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Chapter 1 Developing a Wealth Mindset

In this chapter, I encourage you to consider what wealth means to you. I explain how to think in terms of abundance, which is essential to cultivating a healthy wealth mindset. I also help you recognize the common flaws in mindset that lead to counter-productive financial habits, such as over-saving and accumulating too much debt. Think of this chapter as a touchstone you can revisit as you define your financial goals.

Focusing on Abundance

Wealthy people with a healthy and balanced perspective on wealth and life possess a mindset that focuses on abundance. They use and enjoy their money, and although this may sound counterintuitive, they resist over-saving.

Yes, it's true: Over-saving is possible. Some people, in fact often the best savers, get hooked on amassing more and more money and have trouble enjoying and using their money. Super savers and money amassers generally equate more money with more financial security. Theirs is a scarcity mindset.

This section can help you recognize this scarcity mindset in yourself and others, and provides tips to address and temper it.

Avoiding a scarcity mindset

Over-savers possess a scarcity mindset. Just as some people think that their financial problems would be solved if only they could earn a higher income, over-savers typically believe that if they could reach a greater level of assets, they'd be more relaxed and could do what they really want with their lives. The bar, however, continually gets raised, and the level of "enough" is rarely attained. For this reason, some of the best savers and money accumulators also have the most difficulty spending money, even in retirement.

Some super savers have insecurities relating to money. Specifically, they view amassing financial assets as providing them with safety and security that extend far beyond the financial realm. While having more financial assets, in theory, provides greater financial peace of mind, these riches don't necessarily provide more of the other types of security — friendships, for example, for which hoarders are searching.

Achieving a certain level of affluence can provide for greater access to quality healthcare. However, once one reaches the point at which quality healthcare is the norm, the incessant pursuit of more money can have a negative impact on an individual's long-term health and quality of life. For example, super savers often believe that they will be better protected as seniors and better able to enjoy their retirement years with hefty account balances. But the pursuit of more money, which typically entails longer work hours and greater stress, can lead to more health problems before and in retirement.

Many super savers, who also tend to be obsessed with work, come from homes and families where they felt on the edge economically and emotionally. Although there are so many things that we can't control in the world, money amassers typically derive a sense of both economic and emotional security from saving a lot of money.

Super savers have an amazing ability to selectively hear particular stories that reinforce rather than question their tendencies and beliefs. For example, stories periodically surface about how the legions of baby boomers retiring will bankrupt Social Security and cause a stock market collapse. Super savers batten down the hatches, save more, and invest even more conservatively when such stories worry them. News stories about stock market declines, corporate layoffs, budget deficits, terrorism risks, rising energy prices, and conflicts in the Middle East and elsewhere cause super savers to close their wallets, clutch their investments, and worry and save more.

Balancing spending and saving

Most people don't want to work their entire adulthood. And, even if they do enjoy working for pay that much, who wants to live on the edge economically, always dependent upon the next paycheck to be able to pay the monthly bills?

That's why you should avoid the extremes of overspending and over-saving. Consider the analogy to eating food: Eat too little or not enough of the right kinds of foods, and you go hungry and possibly suffer deficiencies of energy and nutrition; too much eating, on the other hand, leads to obesity and other health problems.

Overspending and its companion, under-saving, hamper your ability to accomplish future personal and financial goals and in the worst cases, can lead to bankruptcy. Over-saving can lead to not living in the moment and constantly postponing for tomorrows that we may not live to enjoy.

Remember Goldilocks and her quest at the bear's home for the bowl of porridge that was not too hot and not too cold and a bed to rest in that was not too hard and not too soft. Everyone should save money as a cushion and to accomplish important personal and financial goals.

» **Keeping money accumulation in proper perspective:** As with any good habit, you can get too much of a good thing. Washing your hands and maintaining proper hygiene is worthwhile, but it becomes problematic when you obsess over cleanliness and it interferes with your life and personal relationships.

Conquering over-saving and an obsession with money typically requires a mix of education and specific incremental behavioral changes. Substantive change typically comes over months and years, not days and weeks.

The vast majority of super savers work many hours and may neglect their loved ones and themselves. They typically need to work less and lead more balanced lives. That may involve changing jobs or careers or simply coming up with a "stop-doing list," the opposite of a "to-do list."

- **Giving yourself permission to spend more:** Money amassers usually need to discover how to loosen the purse strings. Figuring out how to spend more and save less is a problem more folks wish they had, so consider yourself lucky in that regard! Give yourself permission to spend knowing that the money you've saved will continue to grow and be available to you as you need it.
- **Doing some retirement analysis:** Understand the standard of living that can be provided by the assets you've already accumulated. There are numerous useful retirement planning analytic tools you can use to assess where you currently stand in terms of saving for retirement.

  TIP

  Among the various mass market website retirement tools, I really like T. Rowe Price's (`www.troweprice.com/usis/advice/tools/retirement-income-calculator`) and Vanguard's (`investor.vanguard.com/calculator-tools/retirement-income-calculator/`).
- **Getting smart about investing your money:** While super savers love watching their money grow, some have trouble with investing in volatile wealth-building investments like stocks because they generally abhor losing money. Even bonds can be a turn-off because they, too, can fluctuate in value.

  So, part of the challenge with getting comfortable with spending more of your money is to get wiser about investing. Please see Chapter 3.
- **Going on a news diet:** Super savers often benefit from minimizing and even avoiding news programs that dwell on the negative, which only reinforces your fears about never having enough money. One justification that super savers use for their actions that constantly resurfaces in the news is the litany of fears surrounding the tens of millions of baby boomers hitting retirement age around the same time. The story goes that retiring boomers will cause a mammoth collapse of the stock market as they sell out to finance their golden years. Real estate prices are supposed to plummet as

well, as everyone sells their larger homes and retires to small condominiums in the Sun Belt.

Such doomsaying about the future of financial and real estate markets is unfounded. The fear that boomers will suddenly sell everything when they hit retirement is bogus. Nobody sells off their entire nest egg the day after they stop working; retirement can last up to 30+ years, and assets are depleted quite gradually. On top of that, boomers vary in age by up to 16 years and, thus will be retiring at different times. The wealthiest (who hold the bulk of real estate and stocks) won't even sell most of their holdings but will, like the wealthy of previous generations, pass on many of their assets.

- **Treating yourself to something special:** Regularly buy something that you historically have viewed as frivolous but which you can truly afford. Once a week or once a month, treat yourself!

  By all means, spend the money on something that brings you the most joy, whether it's eating out occasionally at a pricey restaurant or taking an extra vacation during the year. How about tickets to your favorite sporting events or other performances?

- **Buying more gifts for the people you love:** Money hoarders actually tend to be more generous with loved ones than they are with themselves. However, over-savers still tend to squelch their desires to buy gifts or help out those they care about.

  Think about those you care most about and what would bring joy to their lives. Try hard to think about what they really value and enjoy.

- **Going easy when it comes to everyday expenses:** How would you like it if a family member or close friend followed you around all day and totaled up the number of calories that you consumed? Well, then, why would you expect your family to happily accept your daily, weekly, and monthly tracking of their expenditures? In some families, super savers who habitually track their spending drive others crazy with their perpetual money monitoring. Personal finances become a constant source of unnecessary stress and anxiety.

Especially if you're automatically saving money from each paycheck or saving on a monthly basis, does it really matter where the rest of it goes? (Of course, none of us wants family members to engage in illegal or harmful behaviors. But other than that, enjoy life.)

Work at establishing guidelines and a culture of spending money that everyone can agree and live with. Some couples, for example, only discuss larger purchases, which are defined as exceeding a certain dollar limit such as $100 or $200. Parents who teach their children about spending wisely pass along far more valuable financial lessons than do elders who nag and complain about specific purchases.

Remembering that wealth is about more than numbers

REMEMBER

Getting bogged down in the climb up the career ladder, burning the midnight oil, and accumulating wealth and possessions is easy in a capitalist society. In your pursuit, losing sight of some areas — the ones not about money — is also easy. These areas are just as important as — if not more important than — your finances, which is why you should be working just as hard at planning them. Here are some ideas to get you started:

- **Personal connections:** A lot of research shows that those individuals who have strong and healthy connections in their later years tend to be happier, enjoy better health, live longer, and live longer independently. Make sure you spend time making and maintaining healthy personal relationships. Doing so is an investment that pays dividends by improving the length and quality of your life.
- **Personal health:** Your health is much, much more important than your financial net worth. Just ask folks who have major medical problems — especially those they could have avoided — if they wish they had taken better care of their health. Although anyone can experience bad luck or bad genes when it comes to health, you can do a lot to stay healthy and enjoy enhanced longevity and the best possible quality of life.

» **Activities, hobbies, and interests:** Consider taking up activities and hobbies, part-time work, and volunteering. Giving something back to society pays many dividends.

TIP

You can find a zillion volunteer opportunities. Your place of worship, organizations that support a cause you believe in (for example, fighting cancer or heart disease), and schools are super places to start looking. Stumped for ideas? Try a service like VolunteerMatch (`www.volunteermatch.org`).

Developing a Wealth Mindset Toward Debt

Consider why you borrow money. Usually, you borrow money because you don't have enough to buy something you want or need — like a college education. A four-year college education can easily cost $100,000, $150,000, $200,000, $250,000, or more. Most people don't have that kind of spare cash. So borrowing money to finance part of that cost enables you to buy the education.

How about a new car? A trip to your friendly local car dealer shows you that a new set of wheels will set you back $25,000+. Although more people may have the money to pay for that than, say, the college education, what if you don't? Should you finance the car the way you finance the education?

There's a *big* difference between borrowing for something that represents a long-term investment and borrowing for short-term consumption. I'm not saying that you shouldn't buy a car. The point is to *spend what you can afford.* If you have to borrow money in the form of an outstanding balance on your credit card for many months in order to buy a car (or take the vacation, or whatever), then you *can't afford* it.

Avoiding bad debt

I coined the term *bad debt* to refer to debt incurred for consumption, because such debt is harmful to your long-term financial health.

You'll be able to take many more vacations during your lifetime if you save the cash in advance. If you get into the habit of borrowing and paying all the associated interest for vacations, cars, clothing, and other consumer items, you'll spend more of your future income paying back the debt and interest, leaving you with less money for your other goals.

The relatively high interest rates that banks and other lenders charge for bad (consumer) debt is one of the reasons you're less able to save money when using such debt. Not only does money borrowed through credit cards, auto loans, and other types of consumer loans carry a relatively high interest rate, but it also isn't tax-deductible.

I'm not saying that you should never borrow money and that all debt is bad. Good debt, such as that used to buy real estate and small businesses, is generally available at lower interest rates than bad debt and is usually tax-deductible. If well managed, these investments may also increase in value. Borrowing to pay for educational expenses can also make sense. Education is generally a good long-term investment because it can increase your earning potential. And student loan interest is tax-deductible, subject to certain limitations. Taking out good debt, however, should be done in proper moderation and for acquiring quality assets. See the section later in this chapter, "Assessing good debt: Can you get too much?"

REMEMBER

Borrow money only for investments (good debt) — for purchasing things that retain and hopefully increase in value over the long term, such as an education, real estate, or your own business. Don't borrow money for consumption (bad debt) — for spending on things that decrease in value and eventually become financially worthless, such as cars, clothing, vacations, and so on.

Assessing good debt: Can you get too much?

As with good food, you can get too much of a good thing, including good debt! When you incur debt for investment purposes — to buy real estate, for small business, even your education — you hope to see a positive return on your invested dollars.

But some real-estate investments don't work out. Some small businesses crash and burn, and some educational degrees and programs don't help in the way that students hope they will.

There's no magic formula for determining when you have too much "good debt." In extreme cases, I've seen entrepreneurs, for example, borrow up to their eyeballs to get a business off the ground. Sometimes this works, and they end up financially rewarded, but in most cases, extreme borrowing doesn't pan out.

Here are three important questions to ponder and discuss with your loved ones about the seemingly "good debt" you're taking on:

- Are you and your loved ones able to sleep well at night and function well during the day, free from great worry about how you're going to meet next month's expenses?
- Are the likely rewards worth the risk that the borrowing entails?
- Are you and your loved ones financially able to save what you'd like to work toward your goals?

If you answer "no" to these questions, consider focusing on some debt-reduction strategies, such as those I cover in my *Personal Finance For Dummies* book.

Kicking a credit card habit

TIP

Here are some tips that can help limit the influence credit cards hold over your life:

- **Reduce your credit limit.** If you choose not to take my advice and get rid of all your credit cards or get a debit card, be sure to keep a lid on your credit card's *credit limit* (the maximum balance allowed on your card). You don't have to accept the increase just because your bank keeps raising your credit limit to reward you for being such a profitable customer. Call your credit card service's toll-free phone number and lower your credit limit to a level you're comfortable with.

- **Replace your credit card with a charge card.** A *charge card* (such as the American Express Card) requires you to pay your balance in full each billing period. You have no credit line or interest charges. Of course, spending more than you can afford to pay when the bill comes due is possible. But you'll be much less likely to overspend if you know you have to pay in full monthly.
- **Never buy anything on credit that depreciates in value.** Meals out, cars, clothing, and shoes all depreciate in value. Don't buy these things on credit. Borrow money only for sound investments — education that advances your career prospects, real estate, or your own business, for example.
- **Think in terms of total cost.** Everything sounds cheaper in terms of monthly payments — that's how salespeople entice you into buying things you can't afford. Take a calculator along, if necessary, to tally up the sticker price, interest charges, and upkeep of a car you may be considering, for example. The total cost will scare you. *It should.*
- **Stop the junk mail avalanche.** Look at your daily mail — I bet half of it is solicitations and mail-order catalogs. You can save some trees and some time sorting junk mail by removing yourself from most mailing lists. To remove your name from mailing lists, contact the Direct Marketing Association (you can register through its website at `www.dmachoice.org/register.php`.) They now charge a $6 administrative fee for a ten-year registration period.

  To remove your name from the major credit-reporting agency lists that are used by credit-card solicitation companies, call 888-567-8688 or visit `www.optoutprescreen.com` online. Also, tell any credit card companies you keep cards with that you want your account marked to indicate that you don't want any of your personal information shared with telemarketing firms.
- **Limit what you can spend.** Go shopping with a small amount of cash and no plastic or checks. That way, you can spend only what little cash you have with you!