Money and You: Spending and saving with pleasure

by Carrie_Schwab_Pomerantz

Most of us have experienced what psychologists call "cognitive dissonance," the sense of tension that inevitably arises when we're faced with two conflicting choices, or when we behave in a way that might be at odds with what we think is right. You've finished a meal, for example, and your hunger is satisfied; however, you're still tempted when you see the dessert tray rolling down the aisle. For me, at least, I'm going to enjoy my cake, but I'm also going to have to deal with the regret that I ordered it.

That's a trivial example, of course. Many of us experience the same kind of discomfort when it comes to spending and saving. We know we should save, but there's a new pair of shoes we want. Most of us even know that we must save and invest in order to address the big financial issues of contemporary life, from buying a home to financing a retirement. As part of a consumer-oriented culture, the desire to spend generally seems to trump the need to save. So how can one spend and save with pleasure?

Naturally, the answer to that question will depend a lot on your own psychological makeup as well as your financial circumstances. But I do have some suggestions to help you feel more clearheaded about your spending and saving decisions:

- Pay yourself first: Make saving or investing a regular, automatic part of your household budget. Every month, when you pay the rent or mortgage and all your regular bills, start by making a regular contribution to a separate savings or investment account (even better, set up an automatic transfer to that account). Now when it comes to spending decisions, you won't be saying to yourself, "I know I should save whatever's left over at the end of the month, but I feel like splurging."

You'll be saying, "I've already saved 20 percent of my salary, so if there's something I want to buy, I'm going to do it." What's the right percentage to save? That's a topic for another column, but it depends on your goals, your age, your existing resources and what other kinds of savings and investing you're doing, such as putting pretax dollars into a 401(k) account.

- Distinguish between "wants" and "needs": At one level, this is patently obvious. If your car needs new tires or your daughter needs a new pair of glasses, that kind of "need" will take precedence over a lot of different "wants." Many spending decisions aren't so clear-cut, so if you're unsure about whether an item is a "need" or a "want," just wait a week or two before making the purchase. A lot of "wants" evaporate with a little time, but "needs" become even more acute. This strategy should help you avoid impulse spending as well.

- Shop instead of browse: As any experienced grocery shopper will tell you, you'll spend less at the grocery store when you go in with a list instead of with a vague need for food. (You will also spend less by not shopping when you're hungry.) Shopping means looking for specific items; browsing is looking for something to buy. Chances are you'll spend less and feel better about the things you do purchase.

There is no doubt that your very best chance for a financially secure future is to choose saving and investing over spending and consuming; in fact, the rate at which you save could well be the key factor in determining your long-term financial success. Someone who saves 25 percent of his or her income will get proportionately wealthier than someone who saves 15 percent. And the more aggressive saver will be much better equipped to deal with financial adversity at home or in the markets.

That said, I don't believe that saving is inherently "better" than spending, at least in terms of a value judgment. The world we live in begs us to consume, though I'm sure that most of us have absorbed the sense of guilt embedded in Benjamin Franklin's famous dictum that "a penny saved is a penny earned." He actually said, "A penny saved is twopence dear," referring explicitly to the idea that money offers the potential to grow when saved and invested.

Most of us can't deny the pleasures of consumption, nor should we. At least, we shouldn't deny the pleasures of moderate consumption. But I also believe, quite strongly, that the trade-off between current consumption and investment for the future is one that everyone needs to understand and take seriously.

The bottom line for me? A great deal of personal finance advice focuses on the idea of frugality; the experts want us to save, save, save (and invest, invest, invest). And that idea is fundamentally right. But you don't have to get consumed by it, especially if you know you're on track.

By all means, make saving and investing a priority, and learn to relish the satisfaction of preparing for your financial future. Then you can spend or give with pleasure.

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