOMEONE,

- Who has a two-car garage, but has to park one car in the driveway?
- Who would like to remodel their basement, but can't until they have a garage sale?
- Who has a guest bedroom, but guests sleep on the couch?

The bottom line...most of us buy much more than we need but we never can buy everything we want.

Why is this? Let's look briefly at the psychology of buying.

Have you ever hear the story of Pavlov's dog? It demonstrates some very relevant psychological phenomena known as STIMULUS/RESPONSE and ASSOCIATION. Now I'm not implying that we are dogs, but these psychological terms can help explain why we often buy things we don't need.

The story of Pavlov's dog, basically goes like this. Pavlov noticed how the dog always salivated when he saw his dinner coming. Of course, this makes sense, right? The dog knows how good that Alpo is going to taste. The stimulus (thought of dog food) produced a response (slobbering).

So Pavlov, being a good scientist, began to wonder how strong this relationship between the stimulus and the response was. He suspected the link might be so strong, that he could substitute a different, unrelated stimulus and still produce the same response. In other words, he thought he could get the dog to salivate, **AS LONG AS HE SIMPLY THOUGHT DINNER WAS COMING!**

Pavlov decided to conduct an experiment to test his theory. He began to ring a bell right before he would bring food to the dog. Over time, the dog began to salivate when the bell was rung, even before dinner was served. In fact, **THE DOG WOULD SALIVATE ANYTIME THE BELL WAS RUNG, EVEN IF DINNER WASN'T SERVED.**

Pavlov explained this phenomena as ASSOCIATION, meaning the dog associated the bell with dinner, so the bell produced the same STIMULUS/RESPONSE reaction. The dog expected the stimulus (dinner) and would respond (salivate) from just the bell alone because such a strong link had been created between the bell and dinner.

WHAT THE HECK DOES THIS HAVE TO DO WITH SPEND SMART?

Very simple - just like Pavlov's dog, we get our "bell" rung all the time. We are bombarded with advertisements - these advertisements create images or ASSOCIATIONS about products in our mind. What is really interesting is these images or associations often have little to do with actual product benefits. They focus on the feelings we will get from the product. They evoke emotional responses from us. Let's look at some examples of advertising where the focus is on a feeling instead of the product itself.

- Insurance commercials about happy families.
- Makeup ads showing fashion shoots.
- Beer commercials with men drinking the beer surrounded by beautiful women.
- Nike commercials featuring popular music and athletes – sometimes they don't even show the product name, just the “swoosh.”
- Pickup truck commercials featuring “tough” guys.

WHY DO THEY DO THIS?

Think back to Pavlov's dog. Advertisers want us to associate good emotional feelings with their product, the stimulus. They want us to buy the product, the response. Psychologically, many consumers believe they can purchase the good feelings associated with the product, so they buy it.

Advertising is about psychology because buying is often based more on emotion than on logic. If you can better understand the psychology of why you do things, you can better understand (?) why you buy certain things.

NEEDS VERSUS WANTS.

Talking about the psychology of buying helps us understand why we choose certain products. Another aspect to consider, however, is how or why we decide to make a certain type of purchase.

What is the difference between needing something and wanting something? As we mentioned earlier, most of us really have everything we need – our basic needs are rather limited – Food, Shelter, Clothing. Our desires, the things we want, are large in number.

There are certain purchases we make that WE MUST MAKE – they are requirements. Requirements function on several levels. There are a small number of physical requirements: we physically need food, shelter and clothing because we can't survive without them. Some things we need in order to pay for our other needs. Most people need a car to get to work, white-collar workers need “work clothes,” we need daycare for our kids, etc.

Everyone also has a number of purchase choices which are optional. **MANY PURCHASES WE MAKE ARE NOT REQUIRED.** We choose many of these items simply because **WE WANT THEM.** Such items may include a second or third car, multiple TV sets, or the latest computer system. We often purchase non-essential items because **WE WANT THEM.**

Now we don't have to tell you what things you buy are non-essential. What we want can affect required purchases as well. For example, while we may need a car to get to work, do we really need an SUV as opposed to a sedan?

Non-essential purchases can significantly impact our financial futures. We do have choices however. We can purchase a smaller amount of the things we want now or we can have a larger amount of the things we want later in life.

How can you tell the difference between **NEEDING SOMETHING** and **WANTING SOMETHING?**

It is a skill, an ability to separate yourself from the feelings and emotions of buying something, that can only be developed over time. The Spend Smart class is designed to help you become better at doing so. Here's a great tip to help you distinguish between the two. When you see something that you want, but you haven't planned on buying...

STOP. And as parents like to say, "take a time out." To be objective, you need to separate yourself from the buying situation. You need to get away from the influences of lights, colors and displays usually found in a store. Take 24 hours to consider whether you really need the item. If, after 24 hours, you still feel you want it, then make your decision. More than half the time however, when you remove yourself from the emotion of the moment, you will decide you can do something better with your hard-earned money.

SPEND SMART IS NOT ABOUT TELLING YOU WHAT YOU SHOULD OR SHOULD NOT BUY. IT IS DESIGNED TO HELP YOU GET THE MOST OUT OF YOUR PURCHASING DOLLARS SO YOU CAN ACHIEVE LONG-TERM GOALS. UNDERSTANDING HOW AND WHY PURCHASING DECISIONS ARE MADE WILL CREATE AN AWARENESS THAT HELPS YOU SPEND SMART.

THE MOST IMPORTANT ASPECT OF SPENDING YOU SHOULD BE AWARE OF IS THIS:

MOST PURCHASING DECISIONS ARE DRIVEN BY EMOTION.

You don't buy something based on what you think...you buy something based on how you feel, based on your emotional makeup at the time. To further your awareness about spending, it is important to learn about what some refer to as spending personalities.

Spending Personalities

We all have different personalities. When we meet, talk, or participate in activities with other people, our personalities influence not only how others see us, but our actions as well. Our personalities reflect the way we think and the way we act.

Most psychologists agree that at birth, your personality is like a blank sheet of paper. You are not born outgoing or shy, but you are influenced and shaped by the people, places and experiences in your life. These factors make an impression on you and your personality like a pencil leaves an impression on paper.

So in one sense, you are not entirely responsible for your personality. At the same time, if you choose to, you'll be pleased to know you can change your personality with time and effort. The ability to change your personality will become an important component of your growing ability to spend smart.

Now what do personalities have to do with spending? Any ideas? It probably won't surprise you to learn that our personalities influence the way we spend as well. Author J. Grady Cash, in his 1994 book *Conquer the 7 Deadly Money Mistakes*, identifies what he calls Seven Spending Personalities. These personalities are actually patterns of behavior that lead to what Cash calls spending mistakes, bad money decisions, spending that does not support your overall goals and objectives. The Spend Smart workshop will help you increase your good spending decisions, and gradually decrease your bad spending decisions over time.

Spending personalities can change depending on your mood (happy/sad), recent events (more money/less money) and emotions about a purchase (I hate buying groceries but I love to shop for clothes).

Many people have a primary spending personality that almost always affects their spending. People without a primary spending personality usually have a secondary spending personality that often affects their spending. In fact, some people have multiple secondary spending personalities. No, we're not talking about Sybil here, but we all have different personalities that surface at various times. This is often true with spending personalities.

If you want to influence the way you buy things, and really strive to spend smart, it is important that you understand why you do what you do, and what you can do to improve the way you do things. If you simply are able to identify your spending personality, simply become aware of it, and consciously try to control it, it will greatly help you in your efforts to spend smart! We call this the "Cholesterol Effect." When people simply become aware of the dangers of high cholesterol, it becomes less satisfying to eat unhealthy food and it can in fact, become even more satisfying to know you are getting healthier!

Now let's take a look at these seven spending personalities.

Spending Personality I - Impulse Buying

When we conduct Spend Smart workshops, we usually find the largest number of people have Impulse Buying as a primary or secondary spending personality. Even if it is not your personality, Impulse Buying is something that almost everyone is influenced by occasionally.

- Have you ever gone to pick up milk and bread at the grocery store and left with two bags full?
- Have you ever returned home to find that you spent more than you planned on a shopping trip?
- Have you ever purchased items from the racks next to the checkout counter?

Like any spending personality, Impulse Buying exists in people to varying degrees. In severe situations, impulse buying can become a habit, it can become a clinical addiction where what is bought doesn't matter - the thrill

(or fix), the instant gratification, the emotional rush some people get from buying is all that matters. For most people, impulse buying is a personality that exerts itself infrequently with larger purchases or more often with smaller purchases. Don't kid yourself however...all of us buy things we don't need...even if you didn't have a high score on this personality be aware of the way impulse buying adds up quickly over time.

What causes Impulse Buying?

- Lack of planning
If you don't have a specific, written list of what you are planning to purchase when you go shopping, how do you know when you're done? When you don't see anything else you want or when you're out of money.
- Lack of clear financial priorities.
When we are tempted with an impulse purchase, one of the ways we justify it is that we can't think of anything else we want more at the moment. We don't have a goal, an objective which we are trying to save towards, so it easy to spend money you don't think "you need."
- Large "Deal Quotient."
The deal quotient is a phenomena which impacts many buying decisions. Two variables generally determine how good a deal you perceive an item to be. First is how much we want or need something – this is the value we put on it. The second variable factor is the cost of an item.

The deal quotient is calculated like this: $VALUE/COST = DEAL Q$

Without getting into too much algebra, this equation basically tells you what you already know - the more you want or value something and/or the less it costs, **THE BETTER THE DEAL!**

These variables are subjective, not easily or consistently defined. Advertising and marketing can greatly inflate the D-Q.

For example, automobile commercials typically promote a tough, rugged, cowboy image for those who drive pickup trucks. Did you know however, that 75% of pickup owners live in urban areas? So

why do they buy pickups? For some, they have a subconscious desire to be rugged, and because of the advertising, they see a pickup as a way to be rugged. Do you think there would be so many “Urban Cowboys” without such advertising? This is an example of advertising inflating the D-Q. Ordinarily, a pickup might not be appealing to an urbanite, but advertising makes some want it more, so the D-Q increases.

Marketing also can inflate the D-Q. This is especially true with regard to pricing and packaging. For example, do you think someone would perceive a cost of \$18,000 to be more or less than a cost of \$299/mo? Cars are again a good example - financed, per-month pricing is almost always used because people perceive the cost to be lower. If the cost is perceived to be lower, than again, the D-Q goes up!

Of course, any given item usually has different Deal Quotients for different people. Take a look at the Deal Quotient Table in your workbook. Think of the last purchase you made that was more than \$20 and walk it through the Deal Quotient process. Did you get a good deal?

We provide several tools during Spend Smart workshops, which will help people more objectively and rationally think through purchasing decisions. This rational process helps you break free from the emotion of buying. If you simply use these tools to analyze potential purchases, you will save by making smarter purchasing decisions and by deciding against some purchases you might have made in the past. You will master the psychology of buying.

One of the tools to help you spend smart is the Deal Quotient mentioned above. The D-Q can help you make more consistent spending decisions - it can help you look at all decisions on a common scale, with a constant perspective.

Remember that the D-Q rises as value goes up and cost goes down. You should begin making the D-Q a regular part of spending decisions. Before you buy something, rate its value to you on a low to high scale of 1 to 10. Rate its cost on a low-to-high scale of 1 to 10.

Check the DQ (if you're not quick with division in your head, use the workbook chart as a reference.)

With items that you purchase frequently (food, clothing, etc.) you will soon know their D-Qs intuitively. On items you purchase less frequently (electronics, furniture, automobiles, etc.) you will find the D-Q to be an important component of your decision.

Looking again at the table in your workbook, you see the D-Q can range from .10 to 10. It is important to establish some personal parameters as to what D-Qs you find acceptable. For example, you probably wouldn't want to buy something with a D-Q less than 1 - this means that you rated the cost as being higher than the value. In other words, you would be paying more than it is worth, certainly not a good Spend Smart strategy.

Many businesses use the 2 times rule as a general guide to pricing, that is, they need to sell something for twice what they paid for it in order to cover overhead and make a reasonable profit. If someone wanted to apply this rule to personal spending, a purchase would need to have a D-Q of 2 or higher (value is at least twice the cost). We have shaded the chart on page 3 for easy reference in applying the 2 times rule - $\frac{1}{4}$ of all the D-Q ratios show a purchase decision where the value is twice the cost. It is these kind of winning decisions which can fuel your spend smart plan!

We do recognize that there are situations when value or price are of no object. If it's 3 a.m. and you're out of diapers, you probably don't care if they cost twice as much at Super America than they do at Target (thus the D-Q is one-half of what it would be at Target). If you get a flat in the middle of a rainstorm and you have to walk to a service station because your spare is flat, you probably don't care if all they have are low-quality retread tires.

Use the Deal Quotient as a consistent measuring stick for knowing if your decisions are consistent with Spend Smart. This one tool can help you save a great deal of money - but now, let's continue with spending personalities.

How can you protect against impulse buying?

- Walk Away - when you are in the physical presence of an unplanned purchase, the urge to buy is the strongest. GET OUT! Research has shown that when someone walks away from an item to “think about it,” 90% of the time they do not return to buy!
- Use a Shopping List - regardless of what you are going to purchase - have a list and stick to it. Impulse buying is an emotional response - use the logic of a list to overcome the emotion. In the case of a large item purchase, have a list of the features you will purchase so you are not tempted by the little “extras.”
- Carry only enough cash to make the purchase. We do advocate completely doing away with credit cards. But, if you still have cards, at least leave the cards (and checkbook) at home so if you are tempted you won't have convenient means for making an unplanned purchase.
- Always have a savings objective, a goal you are working towards. That way the potential pleasure of an impulse buy can be counteracted by your desire to achieve a goal.

If there is something you really feel you must have, still commit to walking away. When you get home, add the item to your list of your Spend Smart goals on the refrigerator. This guarantees you win! If something you normally would have bought on impulse, stays important over a matter of days, weeks and months then you're happy because you'll soon be able to have it. If it's importance pales as the emotions of the impulse situation fade, you've saved yourself some money - congratulate yourself on your spend smart victory!

The key to avoiding impulse buying is making it more difficult to do. You also must focus on positive reasons for not making impulse purchases. Grady Cash calls this Spending by Choice. Instead of looking at resisting impulse buying as a choice between having something or not, look at it as a choice between a gamble now (an impulse purchase) or a sure thing later (achieving one of your goals). Choose to plan your spending and you will improve your Spend Smart capabilities.

Spending Personality II - Fanatical Shopping

Do you know anyone who will drive all the way across town to save a few cents on a gallon of gas? How about someone who will go Christmas shopping at 6 a.m. the day after Thanksgiving because that's when the best prices can be found? If you know someone like this than you probably know a Fanatical Shopper.

Fanatical shoppers will spend huge amounts of time and effort to save any amount of money. They have a compelling desire to control money, perhaps an insecurity that they will not have money in the future, so they see every purchase as a win/lose proposition. There is no gray area - either you get the lowest possible price, or you lose.

The ironic thing about Fanatical Shopping is that many times, in the quest for the lowest possible price, quality and time and money spent finding the lowest price are ignored often resulting in a purchase **WHICH COSTS MORE IN THE LONG TERM.**

Fanatical Shopping can be similar to Impulse Buying, but there is a clear distinction. For example, both might buy something with a great D-Q. Fanatical Shoppers are different because they might buy something **EVEN IF THEY DON'T NEED IT!** - An Impulse Buyer would be less likely to do this. Fanatical Shoppers can become so obsessed with saving money they may buy ridiculously larger quantities (amounts they could never use in a reasonable period of time) or more expensive items by rationalizing that they are saving more money.

How can you control Fanatical Shopping?

Fanatical Shoppers already are very good at finding the lowest cost items. Since they have a strong desire to save money, this desire can be easily channeled into good Spend Smart practices. Fanatical Shoppers simply need a more balanced perspective so they can better focus on satisfying their needs, not just saving money on prices.

- Consider Value and Cost - Use D-Q in making purchase decisions. As we know, just because something has a low price doesn't mean it has a good D-Q. If something has little or no value to you, it doesn't matter how

much “money you save” on the purchase. It’s not a Spend Smart decision.

- Put a Value on your Time and other Costs - Saving money on the price is good, but be realistic about the cost of your time and other costs necessary to find the extra savings. If you spend several days to save a few bucks, is that really worth it? There are many things you can do, as discussed later in the class, to save money without shopping (preparing the week’s meals on the weekend for example). Once you put a value on your time, it is easier to determine when your search of a bargain is no longer worthwhile.
- Focus on the Big Picture - There is a battle to control your spending; advertisers spend huge amounts of money to influence your purchasing, but they don’t worry about any one ad changing your thinking. They simply focus on using a consistent strategy over time. You should do the same. Focus on Spend Smart strategies to maximize your savings and fun over the long term. Don’t worry about occasionally missing out on a better deal; it can distract you from your goals.

Spending Personality III - Passive Buying

The old football saying, “When in doubt, punt!” applies perfectly to Passive Buying. Passive Buyers don’t like to shop, and usually procrastinate, often costing themselves money. For example, they may have leaking pipes, but they might not do anything about it until the leaking water has rotted out the floorboards. When Passive Buyers finally do get around to buying, they are in a huge hurry to get it over with.

Passive Buyers can be a salesperson’s dream. Some have the potential to be good shoppers but feel they don’t have time or don’t place a high priority on saving money. They don’t comparison shop and don’t ask questions even if they don’t understand something because they don’t want to appear stupid. This lack of assertiveness can leave them vulnerable to salespeople talking them into expensive “extras” (extended warranty?) they don’t need because they don’t want to think about it. Of course, this behavior provides a convenient excuse if the purchase doesn’t end up pleasing them. Passive Buyers can always blame it on the salesperson instead of accepting responsibility for their own actions.

Many people at times slip into the behavior of the Passive Buyer. This happens when they are confronted with decisions where they feel uneducated. Buying a house is a good example. In fact, Passive Buying is so common when buying a house, especially with regard to the aspect of not asking enough questions, that you are required to sign a number of disclosure documents stating that you understand certain aspects of the transaction. This is a direct result of people being unhappy with real estate purchases and then blaming the real estate agent.

How can you control Passive Buying?

- Beat Procrastination by Focusing on Benefits - Keep track of good spending decisions. Start a journal. Contrast your smart purchases to what you would have done as a Passive Buyer. You'll soon begin to associate positive feelings and emotions with shopping.
- Become a Student and get Paid for it - Accept that there will always be unfamiliar situations where you lack knowledge. Don't let this intimidate you. Take the opportunity to learn what your questions are, then do research before you make your spending decision. Soon you will feel confident with previously unfamiliar buying situations.
- Streamline your Shopping Trips - If you are too busy to avoid being a Passive Buyer, save more time by planning trips and combining them. Unplanned trips take longer because you don't know what you are going to get. Combining trips saves lots of time in the car as compared to separate trips. Again, if you place a value on your time you can be profitable by avoiding Passive Buying (or you can at least minimize the cost on your time).

Spending Personality IV - Avoidance Shopping

We've all heard the phrase "When the going gets tough, the tough get going." This is a good description of Avoidance Shopping. Avoidance Shoppers seek a way to escape the stress and pressure of life. Shopping helps them "avoid reality" much like alcohol and drugs do for others. Unfortunately, this spending personality can cause a downward spiral where the pressures of life increase due to excessive and unnecessary spending.

Though you may not be a typical avoidance shopper, most of us at times exhibit these tendencies. We face a conflict or problem, and instead of dealing with it we avoid it. How many of us have ever had a bad day at work, or a fight with a loved one and gone shopping to “clear our heads?” Obviously, when shopping in such an emotional state, it is difficult to be rational and spend smart. Unfortunately as well, if this avoidance behavior becomes a habit, the original problem doesn’t go away - it only festers and gets worse.

For some, Avoidance Shopping can be a result of needing to control others. A dominant personality may feel they need to exert their power if their dominance is threatened. Making a purchase that someone else doesn’t agree with can be a way of demonstrating dominance. For others, avoidance shopping may be a way of getting even. Emotionally neglected spouses may buy items to get back at the person neglecting them. Again, Avoidance Shopping is a type of behavior, which neglects the real issue.

How can you control Avoidance Buying?

- Be honest with yourself - Admit to the real problem. The root of the spending personality is avoiding something unpleasant; hence, it can be naturally difficult to recognize the behavior because it forces you to confront the problem (the very thing an Avoidance Shopper didn’t want to do in the first place). Learn to be brutally honest with yourself when shopping. Ask yourself “why am I really buying this?”
- Face up to the Underlying Problem or Issue - Until you deal with the problem, it won’t go away. Difficult as it may be, not dealing with the problem will possibly cause other problems in your life in addition to Avoidance Buying. For many, just becoming aware of the problem and facing it can provide resolution. If not, seek help from a trusted friend, clergy person or a professional counselor. Avoidance Buying is not necessarily the worst spending personality, but it can indicate a potential for much bigger emotional problems.
- Replace emotion with logic in spending. This course provides you with useful tools for doing this. Again, when you plan spending and can objectively analyze it, any impact of spending personalities are increased.

Overall, the best antidote to Avoidance Buying is to build healthy methods for coping with stress and problems. Many find that exercise is a great stress reducer because of the physical outlet it provides. Some find that areas where they hope to improve serve as excellent stress reducers. For example, if you want to learn to play the piano, a good time to practice is when stress flares up. This is a WIN/WIN situation – you allow the stress to subside while working on improving yourself.

Spending Personality V - Esteem Buying

Esteem Buying is the second most common spending personality after Impulse Buying. It is common among those most influenced by their peers (teens, social climbers, etc.). Esteem buying definitely makes the buyer feel good, but it can become a vicious cycle because of changing fads and tastes. In our materialistic society, possessions help people feel “they belong” or function as displays of success.

As part of a civilized society, we are taught to imitate the behavior of those we admire. The only problem is this socialistic tendency can create financial problems when we can't afford the prices our idols pay. “Keeping up with the Jones” is one of the major contributing factors in exploding consumer debt. Advertising has done much to inflate the problem. Can't afford the status symbol you desire this month? No problem - CHARGE IT - EASY MONTHLY PAYMENTS!

How can you control Esteem Buying?

- Analyze the Reasons for Wanting Something - Be honest! Could something less expensive (including something you already have) fill the need? Is the need real or imagined?
- Gain self-esteem in other ways - We all have a genuine need for self-esteem - there's nothing wrong with this - just find more productive, long-term methods for getting it. One of the best means of increasing self-esteem is to help someone else, especially those less fortunate than yourself. There is no way you cannot feel better about yourself if you take an hour a month, or even a few times a year, to volunteer at a soup kitchen, visit residents at a nursing home or even just lend a supportive ear to a friend who is experiencing troubles.

- Recognize what true self-esteem is - It comes from being in control of life and having value as a person. Gain control by not allowing the fickle winds of trends to influence your purchase decisions. You will feel better about yourself by being true to what you value (spending smart!). You can gain value as a person by working on your relationships rather than spending money on them. Many parents purchase trendy items for their children as a way of trying to make up for time they don't spend with them. Find the time instead (one way is to better plan your shopping trips?). You'll save money, feel better about yourself and have better relationships.

Spending Personality VI - Overdone Buying

Overdone buying is typically related to a hobby or behavior. The problem of this personality arises when one becomes infatuated with a habit or hobby to the point where it causes financial problems. I'm sure we all know at least one Overdone Buyer who has become obsessed with the current Beanie Baby fad. Imelda Marcos' shoe collection is another recent good example. Overdone Buying can also include the classic dependencies such as drugs, alcohol, eating, gambling, etc. These cause a double whammy as they cannot only ruin your financial situation but can cause terrible health problems as well. For many, Overdone Buying begins as a simple method of avoiding behavior that gets out of hand. It can also result from attempts to compensate from something one feels is missing from their lives.

Some Overdone Behaviors can be good. Jack Nicklaus used to practice hitting 1,000 golf balls a day. Thomas Edison spent every dime and minute he had trying to invent the electric light. You must determine whether an overdone behavior is good or bad. The question "Does the behavior help or hurt others or yourself" is the best measuring stick.

How can you control Overdone Buying?

- Recognize the Problem - As with all of the spending personalities, but especially overdone buying, you must recognize the problem before you can do something about it. A good warning sign is if the largest part of your disposable income (money after your bills) goes towards your behavior or hobby. Look objectively at others – is it "normal" to spend the amount of time and money on the behavior in question? Have you ever delayed paying bills in order to have more money for your habit?

- Avoid situations that encourage the behavior. Recovering alcoholics avoid bars, antique collectors avoid antique stores. Determine locations that trigger the habit and avoid them!
- Find a positive, healthy substitute - If something has been obsessively filling your life, there will be a void to be filled when you eliminate it. Find something else to do that provides a positive outlet while also not spending money unnecessarily.

Spending Personality VII - Hot Potato Buying

Hot Potato buying is a two-phase process of extremes. It typically begins with an extended period of consideration, with worried indecision, followed by impulsive action. The impulsive action phase is very similar to Passive Buying. Hot Potato Buying usually occurs with a major purchase or financial decision and is often preceded by an emotional event. A good example would be when a spouse or relative dies and the survivors must decide what to do about investing the estate proceeds. The financial magnitude of the decision involved can make Hot Potato Buying one of the most dangerous spending personalities, even though the circumstances happen fairly rarely.

How can you control Hot Potato Buying?

- Let go of the Potato - If a traumatic or emotional event caused you to be in the position where a decision needs to be made, put it off for at least several months. If some purchase decision is causing you a great deal of worry, this is a sign to wait.
- Educate yourself - If you are worried about a decision, take the time collect more information. When you educate yourself you will eventually feel absolutely confident in proceeding, there will be no more obsessive worry.

Psychology of Buying Summary

Most buying decisions are made on the basis of emotion. Emotions tend to be unpredictable and erratic for many of us. They are influenced by external

events, by the things that happen to us. We need to change the buying decision process so it is based on logic.

Logic is predictable and stable. One of the most important aspects to Spend Smart success is being consistent. It doesn't matter so much how many Spend Smart ideas you use – what's more important is how consistently you use the ideas.

By understanding the Psychology of Buying, Spending Personalities and the process that happens when you make purchases, you have the opportunity to bypass emotion and move to a logical decision-making process. With a foundation of logic, or common sense, Spend Smart will reach its greatest level of impact for you.

What Can I Do Now?

Some people ask what some things are that they can do now to begin to get them on the right track with their attitude. Try these:

- Devise a spending budget, and stick to it. In other words, live within your means; spend less than your net paycheck. Once you have something down on paper the weight of the unknown can be lifted from your shoulders. You now know exactly what you are faced with.
- Save for a rainy day. Having a modest cash savings, for emergencies, will do a whole lot for your attitude.
- Stop using your credit cards, except for a real emergency.
- Accept the fact that it isn't always how much money you earn; it's what you do with that money.
- Balance today's wants with tomorrow's needs.
- Learn from the mistakes of others. It's cheaper.
- Learn from the successes of others. It's profitable.

Let me tell you of one true story of a woman who thought spending would bring joy to her family, but found out that it only made things worse. This single mom was driving her teenage son to this job before going on to her job. It was payday for both of them, but their checks were already spent.

That evening her son had plans to go to dinner and a movie to celebrate his girlfriend's birthday. Even though his mom had told him that he needed to manage his money better, she still loaned him the cash to buy his girlfriend a gift. These types of "loans" had become a regular scenario, and each week

they would devise new, more creative repayment arrangements, none of which ever seemed to involve paying cash.

Her son wasn't even yet driving, but he already had bad credit. Mom realized that she could no longer challenge him to get his act cleaned up without first confronting her own spending. Her primary problem was buying things that she couldn't afford in the first place.

She had, a while back, made a vow to take control of her spending and erase her credit card debt. She had even begun watching financial programs on TV and attended a class on debt management at her church. Making the decision to change was an easy one for her, but having the heart to carry out that decision was much more difficult. She kept reasoning that she only wanted her children to be happy, so she kept buying them things.

In time she realized that she was using money the way others use alcohol or drugs - to numb the pain. You see, some years earlier her 9 year-old daughter had been hit by a car and killed. Afterwards, it pained her to see her other children hurting, so she go into the habit of doing anything in her power to make them happy. Extra gifts at Christmas; gifts for her other children on her deceased daughter's birthday. It made her feel better to buy something for her kids, and it made her kids feel better too, at least for awhile.

That evening, driving home with her son, she made a decision to do something. First, she cut up her credit cards and closed the accounts. Slowly, but surely, she began paying them off. As she got her own finances in order, she began teaching her kids about saving and prioritizing. They sat down as a family and discussed what we needed and whether it was essential. They found that the "need" was actually often just a "want," a most importantly, learned how to say no.

Today her son is debt-free, has a savings account, is putting money aside for a car, and bought his own letterman's jacket. The family endured some pain during this journey, but she says it has also brought them much joy. They have quit using purchases to cover up their pain, and that has helped them deal better with their loss. They talk regularly and share more deeply, and as she says, those are gifts that no amount of money can ever buy. Her attitude, coupled with a plan of action, made the difference in her life, and the lives of her children.

So, how does your personality fit into all of this? Circle the appropriate number for each question in the Spending Personality Profile, below. Then go to the Spending Personalities explanations, and fill in your appropriate score at the end of each explanation. The numbers at the end of each explanation show you the question numbers that should be scored for that personality. Have fun! And remember, let he who is without debt cast the first stone at another.

Spending Personality Profile

Instructions: For each question, circle the most appropriate answer about yourself.

	Never	Rarely	Some times	Often	Always
1 Do you comparison shop for weeks to get the best price?	1	2	3	4	5
2 Do you ever make impulsive purchases you hadn't planned?	1	2	3	4	5
3 Do you dislike shopping or do you put off shopping?	1	2	3	4	5
4 Do you use shopping as a form of stress relief?	1	2	3	4	5
5 Do you prefer to shop in upscale stores like Daytons, Neiman Marcus, etc?	1	2	3	4	5
6 Would others consider your spending on a hobby or activity excessive?	1	2	3	4	5
7 Do you worry for weeks about significant purchases?	1	2	3	4	5
8 Do you suddenly make a quick decision, after long agonizing, just to get it over with?	1	2	3	4	5
9 Do you have a hobby or activity with spending potentially harmful to your finances?	1	2	3	4	5
10 Do you avoid discount stores like Walmart or K-Mart?	1	2	3	4	5

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11	Do you ever buy gifts because you feel guilty?	1	2	3	4	5
12	Do salespeople talk you into buying things?	1	2	3	4	5
13	Do you lack willpower when you see something you like and want?	1	2	3	4	5
14	Would other people think you spend excessive time shopping for bargains?	1	2	3	4	5
15	Do you sacrifice your standards of quality or your exact needs to save money?	1	2	3	4	5
16	Do you buy things just because they are on sale, even if you don't need them?	1	2	3	4	5
17	Do you blame the product or salesperson when you aren't happy with a purchase?	1	2	3	4	5
18	Do you ever spend money out of revenge?	1	2	3	4	5
19	Do you tend to buy specific brands or items because of what others will think?	1	2	3	4	5
20	Do you have a hobby or activity which causes family conflicts over spending?	1	2	3	4	5
21	Do complex purchasing decisions ever overwhelm you into a quick decision?	1	2	3	4	5

Spending Personalities

Impulse Buying

Causes

- Lack of Planning
- Lack of Clear Financial Priorities
- Large Deal Quotient

Solutions

- Use a List / Walk Away
- Keep Credit Cards at Home
- Have a Savings Objective / Goal

This is the most common spending trait. Like any spending personality, Impulse Buying exists in people to varying degrees. In severe situations, impulse buying can become a habit, it can become a clinical addiction where what is bought doesn't matter - the thrill (or fix), the instant gratification, the emotional rush some people get from buying is all that matters. For most people, impulse buying is a personality that exerts itself infrequently with larger purchases or more often with smaller purchases. Don't kid yourself, however...all of us buy things we don't need...even if you didn't have a high score here be aware of the way impulse buying adds up quickly over time.

(2,13,16) ___ + ___ + ___ = ___

Fanatical Shopping

Causes

- Compelling Desire to Control Money
- Obsession with Lowest Price
- Fear of Future Scarcity

Solutions

- Consider Value and Cost (Deal-Q)
- Put a Value on Your Time/Other Costs
- Focus on the Big Picture

Fanatical shoppers will spend huge amounts of time and effort to save any amount of money. They have a compelling desire to control money, perhaps an insecurity that they will not have money in the future, so they see every purchase as a win/lose proposition. There is no gray area - either you get the lowest possible price, or you lose. The ironic thing about Fanatical Shopping is that during the quest for the lowest possible price, quality and the time and money spent finding the lowest price are often ignored-THEIR TOTAL COSTS FOR THE PURCHASE ARE HIGHER!

(1,14,15) ___ + ___ + ___ = ___

Passive Buying

Causes

- Procrastination/Avoidance
- Feeling Uneducated About Purchase
- Placing Little Priority on Saving Money

Solutions

- Focus on Benefits of Spend Smart
- Get Paid in Savings for Being a Student
- Plan/Streamline Shopping Trips

Passive Buyers can be a salesperson's dream. Some have the potential to be good shoppers but feel they don't have time or don't place a high priority on saving money. They don't comparison shop and don't ask questions even if

they don't understand because they don't want to appear uneducated. This can leave them vulnerable to salespeople talking them into expensive "extras" (extended warranty?) they don't need because they don't want to think about it. (3,12,17) ___ + ___ + ___ = ___

Avoidance Shopping

Causes

- Wanting to Escape Life's Stress/Pressure
- Shopping Instead of Dealing with Problems
- Shopping to Control or Get Even w/Others

Solutions

- Be Honest w/Yourself About Why
- Face Up to Underlying Problem
- Replace Emotion in Shopping w/Logic

We've heard the phrase "When the going gets tough, the tough get going". This is a good description of Avoidance Shoppers. They seek a way to escape the stress and pressure of life - shopping helps them "avoid reality" much like alcohol or drugs do for others. Unfortunately, this spending personality can cause a downward spiral where the pressures of life increase due to excessive and unnecessary spending. Most of us at times exhibit some of these tendencies. We face a conflict or problem, and instead of dealing with it we avoid it. How many of us have ever had a bad day at work, or a fight with a loved one and gone shopping to "clear our heads"? Obviously, when shopping in such an emotional state, it is difficult to be rational and spend smart. If this avoidance becomes a habit, the original problem doesn't go away - it only festers and gets worse.

(4,11,18) ___ + ___ + ___ = ___

Esteem Buying

Causes

- Peer Pressure
- Desire to Appear Successful
- Desire to Gain Self-Esteem

Solutions

- Analyze Why You Want Something
- Gain Self-Esteem in Other Ways
- Separate Self Worth From Possessions

Esteem Buying is the second most common spending personality after Impulse Buying. It is common among those most influenced by their peers (teens, social climbers, etc.). Esteem buying definitely makes the buyer feel good. In our materialistic society, possessions help people feel "they

belong” or function as displays of success. We are taught to imitate the behavior of those we admire. The only problem is this socialistic tendency can create financial problems. “Keeping up with the Jones” is one of the major contributing factors in exploding consumer debt. (5,10,19)

___ + ___ + ___ = ___

Overdone Buying

Causes

- Typically Related to Hobby or Behavior
- Can be a Dependency
- Can be an Avoidance Behavior

Solutions

- Acknowledge the Behavior
- Avoid Situations Which Encourage It
- Find a Positive, Healthy Substitute

Overdone buying is typically related to a hobby or behavior. The problem of this personality arises when one becomes infatuated with a habit or hobby to the point where it cause financial problems. Overdone Buying can also include the classic dependencies such as drugs, alcohol, eating, gambling, etc. These cause a double whammy as they can not only ruin your financial situation but can cause terrible health problems as well. For many, Overdone Buying begins as a simple method of avoidance behavior that gets out of hand. It can also be an attempt to compensate for something one feels is missing from their lives. (6,9,20) ___ + ___ + ___ = ___

Hot Potato Buying

Causes

- Preceded by Emotional Event
- Worried Indecision About Purchases
- Sudden, Impulsive Purchase Follows

Solutions

- Step Back From the Situation
- Educate Yourself
- Make a Decision Only When Calm

Hot Potato buying is a two phase process of extremes. It typically begins with an extended period of consideration, with worried indecision, followed by impulsive action. The impulsive action phase is very similar to Passive buying. Hot Potato Buying usually occurs with a major purchase or financial decision and is often preceded by an emotional event. A good example would be when a spouse or relative dies and the survivors must decide what to do about investing the estate proceeds. The financial

magnitude of the decision involved can make Hot Potato Buying one of the most dangerous spending personalities, even though the circumstances happen fairly rarely.(7,8,21) ___ + ___ + ___ = ___

Summary

Understanding the objectives of the credit card companies and better understanding your own self can help you bring your spending under more control. You will better be able to strike a proper balance between spending for the present and saving for the future. It can help you bypass the monthly payment trap, where we are taught to evaluate the affordability of large ticket items based solely on the amount of the monthly payment. Remember, every penny of interest you pay is money that should be going to you and your family, but instead you are donating it to your bankers. Don't you think you have better uses for it than they do? After all, you are the one that worked long and hard for that money.