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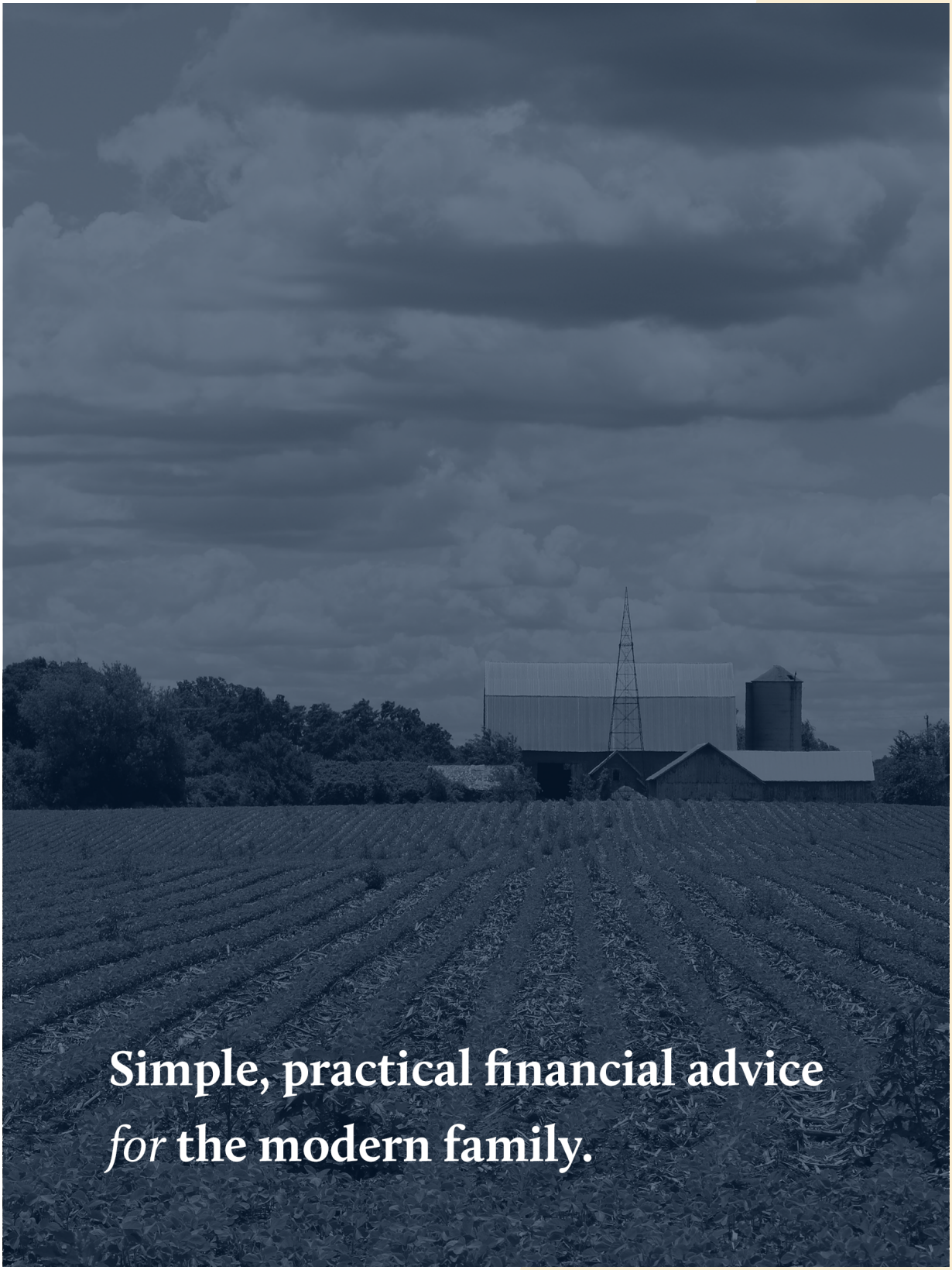
SIMPLEMoney



Simple, practical financial advice *for* the modern family.

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Introduction: Issue No. 05

—The Founders

Jonathan Swift is credited as saying, “A wise person should have money in their head, but not in their heart.” His oft-cited quote is a helpful place to begin this issue of *Simple Money Magazine.*

First, a wise person thinks carefully about their money. They are intentional and thoughtful in their pursuit and use of it. This is one reason we created *Simple Money Magazine*—to offer simple, practical, helpful financial advice for the modern family.

We designed *Simple Money Magazine* to be a resource for people who desire more intentionality in their finances. They desire to have money in their head.

Second, a wise person does not have money in their heart. Money provides for our life, but it does not define our lives. (Or at least it shouldn’t.) Those who become consumed with the accumulation of money rarely live their best life, because the love of money can never be fully quenched. There is always more money to chase...or someone wealthier to compare ourselves to.

We invite you to enjoy this newest issue of *Simple Money Magazine.* It features contributions from professors, best-selling authors, financial advisors, financial coaches, and real estate investors. Each article is written to inspire, educate, and equip you to make wise financial decisions with your money.

May money be in our head but not in our heart.

— Joshua Becker and Brian Gardner

The Total Beginner's Guide to Managing Money

—Jackie Lam

Your financial life doesn't have to be out of control. If you're paying attention to the basics, your money can be a resource to help you live as you want.

Money. The word itself can trigger a jumble of emotions and thoughts. It might dredge up feelings linked to our self-worth or how we stack up against our neighbors. Our relationship to the "M word" can often be an ambivalent one.

So, what about the practical, day-to-day choices about money? Many of us would rather avoid the task altogether. Would you rather organize your messy sock drawer? Give up French fries for a month? Get on a call with your cranky, long-winded aunt?

Thinking about money, let alone taking the steps to create a plan for it, can feel like a gargantuan task. As a result, it gets buried at the bottom of our list of to-dos. But consider the alternative: When we don't get in the habit of looking after our money and managing it, havoc can ensue.

In this total beginner's guide to managing money, we'll start from square one. From there, we'll walk you through the first steps to getting your finances in order.

Starting with Your Why

What's motivating you to turn your financial situation around? Take the time to reflect and pinpoint the exact reason why you want to change your relationship with money.

A good place to start? Think about the consequences of not handling your money matters properly. Perhaps you're scrambling to pay your bills, and the stress of not having enough money at month's end to cover your living expenses is cutting into your well-being. Or maybe your money plans get waylaid toward impulsive purchases, and you're buying stuff that doesn't add value or joy to your life.

Next, dig deep to figure out your habits around money. Maybe you tend to spend more than you can afford during the holidays on gifts for family and friends. You might be afraid of coming off as miserly or being ostracized for not going with the crowd.

It's only after examining your behaviors and habits that you can get to the root of your why.

Figuring this out isn't an overnight event but rather a process of discovery. Identifying your financial habits, mindsets, and behaviors is the first and most important step toward getting clear on why you want to change.

Considering Money as a Resource

We are taught by our society to believe that the more money we have, the more magical our lives will be and that, ultimately, it serves as a wellspring of happiness. But is that true?

Here's a sobering fact: While our material well-being has improved in recent decades, there is a mental health crisis in the United States and many other developed nations. [1] Are we truly happier?

Material possessions and money don't provide a fast pass to an awesome time on this planet. At its core, money is a resource—no more, no less. Instead of elevating it to levels of idolatry, treat it as a tool to help you live the life you want.

To start using money as a resource, identify what is most important to you. Perhaps it's spending more time with your kids. Or maybe you want to set aside more cash toward some of your longer-term, milestone goals, such as buying a home or taking care of your aging parents.

When you have self-awareness about your values, you can reallocate your financial resources accordingly. Let your values guide you in your money decisions.

Knowing Your Numbers

Without knowing where you are financially, you won't be able to create a basic road map for your money.

Here are some numbers you should know:

- **Income.** Figure out what your take-home pay is and when the money drops in your bank account. This is a far easier task if you have a full-time job with steady pay.

- **Expenses.** Break down how much you're spending by category. A good place to start is to separate out your expenses by fixed—or recurring—monthly expenses and variable expenses. Fixed expenses include rent or your mortgage payments, utilities, your cell phone bill, and insurance. Variable expenses are groceries, gas for your car, clothing, entertainment, and eating out.

After you figure out how much you're spending each month and on what, you can get more into the nitty-gritty. Exactly how much are you spending for each category?

What you think you're spending versus how much you actually are spending can be eye-opening. Where is your money really going? You can liken it to cutting out carbs in your diet. While you think

you've steered away from the starches, tracking your diet could tell a different story.

To see the entire picture, you can use a free money management app or simply review your bank or credit card statements. Many banks and credit card networks make it easy for you to break down your transactions by category during a given period of time.

Is your perception of how you treat your money different than the reality? It's hard to admit that your actions and habits aren't in sync with your current way of living.

- **Savings.** How much do you have squirreled away in your retirement savings and bank accounts? Don't forget any forgotten pockets of money you might have in a money-saving digital platform or micro-investing app.

Creating a Spending Plan

Once you know your numbers, you can get to the heart of money management: creating a spending plan.

Not sure where to start? Here are two approaches for beginners:

- **The "no-guilt" budget.** I am a big fan of this kind of budget. It's where you pay yourself first, then spend the rest however you

please. (You'll need to factor in living expenses, of course.) This means setting aside a predetermined amount or percentage of each paycheck toward some of your money goals. This might go toward a vacation, toward your first home, or toward a sabbatical to finally dig in to your novel.

Spending plans where you need to allocate $X per category feel too restrictive and tedious to me. This is how I see it: At day's end, as long as your needs are covered and you have some money saved toward your larger goals, does it matter if you went $25 over your grocery budget?

- **The "money flow" system.** You can think of this as being similar to a system of pipes where water is flowing from one room to another. Instead of tracking each transaction, you pull money from one account to another. The point is to make sure you have enough each month for your living expenses. It can also ensure that you're squirreling enough away for your savings. For instance, you might have a main savings account in which you pay most of your bills. And you might also pull from that main savings from your main account into other accounts for, say, your emergency savings, a home fund, or your retirement.

To figure out what your money flow system looks like, you'll have a series of bubbles and arrows. Each bubble will represent different

accounts. You'll then have arrows indicating which goals are being funded by which bank accounts.

Start with your main bank account. This is where your income will be deposited and where you'll pay for most of your bills and transactions.

Then you have separate savings accounts. I keep a separate bank account for my emergency savings and long-term savings. If you're saving for retirement, you'll also have accounts for your nest egg.

Why should you have separate accounts? If you keep your emergency cushion in the same account as your main account, you run the risk of dipping into your savings. When you set aside your savings in a separate place, it's harder for you to get to that money.

Creating a spending plan involves basic math and can entail creating spreadsheets and looking at pie charts.

Breaking Down Your Goals

Besides figuring out what type of spending plan you'll be using, break down your financial goals by past, present, and future:

- **Past.** Money that you loaned and are now paying for. This includes student debt, any balance you're carrying on your credit cards, and personal loans.

Have quite the debt load? First, figure out where your debts are. Which ones are with credit card companies, which are with student loan servicers? If you've let some fall by the wayside, are any with debt collection agencies?

- **Present.** Your present includes current living expenses, needs, and wants. This is everything you're spending on in your day-to-day. It's what you need to keep a roof over your head and food on the table.

- **Future.** What's on your vision board? Goals such as starting a family, adopting a furbaby, traveling to the Marquesas Islands, or buying your first home? It's also helpful to plan for times of the year when spending ramps up: back-to-school for the kids, fun adventures in the summer, and the holiday season.

A common hurdle is that we simply don't have enough to take care of our past, present, and future. If that's the case, hone in on where you're spending too much in the present.

Are there any areas you can cut back on? Can you minimize the things you don't enjoy spending money on, in order to free up funds toward the things that matter most?

This means making trade-offs and substituting things you enjoy for less-expensive alternatives. It could mean shopping used at online marketplaces versus buying things brand new. It could mean getting rid of some of your recurring expenses, such as subscriptions and memberships.

Making Tweaks Along the Way

Your spending plan—and that's all it is, really—is a living, changing thing. What might work during one part of the year, or during one part of your life, might not work later. It's important to check in with your plan and do a reassessment at times.

Here are some recommended baby steps:

- **Try a "when/then" solution.** This successful willpower method is backed by science. [2] Tell yourself: When X happens, then I will do Y. For example, *When I shop for groceries at X market, then I will save $Y to put toward my emergency savings. Or, When I get paid, then I will set 10% of my take-home pay toward my house fund.*

- **Go on money dates.** It sounds cheesy, but it's oh so effective. Set up a date to go over your spending plan. What expenses do you have coming up in the next week? The next month? Any one-off bills you should prepare for? (Think: auto insurance, taxes and insurance on your home.)

- **Figure out what's working.** Maybe an approach is too complicated and you're losing motivation. What could you do to stick to your plan? Are you still overspending? Drum up tweaks you could make.

The Benefits of Getting Control of Your Money

At the end of the day, managing finances is about using your money in a way that amplifies who you already are. Money is a resource to help you achieve your goals and live in sync with your values. While managing money as a beginner is a chore at best, if you find ways that work for your way of living and thinking, you could seek some joy from it.

Financial management boils down to being free of stress and having greater options. By figuring out what motivates you to turn things around, you can create a game plan, one that gives you agency over your money so you can live a life you love.

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Financial Advice You Can Ignore

—Kate Dore

So many people have financial "rules" to share. Here's a real-life perspective giving you permission to go your own way.

These days, financial advice is lurking almost everywhere. We skim personal finance news stories. We listen to rants from popular radio and television hosts. Money tips are even sneaking into comment threads on Facebook. With everyone so eager to share their financial two cents, it's tough to know what is good advice—and what we should ignore.

"Generic financial advice can be harmful when it doesn't apply to your situation," says Leona Edwards, CFP, a financial planner at Snow Creek Wealth Management in Nashville, TN. Following a simple money tip from a friend may seem innocent enough. But all too often, these tips don't factor in your full financial picture. This could lead to major mistakes—impacting your finances for years to come.

What to Ignore

So, how do you separate the bad advice from financial pearls of wisdom? We asked experts to weigh in on some of the best-known pieces of money advice.

• *Ignore this! "Going to a good college is the best way to earn a decent living."*

In the era of college-admissions-bribing scandals, it's clear many parents believe certain schools are the key to their child's bright financial future. But does it really matter as much as everyone thinks?

"It's clear that with a college degree you have higher income earning potential than if you don't," says Vera Kelsey-Watts, CFP, a financial advisor based in Newburyport, MA. She says the problem is there isn't a universal definition of what "college" is. Also, there's a wide range in prices from one school to another—with some costing four to five times more.

So, despite what many parents believe, there is never a guarantee of higher earning potential with a more expensive degree.

• *Ignore this! "Renting is throwing money away. Buying a home is always a good investment."*

Kelsey-Watts says the home ownership bug often bites in your 30s. After years of blissfully renting an apartment, you may suddenly decide it's a waste of money. But renting is a valuable tool; it provides access to a home you otherwise may not be able to afford.

She says your home isn't actually an investment; it's what advisors call a "personal use asset." These types of assets serve a unique

purpose—your family's day-to-day safety and enjoyment. There is a big difference between your primary residence and the money invested in your 401(k).

There are no guarantees your home will go up in value. Your property may even lose money when you factor in the cost of ongoing repairs and maintenance.

• *Ignore this! "Pay off your mortgage as quickly as you can."*

For most people, paying off a mortgage early doesn't make sense, especially at the expense of other financial goals. "A lot of folks are so focused on paying off debt they miss out on opportunities to invest," says Edwards.

She says it doesn't make sense to throw every spare dollar at your mortgage if you aren't saving for retirement. Before making extra mortgage payments, take advantage of your employer's 401(k) match, max out an IRA, and fully fund your emergency fund. This includes a separate fund for home repairs, which should be 1 to 4% of your home's value per year.

• *Ignore this! "Home equity is the best way to pay for home repairs."*

Kelsey-Watts says, if you can't afford to pay for home repairs with your income, you may not be ready for home ownership. She says

it's better to use home equity for projects that may increase the value of your home. Ongoing repairs and maintenance won't accomplish this goal.

But if you decide to tap your home's equity for future projects, it's critical to understand the risks. "The more debt you take on, the harder it can be to make payments. If your budget gets too tight, your home could be at risk," Edwards adds.

• *Ignore this! "Always stay away from credit cards."*

If you have ever racked up credit card debt, you know how difficult it can be to pay off. High-interest rates often snowball into an unruly balance, costing you hundreds throughout the payoff process.

This shouldn't deter you from using credit cards again, though. Edwards says they can be an excellent tool for building credit. You may also earn cash-back or travel rewards, which could save you a lot of money. If you decide to use credit cards on a monthly basis, make sure you can pay off the balance in full every billing cycle—no exceptions.

• *Ignore this! "There is 'good debt' and 'bad debt.' "*

When we are talking about debt, it's easy to get bogged down by labels. Many folks refer to certain debts as "good" or "bad." Kelsey-Watts says there is no universal label for any one type of debt, but some types of debt may be more appealing. Certain debts can be "better" if they bring you closer to achieving a specific goal.

For example, student loans may help you achieve the goal of earning an education. Or, buying a home provides a place for your family to grow. But high-interest credit debt costs you money, moving you further from your financial goals. "You are taking money out of your pocket to pay for money you have already spent," says Edwards.

• *Ignore this! "Paying off debt hurts your credit score."*

One of the biggest credit myths is that you need to carry a credit card balance to improve your scores. "This is 100% false. You don't need carry-over, interest-accumulating debt to build credit," says Kelsey-Watts.

She says your credit scores depend on how often and to what extent you are using your cards. The two single biggest factors are your history of on-time payments (35%) and the percentage of available credit you are using (30%). Your length of credit history (15%) is also important.

To improve your credit scores, stay on time with every single payment. If you carry a balance, try to keep it below 20% of your total available credit limit across all cards. To keep your credit history intact, avoid closing your oldest credit card.

• *Ignore this! "Everyone should save 10% of their income for retirement."*

"Whatever percentage you are saving, it needs to be more," says Kelsey-Watts. She says there is no single rule of thumb that is right for everyone.

Aiming for 10% is a good place to start, especially with typical savings rates in the single digits. When you are ready, try and boost your savings to somewhere between 10 and 20%. But the right number for you depends on many factors.

Your age, total savings, risk tolerance, and inheritance will all impact your goal. "If you haven't saved enough and you are approaching retirement, you will need to save a lot more than someone in their 20s," Edwards adds.

• *Ignore this! "When it comes to investing, you should always buy low and sell high."*

It's normal to feel intimidated by investing. Edwards says for most people, it starts with a retirement savings account. You may have access to a 401(k) or 403(b) through your employer. Or you may open an individual retirement account (IRA) on your own.

Either way, the most important thing to focus on is consistent saving and investing. "Spend less time worrying about the perfect day to buy or sell," she says. Regardless of what anyone says, no one has enough information to predict what the stock market is going to do.

• *Ignore this! "Invest aggressively when you are young. As you get older, invest more conservatively."*

While advisors may use these guidelines, there are many other factors to consider. When you are younger, it's difficult to predict what the future may look like. You may not know when your second or third child will arrive. It's tough to predict when you may need to pay for college. And you may have no idea where you may live during your golden years. Older investors may have those details ironed out.

Your current savings and future goals play a major role in the types of investments your portfolio needs. Kelsey-Watts tells clients it's like driving to the grocery store. If you can get there safely going 35 miles per hour, there is no need to go 50 and risk getting into an

accident. But if you are driving 25 miles per hour and you are going to be late, you will need to speed up.

No One-Size-Fits-All

There is a reason why financial rules of thumb aren't all that useful: the advice isn't unique to you. A few clicks online may provide answers to your most pressing money questions. But before making a decision you may regret, consider how the advice applies to your situation. It may not be a good fit for you—even if it works well for others.

"Following general financial advice is one of the biggest mistakes you can make," says Kelsey-Watts.

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Three Things I Wish I Knew Before Buying My First Home

—David Smith

Don't rely on a spur-of-the-moment impulse when it comes to one of your biggest financial decisions. Because although you might get lucky—you also might not.

Home is where our stories are written. It's where babies are brought home from the hospital and where family comes to stay over the holidays. It's where neighbors become lifelong friends.

It's also where we argue about the bills, where we find unexpected expenses, and where our relationships can be most tested. Home is a unique place.

As a real estate professional in one of North America's most active markets, I've witnessed all kinds of stories. In fact, when I was getting started, it didn't take long before I realized people approach realtors like they approach pastors or therapists at the beginning and end of the chapters in their lives. The positive transitions are the same: "just married," "just engaged," or "expecting our first kid." The same goes for the negatives: "We're getting a divorce," "The diagnosis came in," "Mum just died," and so on.

These are the moments that matter most, and we need help navigating them, because—let's be honest—nobody prepares us for them. We are taught geometry, but we don't learn which taxes are payable on a home purchase. We understand how government

works, but do we understand what a fiduciary is and how they're supposed to serve us? We study minutiae at university, but we rush decisions like choosing which neighborhood to live in and what kind of home to buy.

At least, that's what my wife and I did. "Let's swing by the bakery for some bread" was followed by "Let's drop into that show home." Before we returned to our rental condo that day, it was "Congratulations! You've just bought a townhouse!"

There are all kinds of ways to approach buying your first home. My reality was *definitely* not the best tactic.

The truth about that fateful day is that we hadn't even been looking to buy a home. We'd been living in our rental for five years. Our expenses were low, as was our income, but we were relatively happy. We'd just found out my wife was pregnant, though, and miraculously I'd managed to multiply my meager pastor's salary into a down payment by investing in a booming commodities market. Isn't buying a home the *right thing* to do? Sometimes.

Before Buying, Ask Yourself These Questions

That home was a good starting point for us, but we got lucky. We would have been far better served by stopping for a moment and

considering the weight of our decision. These are the three things I wished I would have considered before buying that first home.

1. Do I have the right focus?

When I was a pastor, one of my rules for premarital counseling was that we wouldn't talk about the wedding day until we were through with counseling. Many couples put the cart before the horse, thinking more about flowers than family dynamics, more about sequins than sex. A similar rule should apply for purchasing a home. Before getting into the granular details of whether or not you'd like a gas or propane BBQ, decide on the right focus for your upcoming season of life.

Consider the kinds of questions my wife and I should have asked before "accidentally" buying our first home in Canada. With a baby on the way, did we really want to stretch ourselves to get into a mortgage, knowing she wouldn't likely be earning any income for the next few years? Did we want to spend our entire life savings on one asset, leaving us with no financial breathing room? Was I prepared to work two jobs and start a business to ensure we had enough for Christmas presents?

Would we be able to take vacations and put sacred time aside for family? Would it be important for us to be able to host friends for an evening? What if visitors came from overseas to visit for a week?

Would there be favorite shops and restaurants to explore? What kinds of local recreational activities would we want to participate in? What would the neighborhood schools be like, and would we find commonality with the parents there?

Ask yourself (and if you have a partner, ask them too): "What do we *really* want to focus on for these next few years?" Break down each aspect of your life, because they're all impacted by a property sale: finances, family, employment, hospitality, environmental impact, recreation—the location and home you choose influences *everything*.

2. Do I have the right agent?

A real estate transaction is often the largest financial decision for the average person. That means people should be appropriately represented with an educated, experienced professional who clearly owes them the duties of agency—a fiduciary duty, avoidance of conflicts of interest, disclosure of all relevant information, and the protection of confidentiality. Not sexy, but extremely important.

About 99% of the time, everything goes smoothly. We each have the best chance for that to happen when a professional is asking the questions we often don't know to ask.

If the home you're keen on is going to take a while to build, isn't it important to know what kind of fee the developer would charge if you needed to assign the contract prior to completion for unforeseen reasons? Maybe your prospect home seems underpriced. Are there any stigmas associated with the property, like criminal activity or the expansion of a local cemetery? Are there upcoming changes to the neighborhood plan that will increase density enormously? Every week a client smiles at me and says, "I would have never thought about that!" That's the job of a professional real estate agent.

It wasn't until after I entered the real estate profession that I realized just how exposed I'd been in our townhome purchase. I grew up in Glasgow, so Canada was new to me. I'd only arrived a few years prior to buying our first home, and I had zero local support. By the time I accidentally bought that townhouse, I *still* didn't have much cultural context or many close friends with extensive life experience or wisdom from which to draw. Business practices vary across real estate markets, but in Canada it's possible for sales agents to represent developers and provide real estate services to prospective buyers without an agency relationship. As a naive consumer, I had no idea the lady walking me through the contract didn't actually owe me anything—she was there representing the developer, not me.

If you're considering buying your first home, it may be news to you that in most cases in North America, the buyer's agent is paid from the seller's listing commission. The buyer's agent's fees do not cost the buyer anything out of pocket. Why wouldn't everybody want someone with experience on their side?

If you're looking for an agent, be sure to find an honest person with a solid track record. They ought to know the inventory and clearly show attention to detail. You should be able to tell very quickly upon interviewing an agent if they're relational or transactional. You want someone who is accessible, someone you may even consider a friend. Shopping for a home is an intense and intimate process. You don't want any random person. You definitely don't want the guy who offers a $500 kickback if you opt to attend open houses alone and only bother him when the contract needs attention. Pick a person you'll want to spend time with, because you'll probably be communicating with them constantly throughout the journey.

So, what's the best way to find the right agent? If you can't get a personal recommendation from a friend or family member, Google reviews are worth taking a look at. If you know and love a local agent but you need someone in a different market, see if they can connect you to a colleague. Often agents will have a network of like-minded professionals beyond their own markets. Don't be

afraid to interview a number of agents if necessary, but also don't be afraid to choose the first one you meet if they're a referral from someone you trust.

Ultimately, the right agent will help you with the final step: the buying decision.

3. Is it the right home?

Once you've identified your focus and connected with a reliable agent, it's time to land on your criteria. Most of us start our shopping for everything, including homes, online these days. The criteria are all pretty basic: the type of home, number of bedrooms, bathrooms, square footage, etc. Pretty simple, right?

Not quite. There might be a *little* more to it than you previously expected. Here are some lesser-known considerations.

Do you want the maintenance that comes with a single-family home, or would a strata/condo property be best if you have limited time at home?

Is a townhouse really that much better than a single-level condo when you're going to spend hours a year climbing up and down stairs, beating your walls to death with laundry baskets?

Is a bathroom on the main living level essential to you, or are guests likely going to feel more comfortable using a bathroom upstairs if you're having a dinner party anyway?

Considering some eras of homes don't have en suites off the master bedroom, how long can you get by with just one shower for three bedrooms?

Are you going to need a "bedroom" for something else, like an office or gym?

When it comes to reselling, is that really a bedroom, or it is just a den that's being deceitfully marketed? (The rule of thumb in most of my markets is that a bedroom should have a door, window, and closet.)

As for square footage, in the majority of cases, whether it be condos, townhomes, or single-family houses, the bigger they are, the older they are (or put another way, the newer they are, the smaller they are). What matters more to you? Space? Or age?

If you're considering a strata/condo property of some kind, what kind of restrictions do you need to be sensitive to? What pet restrictions would rule a home out? (The oddest I ever saw was, "NO PETS...except one small bird." I think someone on strata council may have had a pet bird. Just a hunch.)

What kind of rental restrictions are in place? Rental allowances increase the buyer pool to include investors when it comes time to sell, but landlords and their tenants may not have the same pride of ownership that an owner-occupier has.

Are there age restrictions? Maybe it's a 19+ property but you're thinking of adding a kid into the mix. Or it's a 55+ spot and your adult kids are only allowed to visit for a week at a time. What if they get laid off and need to play the "boomerang kid" role for a while?

I hope that by now you're seeing why considering the focus on the years to come is so important and why having an experienced professional alongside you to help you ask the right questions is key. My wife and I got lucky with our accidental purchase, but our reality was far from certain. If the coin had landed on the other side, we could have made a costly mistake.

Intentionality in Home Buying

The questions above are worth considering before purchasing a home. (There are more too—hence, hiring a professional. I'm running out of word count.) Although you're not often paying buyer's agent fees, depending upon your location, you may be paying large sums in taxes, legal fees, moving costs, and other incidentals. These costs, combined with the fact that markets don't

always move up, means that you don't want to realize you've made a mistake and have to sell in a few months. Never mind the financial expense; what about the energy it takes to move? Nobody wants to make that mistake.

Don't go shopping for a loaf of bread and buy a home. Do whatever you can to spend intentional time over your morning coffee, weekly date night, or annual vacation to do the heavy lifting of choosing the right focus. From there, devote a week or so to choosing the right agent. Interview a few if you have to. Only then should you choose the right home. As long as you know your focus and are served by the right professional real estate agent, that should be the easy part.

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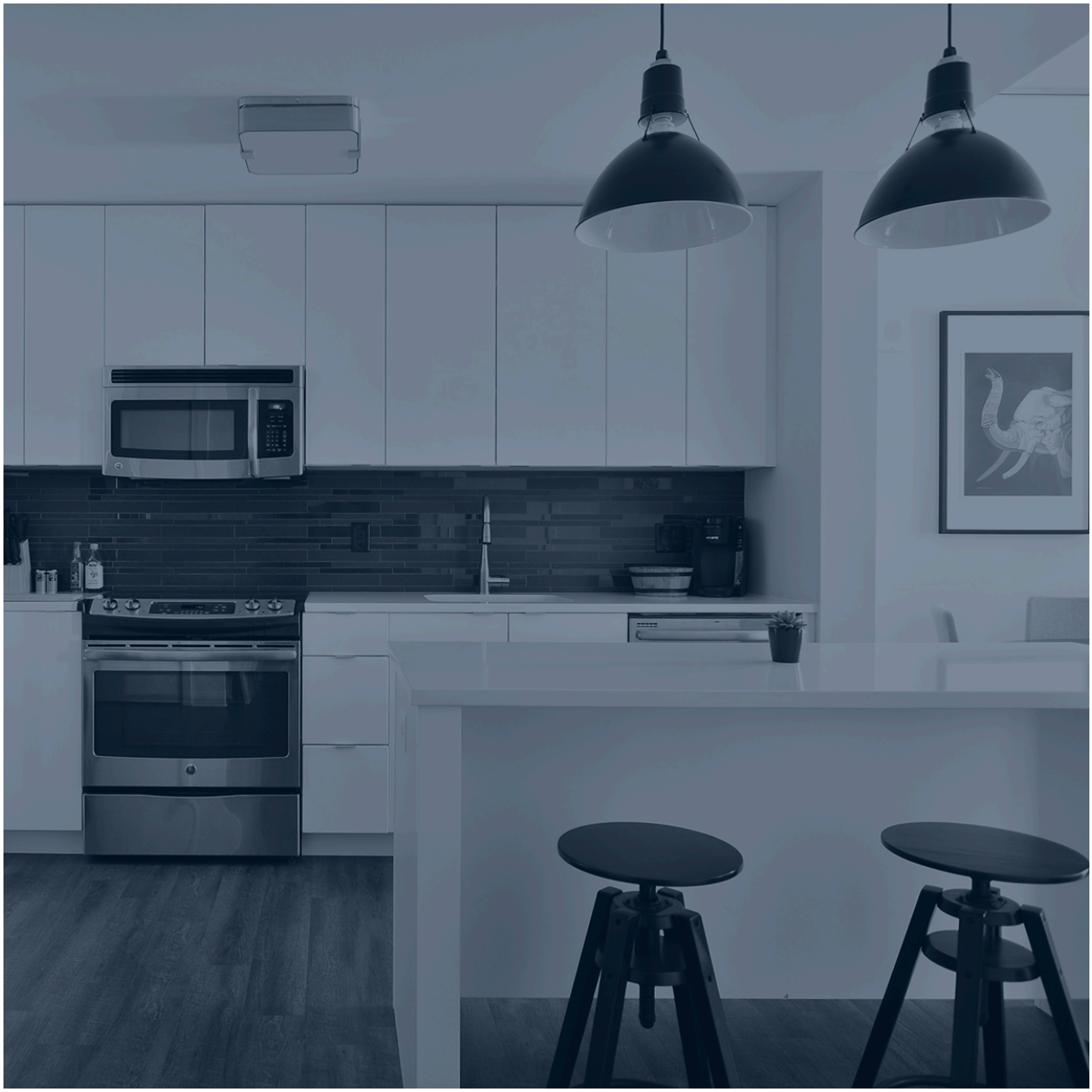
David Smith is an industry leader and internationally awarded real estate professional. He leads the David Smith Homes Group out of Royal LePage Wolstencroft in Metro-Vancouver, Canada. While the awards are nice, he believes there's nothing more satisfying than driving through his neighborhood knowing he's helped families find the right home in which to write their stories.

A Simple Guide to Investing in Real Estate

—Tahani Aburaneh



A Simple Guide to Investing Making money in real estate is within your reach if you follow the seven C's.

Investing in real estate is unfamiliar territory for most. If you've been thinking about trying to create a passive income stream with real estate, it's natural to wonder if you have what it takes. The answer is yes—you have it in you! It will take courage and effort, but you can boost your financial well-being and transform your life by investing in real estate.

What I love about real estate investing is that—despite what some may think—it's accessible to everyone. Regardless of background, color, gender, or how much money you have to start with, it's possible. Real estate investment doesn't play favorites.

I know this firsthand. I was born and raised in a Middle Eastern refugee camp. At 15, I was forced to leave everything, enter an arranged marriage, and move to Canada. Twenty-two years later, I went through a painful divorce and had to build my life from scratch as a single mother with two children. All I had at the beginning were an unstoppable desire to learn and a do-whatever-it-takes attitude to provide for my kids. I went from having nothing to generating millions.

It's important to realize that investing at the beginning will require a great deal of time and effort. Once you do it well the first time,

though, it becomes a rinse-and-repeat process. Replicate what you've done successfully and keep going as much as you want. You may elect to buy one or two properties and stop there. You may want to become a full-time real estate investor and buy as much as you can, maybe going up to dozens of properties!

The Seven C's of Real Estate Investing Success

Having been in this industry for 25 years, I've helped thousands get started. I can help you too. Use this seven-step process.

Step 1. Clarifying your strategy: decide on your market.

There are literally dozens of ways to engage with a real estate investment. I always suggest people start with a simple one and then take on more after. Start with a buy-and-hold before moving to a buy-and-reno or starting an Airbnb.

To pick the right strategy, start with the end in mind. Think about your tenants. What type of tenants do you want to serve? For example, do you want to serve the executive rental market or student rental market? Lease-to-own versus families? Once you are clear on the answers, you can immediately eliminate all properties that don't match your criteria and look for those that would be perfect for your target tenant.

Now that strategy is sorted, let's go back to you. Do you have your down payment ready or at least know where it's coming from?

Step 2. Checking your finances: know where you stand.

Before you start anything, you must understand where you stand financially so you know how much you can afford. Many people do it the other way around: find a property, put in the offer, then find out they can't afford it. This wastes time and effort and, if this is the route you take, you will likely have a broken heart when you don't get what you want. Don't make the common mistake.

Now's the time to bring on your first team member and expert. Your mortgage broker—the person who specializes in investment properties—will help guide you along the process of purchasing. You must (I repeat *must*) connect with an experienced mortgage broker.

Knowing where you stand will put you in a stronger position for negotiating at offer time. You can bargain from a place of knowledge and have confidence in your highest bid. The key is to not fall for pressure sales tactics and so-called enticing deals. When you have the end in mind and know how much you can afford, it's much easier to stick to your original vision and plan.

Once that's settled, it's time to get shopping.

Step 3. Checking the market: shop like a pro.

As fun as "shopping" for properties appears to be on HGTV, more often than not, you are actually saying no to a lot of listings in order to say yes to the investment property that's right for you.

Start by browsing a geographic area that is close to you. Then venture into other areas within about a two-hour radius from where you live.

The most crucial aspect is to know the difference between a good deal and an amazing deal. It's the difference between paying fair market price versus overpaying. Ask your realtor for a CMA (comparative market analysis). It gives you detailed research on what other properties in the area sold for, which will help you get a better idea of what to offer and why.

Once you've selected a property, you need to consider to the next C before putting your offer in.

Step 4. Calculating the cost: know your numbers.

While many aspiring investors may wish to skip this step ("Math isn't my strong suit!" they say), it's imperative to calculate numbers on any property before submitting your offer. Unlike purchasing

your dream home (which may have an emotional aspect to it), investment properties should be analyzed based on the numbers.

Do you think you can cash flow on a property with this calculation?

Rental Income – (mortgage payment + property tax + insurance) = Cash Flow (cash in your pocket at the end of the month)

If your answer is yes, your calculation is wrong.

Reality looks like this:

Rental Income – (mortgage payment + property tax + tenant insurance + heat + water/hydro + hot water heater + sewer + repair/maintenance + garbage removal + pest control + snow removal + vacancy fee + property management fee) = Cash Flow

Do not overlook the smaller costs it takes to maintain a property. They directly affect your income and can be the difference between cash leaking out of your pocket and cash flowing into your bank account.

Once you know the property is a go, then move on to the next step.

Step 5. Composing the contract: get the deal done.

There are two things to consider as you prepare your offer. First, now that you know the maximum price you can offer, stick to what you can afford. Never let your emotions take over. Second, focus on more than money as you compose your offer. Focusing purely on financials is one of the biggest mistakes I see newbie investors make.

Here's what I mean: Price is important, but so are offer terms. For example, if you know the seller lives far away and is selling their mom's property, they will need to get rid of the furniture. Make the process easy for them, and as you write your offer, propose to remove all the furniture. This might help get your offer accepted. Closing date is another big one. Offering a quick closing date will also help your offer stand out.

Once your offer is accepted, you're ready for the next C.

Step 6. Completing construction: repair and renovate.

For an investment property, it's often not necessary to spend money on luxurious renovations. That said, it is important to ensure that everything is in good working order for your tenants. Some repairs may be necessary.

Before starting work on the property, contact at least three contractors to have them quote on the project. Ensure that the

person you hire has insurance and that you both have a written contract outlining the specific timelines for project milestones, as well as a completion date.

In terms of compensation, I advise people to never give all the renovation money upfront. It could be the worst thing you do. Negotiating a three-part payment plan is best. Keep the last payment (or at least the last 10 to 15%) held back until all the work is complete and it meets your approval.

Step 7. Cashing out: reap from your investment and consider what's next.

Now that the major work is done, you can sit back, start collecting rent, and enjoy generating passive income. Best of all, if you have managed each step correctly and you want to invest more, you can simply repeat the process for every property you wish to purchase.

One last thing: If you choose to invest heavily in real estate, you may want to consider hiring a property manager. One of the advantages is that you never have to worry about tenant relations or collecting rent. A good property manager will take care of all that for you. In exchange, they usually charge a 5 to 10% fee, depending on your area.

Get Cash Flowing Your Way

Investing in real estate may seem complicated for beginners, but it's easier (and more lucrative) than you think. Once you're crystal clear on what you want to achieve and why, follow the 7 C's to start generating passive income today. Financial transformation is within reach.

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A Year of Secondhand Shopping

—Elissa Joy Watts

Avoiding retail did so much more than save money for one wife and mom. It revealed hidden capacities she'll never neglect again.

Two years ago, visions of financial peril flashed before my eyes. Our family's bank account was treading water. My consumer habits needed taming. An expensive cross-country move loomed large. I knew that unless we intentionally chose to live differently, we'd end up drowning in debt like many young families.

Around that time, I read Henry David Thoreau's assertion "A man is rich in proportion to the things he can afford to let alone." I decided to test his hypothesis. Maybe I could leave retail shopping alone for a while, I thought. Maybe even for a year.

It was not an overnight decision. In fact, when I was considering the pledge, I had just completed a six-month fast from buying clothes. I call it the 100-meter dash that led to my marathon.

What did I do to celebrate six months of shopping abstinence? Refresh my wardrobe. Embarrassing, I know.

Of course, I did so responsibly. Online sales and a few consignment purchases for good measure. *What a smart shopper I am,* I thought. *I'm saving so much money!*

But as you know, shopping begets shopping no matter how much you save. The temptation to spend lurks everywhere. Soon my plump wardrobe was proof I wasn't saving money at all. In a matter of weeks, my incriminating shopping habits subtly took over my thoughts and wallet once again.

My husband knows the script. He called me out on my "responsible" shopping spree, the one that had our bank account looking like last week's romaine.

At that point, I knew another shopping fast was in order. With our towering debt in mind and a rising tide of moving expenses on the horizon, I pledged to "first try secondhand" whenever material needs surfaced. I dug deep and became the definition of frugal. Talk about flipping the script for someone who worked in luxury apparel for eight years!

I made the commitment before considering the upcoming moving logistics and corresponding purchases. Suddenly our shopping list took on a life of its own: furniture, assorted household goods, all kinds of clothing and winter gear for our growing children. Sometimes enthusiasm, like love, is blind. It was tempting to bow out of my commitment. But with grit and creativity, I'm proud to say, I made it. More or less.

The classifieds became my colleagues, and we were a good team. I made friends with the neighborhood consignment store owner. Our new city sat brimming with thrift shops and I learned to pick my spots. Between strategic shopping and borrowing from friends, the essentials were accounted for. Even though I had to call on Ikea and Amazon a few times, I believe I still ended the year victorious.

Was it easy? No. Did it help our finances? Absolutely. Did I score $400 loafers for $9.99 and a nearly new glossy red Le Creuset French oven for 75% off? You bet.

I expected the shopping challenge to save us money, maybe even rewire some harmful habits. I did not expect it to turn up the soil in my heart and plant life-changing seeds. I'm talking about frugality, perseverance, and resilience. I couldn't have predicted that a simple shopping challenge would reconfigure my heart and mind, but that is precisely what happened.

Bonuses of Secondhand Shopping

In the midst of all the shopping, I got more than I bargained for. Here are just a few of the epiphanies I picked up along the way.

1. Secondhand shopping magnifies the disparity between wants and needs.

When items you wish to purchase aren't readily available, you learn to get on without them. You must. Often the delay is long enough to underscore that what we think we "need" is actually a mislabeled desire or marketing-induced craving.

This epiphany had a ripple effect. I asked myself, *What else do I think I need?* Learning to live without the things I "needed" challenged me to question everything I assumed was necessary to get by: people's approval, a particular appearance, beautiful clothing, a well-appointed home, an impressive job, and so on.

My need/want paradigm experienced a major overhaul. My familiar inner monologue first morphed from "I *definitely* need that new cardigan" to "No, I just want that cardigan" to "I *want* that cardigan because I'm unhappy and listless. I *need* to go for a walk and clear my head." Shifting my shopping habits confirmed what I already knew. Wants masquerade as needs. Discernment is key.

2. Secondhand shopping keeps one's self-worth in check.

I spotted a poster on the subway one day, and I don't know whose words spread across the image, but the message was spot-on: "In a society that profits off your self-doubt, liking yourself is a rebellious act." We've been duped into linking our identities with possessions, whether we'd like to admit it or not. The retail world

likes to profit off our withering self-worth by promising fulfillment at the cash register. “Live your best life. Own the best stuff.”

Shopping secondhand guaranteed that 99% of the time I didn’t wind up with the latest and greatest. Abstaining from retail warded off knee-jerk purchases, the ones that in the past would have pasted together my flimsy identity and bought my way out of personal insecurity.

The pledge caused me to reevaluate my source of self-worth altogether. It demanded I take a sober look at the motivation behind my shopping habits. Sure, my *head* understood new sneakers would not validate me. My *heart* wasn’t always convinced. Exercising control over my consumer habits took humility and persistence.

Abiding by my pledge caused me to refocus on my true worth time and time again. A beautiful home is not a reflection of one’s personal value. Neither are the contents of a closet. While our possessions tend to be a form of self-expression—the colors we like, the aesthetic we prefer—we fool ourselves when we believe our identities and worth are ultimately defined by what we own. It’s one thing to know this truth; it’s another thing to live it. Living it is what generated lasting change.

3. Secondhand shopping leads to asking better questions as a consumer.

Our culture has us wired to consume. It's easy to accept every fleeting desire as something worth taking action on. In the face of a tempting purchase, the questions I often asked myself were these:

- How much will it cost?
- Can I find it on sale?

By defaulting to the secondhand marketplace, the questions evolved:

- Is it worth the time to hunt for it?
- Does the purchase align with my values?
- Could I use anything I already own or borrow from a friend?
- Will I be able to resell it and get my money back?
- Is this a wise investment anyway?

This new paradigm has influenced other areas of my life too. It's a refined lens through which to see my choices. It's changed the way

I buy in to ideas, beliefs, social engagements, and career opportunities. I am now more engaged in my day-to-day decision-making process.

4. Secondhand shopping finances the abundant life.

You and I already know the truth, but it's worth repeating: There is a vast difference between the good life and the abundant life.

The good life allures people with promises of happiness by way of a gorgeous home, an expansive closet, and comfort for miles. It comes slapped with an expensive price tag, though: stressful obligations, bloated monthly payments, marginal free time, and fleeting peace. Smoke and mirrors, I say.

The abundant life offers joy. My choice to shop differently ushered in this new way of living and gave birth to freedom. Our life was easily financed. We had the luxury of excess time and money. Generosity bloomed and I was more present in my relationships. I could cuddle up with my family at the end of the evening rather than slave away on my laptop, clocking mandatory overtime to pay the bills.

And because we weren't completely wrapped up in our purchases anyway, passing things along or selling them for a fraction of the cost was a no-brainer. We experienced deep joy from living in

alignment with our values, prioritizing people, generosity, and service over stuff.

Never the Same Again

Spiritual teacher Eknath Easwaran says, “Lasting change happens when people see for themselves that a different way of life is more fulfilling than their present one.” Yes, yes, *yes*! Our bank account is far from a seven-digit bottom line, and I don’t have a finance degree on my wall, but altering my spending habits for 12 months transformed me. I learned to allocate finite resources with consistent intention. Frugality, resilience and perseverance found a home in my heart and I don’t see them moving out any time soon.

Yes, we saved a tremendous amount of money, partially due to ridiculously low prices for used goods, partially due to abstaining from shopping altogether. Ultimately, however, I learned that opting to shop secondhand is more than just saving money and scoring outlandish deals. It’s a guaranteed lesson in truly richer living. It’s embracing an overlooked opportunity to shop in favor of character formation and abundant living instead of temporary satisfaction.

Scoring $400 designer loafers for ten bucks is just the tip of the penny-pinching iceberg.

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The Joy of Living Within Your Means

—Joshua Becker

Imagine being satisfied and at peace with your financial status. Some have figured out how to do it.

Recently, I pulled into my local gas station. It was evening and there wasn't much traffic inside or outside the store. In fact, I was the only one filling up. That was, until another car came speeding around the corner and pulled up to the pump right next to me.

The engine of the expensive sports car broke the quietness of the evening as the vehicle approached. Soon, though, the engine noise was drowned out, first by the squeal of the car's tires, and eventually by the volume of the music pouring out the windows. The driver hopped out of his vehicle wearing a leather jacket and proceeded to fill his tank with premium gasoline.

The contrast could not have been more obvious. Me, standing next to my 2005 Honda Accord with 215,000 miles. And him, standing next to his brand-new, attention-getting sports car.

We didn't exchange any words. I don't even recall him looking in my direction to acknowledge my existence. I know nothing of this fellow or how he came to acquire his fancy new car. It may have been a gift or he may have borrowed it simply to fill the gas tank for a friend. I am passing no judgment on him whatsoever. This isn't a story about him—it's a story about the thoughts that raced through my mind.

Because in that moment, a surprising thought entered my head. I had nothing to prove to anybody, but I remember thinking (for better or worse), *You know, bud, I could drive a car like that if I wanted. You're not better than me because you drive a fancy car. I could probably drive a fancy new sports car and wear a leather jacket if I wanted. But I choose not to.*

And it's true. There are, I suppose, a few cars on the planet I could not receive enough credit to acquire. But for the most part, there is nothing stopping me from driving an expensive, flashy sports car around town. Except for maybe one thing:

I enjoy living within my means.

I mean, I could drive a more expensive car. I could buy a bigger house. I could take more lavish vacations or purchase more luxurious furniture. But I find a significant amount of pleasure knowing my expenses do not exceed my income.

Staying out of debt means I am not being hunted down by creditors. It means I am not carrying a financial burden from my past while also trying to provide for the present. It means I have freedom to make choices with my excess income. I can save if I want, give if I want, or spend if I want.

Because I live within my means, I enjoy a significant level of freedom that others do not. It allows me to sleep better, carry less stress, and live a more calm, relaxed life.

Our world works hard to convince us to outspend our income and then provides a thousand ways for us to do it, even delivering pre-approved cards of plastic directly to our mailboxes. And from the outside, a life built on credit may appear the life we desire—with its bright lights, its bold colors, and the strong impressions we are able to make. The man with the flashy sports car certainly turns more heads while stopped at a red light than I do with my Honda.

But I've chosen something different for my life. I've chosen calm and peace and the knowledge that I live responsibly. For there is a wonderful joy to be found in it.

I know there are any number of uncontrollable circumstances that may make this choice impossible for some—tragedy, medical emergencies, or unexpected career downsizing as examples. But for those who still have the choice, I don't think you'll ever regret spending less than you make.

How to Live Within Your Means

Setting aside the uncontrollable scenarios for a moment, there are only two ways for families to begin living within their means if they have not already.

1. Make more money.

2. Spend less money.

Much of the conventional wisdom of the day is, “If you want to get ahead financially and find greater peace, work harder to make more money.” There is a measure of truth in this statement—making more money provides the opportunity to live within our means without changing any of our spending habits. Unfortunately, for too many, this approach does not work.

Often, when people make more money, they simply spend more money. Anybody who has received a pay increase knows how easy it is to allow lifestyle creep to throw havoc into our finances. We thought we’d be able to get ahead financially, but it doesn’t seem to pan out that way.

Another problem with the “make more money” solution is that it tends to lead to a life of stress, busyness, and hurry. The money

was increased, but the quality of life decreases as we constantly chase more and more dollars.

On the other hand, there is another route to living within your means: spend less money. This is the far superior route.

The most fundamental foundation for financial freedom, available for the greatest number of people, is to spend less than you earn. But why is it so hard to implement?

As an example, my country—the United States—shows how prevalent is the addiction to debt in affluent nations around the world. In a country where 76% of us live paycheck to paycheck, and the average American between the ages of 18 and 65 has $4,717 of credit card debt, the message of “live within your means" is clearly having a difficult time gaining traction. [1]

One reason I believe spending less is such a difficult step for many to take is because society has made it appear unattractive. Buying less sounds a lot like taking a step backward in life. In a world where success is often defined by material acquisition, spending less sounds boring, unfashionable, and destined for ridicule.

That is why we need to reframe how we think about spending.

Financial Contentment

Ten years ago, I made the intentional decision to own less and buy less, and it has turned out to be among the best decisions I have ever made in my life. As a result of paring down most of my possessions and determining to only buy things that are actually needed (rather than everything I ever wanted), I have found my life improving in significant ways.

Now that I own less and spend less, I have more time, energy, and money than ever before. Because I own fewer things that need to be cared for, I spend less time cleaning, organizing, and managing. I have more opportunity than ever before to pursue my greatest passions in life, however I decide to define them.

Rather than running up a credit card bill by chasing every new product or fashion line sold at the department store, I am able to invest in the things that make my life worthwhile and significant. Rather than buying a flashy sports car with burdensome monthly payments, I am able to sleep better at night with less financial worry.

In this simple decision to spend less, financial discontent in my life has been largely resolved. There's a reason ten out of ten financial advisors recommend it.

It would be wise for each of us to reframe how we think about spending less. When we begin to focus on the benefits of living within our means, it feels less like a sacrifice and more like one of the best decisions we can ever make.

Besides, I kinda like my Honda Accord.

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Stop Playing Rich

—Kelvin Wong

Spending above our means can be even more costly than we think. An economist explains why so many of us get into this trap.

When was the last time there was something you really wanted but it was not easily affordable? My guess is you do not have to think too hard or too far back. We all have desires for more and for the new, and those desires sometimes get us into financial turmoil. This is especially true in today's age with the internet and social media. Marketers know exactly how to entice us to imagine a better life made possible through their products. Social media makes it easy for others to project the best versions of themselves for everyone else to see and envy.

Our contentment is bombarded daily with ideas that we need more or need to be someone or somewhere else. Our imaginations are captured by what life could be like if only we had that one new thing. I believe all this is a strong contributor to the increased rates of anxiety and depression today. These lead to further social, health, and economic problems that have massive consequences.

On an individual level, I think the biggest change in human behavior with the advent of technology is the increased desire for instant gratification. I still remember the days of dial-up internet, when I was perfectly content to wait a couple of minutes just to

sign in. But now if it takes more than 10 seconds to connect to Wi-Fi, I have a miniature internal meltdown.

We are living in a world where the pace of life is increasingly faster, and while I love innovation and the improved standard of living afforded by these technologies, I do see a subtle dark side. For many, waiting and working for something has become antiquated. We want everything now. This has often led to some unwise choices, which then leads to living a lifestyle we cannot afford.

I do want to be clear about what I mean by "a lifestyle we cannot afford." I do not mean that we should never utilize debt. For instance, not many can afford to fully pay for a house up front and thus take out a mortgage. If the individual had analyzed carefully their income and determined that the monthly payment on that mortgage is affordable, the loan may have been a good choice. But this is not always the case.

A few years ago, my wife and I decided to buy a house. After taking into account all of our financial commitments, we came up with a number that we felt comfortable with for our monthly payment. This gave us a price range for our first house. As we started house hunting, however, we quickly discovered that a house with everything we wanted would likely be twice as expensive as we budgeted for.

It was tempting to make an unwise decision at that point. As we were browsing houses that were well above our budget, we found ourselves trying to rationalize why we could afford it. For instance, I thought that if I took on more teaching or external consulting projects, or if we saved less or decreased our charitable giving, we could make it work. But this is where we start treading on you-really-cannot-afford-this ground.

Of course, this issue does not start or end with buying a house. It extends to every aspect of life: from decisions that are as big as purchasing a multimillion-dollar business to ones as small as buying a new outfit.

I think most would agree that it would be ideal if we could somehow keep ourselves from falling into this trap. This is where economics can help.

Why We Think We Can Afford More than We Really Can

Economics is the study of choice, and in every choice is a weighing of costs and benefits. When we make a choice to purchase something we do not know if we can actually afford, we are internally calculating the benefits and weighing it against its cost. If the benefits seem higher than the cost, we proceed.

Below, I make three observations from economics that may shed some light on why we find it so easy to spend when we cannot afford to. My hope is that a better understanding of ourselves will give us a fighting chance in stopping the charades.

1. We tend to forget opportunity cost.

Economists do not see costs as just those that come out of pocket but also what we give up to make that choice. Take the choice in going to college, for instance. If you ask a college student what her cost of college is, she might mention tuition, room and board, books, and other living expenses. However, the biggest cost that economists measure in the cost of going to college is what individuals had to give up to be there. A high school graduate could have worked full time somewhere rather than go to college. In that sense, someone pursuing her college degree is usually giving up four (and sometimes more) years in which she could have earned a salary. That foregone wage often is the biggest cost that someone incurs in going to college.

The myth is that the cost of a purchase is simply its financial cost. When we consider a certain purchase, we tend to start and end by looking at the price and our bank account. However, when you consider what else you are giving up by making a purchase, you will see the true cost.

For instance, should someone proceed with a $100,000 home renovation with $100,000 in the bank? On the surface, it seems affordable. What, however, is the opportunity cost? For one, you are constraining your future self to have a much smaller amount of money to work with. What if something more important comes up that requires spending or perhaps the proverbial rainy day occurs? Could you have invested that money somewhere else, thereby increasing your future self's resources?

Opportunity cost can also include time and energy, as those are valuable and scarce resources. How about the extra time and energy that you might now have to spend overseeing the renovation, or the mess that you might have to clean up during and at the end of the project? What if something goes awry and you have to spend hours trying to get it fixed?

As you can see, the cost of something adds up quickly when also considering a foregone alternative use of money, time, or energy. Your choice today impacts what you can afford to spend on and do tomorrow. Thus, when you are considering whether you can afford something or not, do not forget the opportunity cost. What else could you do with the money you are about to spend? What else could you have done instead with the time or energy required? When we forget opportunity cost, the cost of something will

appear much smaller than it actually is—which leads us to make unwise choices.

2. We do not have perfect information.

We all wish we could predict the future, but the truth is that there are a lot of uncertainties in life. I am happy that my wife and I did not end up with a house we could not afford, because soon after we moved into our new house my wife found out she was expecting our first child. If we had planned such that our budget had no wiggle room, this news would have revealed our financial foolishness.

We also tend not to have all the information we should have in the present. We overlook how much time or money a decision actually requires, or we do not realize all the additional resources required by our decisions.

Because we do not have perfect information, and because life is filled with uncertainties, plan accordingly. Sure, you might be able to afford something now, but plan on things happening that you may not expect. Plan on overlooking something that you did not budget for. You will not regret having the extra flexibility in your budget.

3. We all discount the future, sometimes heavily.

Part of the reason why it is so hard to not overspend is because we receive the benefit of that spending right away, and often the cost is delayed until later. We do this every time we use our credit cards or loans. With the swipe of the card or our signature on the dotted line, we get pretty much anything we want right away. We do not have to face the consequences of that choice until later.

The problem with that is, we all discount the future. For instance, would you prefer to have $100 today or $100 in a month? You likely picked to have the money today. Why? For one, you could put the $100 into a bank and in one month receive more than $100 after interest. But another reason is that we are all present-biased. We would rather receive happiness today than wait (remember our discussion of instant gratification from earlier). This makes us prone to underestimating costs when it is in the future. We easily believe the benefits today justify the costs tomorrow because the future just is not as valuable to us as the present.

Think Before Spending

Putting these three observations together, we can see that the true cost of living above our means is the opportunity cost inflicted on our current and future selves. Trying to catch the latest fads today does have a cost, in that we are more constrained tomorrow. Falling into debt today to get something we desire puts pressure on our future selves. And while we think our future selves can

handle that pressure, uncertainties are bound to happen, making us regret our prior decisions. The fact that we are present-biased and systematically discount future costs only exacerbates the problem.

The first step in solving a problem is to understand the root of the issue. But knowing why we do what we do is only the first step. Putting wisdom into practice is a whole other story.

As I am writing this piece, my wife and I are deciding on whether we should fully deplete our savings to renovate our backyard. You would think that, after writing this article, I would find it easy to say no to such an imprudent idea. But it is still hard! However, the more I reflect on the opportunity cost, the less appealing the renovation becomes. Maybe agreeing to write this essay is my way of looking out for my future-self.

Perhaps if we all just took a few more moments to think about our decisions and their present and future costs, we would make wiser decisions. Doing so may be the antidote for us to finally stop playing pretend.

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