# Living Rich by Spending Smart

**By Gregory Karp with all credits given to Gregory Karp**
**Commentary provided by Leo Schreven**

Our book this month is very practical, especially during this difficult economy. Because we have such a diverse group of people that listen to this CD every month, some of it may apply more to you than others, depending on whether you are financially free or struggling. I know you will find many tips and valuable resources.

In the introduction the author discusses his philosophy. It breaks down into several areas. First, controlling spending is the key to building wealth. Second, it is important to get an understanding of wealth and money by education. Third, learn to spend less. Fourth, spending smart is not about depriving yourself. Fifth, learn why cutting your spending works. And sixth, a proven plan for spending smart.

Let's begin with financial fitness. The first steps in cutting spending can be summed up in a short acronym. FIT. It stands for food, insurance, and telecommunications. These are the three best areas to start changing your spending habits. Why? because you can reduce spending without depriving yourself. These three areas are repeat spending. You will spend money on these every year for your whole life. And over the course of a lifetime, you will spend more on these than the mortgage on your house. The average American family spends $8,600 a year on food, $3,600 on insurance, and $1,300 on telecommunications. That's a total of $13,500. For the 50 years of your adult life that is $675,000 on just those three items.

Starting with food, studies have shown that if you took the time to buy things on sale, stockpile, and do it on a weekly basis, the average person would save about 20% a year on their food bill. Add to that, other items such as toiletries, housekeeping supplies, etc. and the savings are even greater. Using warehouse clubs such as Sam's Club, Costco and others can save even more as can using store brands rather than national brands.

A question that often comes up is about the use of coupons? Are they a hassle, or worth your time? There are two answers to this question. If you are a very busy person and your time is valuable, then no amount of coupons are worth your time. However, if you have plenty of time on your hands then it is worth pursuing. Particularly if you find yourself in a poor financial situation, the savings can be very helpful. Studies have shown that shoppers can achieve between 30% and 50% savings using a combination of sales and coupons. The biggest danger of coupons is that they prompt you to try new products and brands that you don't really need. So you have to discipline yourself if you're going to use them.

Another area that you may want to consider is the habit of dining out rather than eating at home. The average American family eats fast food or dinner out two to three times a week. The trend is growing very quickly. In 1995, Americans spent 37% of their food budget eating out. Ten years later it went from 37% to 44%. This trend for a family of four ends up being nearly $4,000 a year. Packing your own lunch is generally half the price compared to eating at a fast food restaurant or cafeteria.

One of the biggest challenges is the habits we formed without even thinking. For example take day trips. When you take a trip to the zoo, the swimming pool, or even a road trip we tend to just stop and buy food. By preplanning these events and taking your own food you would save over half of your food budget every year. Another example is drinks. Drinks in restaurants are prohibitively expensive—even something as simple as bottled water. I was at an airport the other day and they had a bottle of water for $2.30. That's called plain stupid! How hard is it to fill a bottle of water yourself in a drinking fountain or at home? So a lot of savings simply go back to changing our habits.

Next, let's talk about life insurance. Shopping for better prices on life insurance has always been a good idea. Prices have decreased over the last decade and you will want to check your policy because likely you are wasting money. Life insurance premiums are less than half of what they were 10 years ago. For the typical 40-year-old man that is a difference of $7,000 over a decade. It is not a big hassle to switch policies, and a couple of hours of work can save you literally hundreds of dollars a year. So just as you would refinance your home, consider refinancing your life insurance and get the same policy for less money.

It is the same for home and auto insurance. The average family now spends $847 a year on auto insurance, and $776 on home insurance. Payments for both auto and home insurance can vary widely among the different companies so it really pays to comparison shop. Get at least three price quotes and make sure you're comparing the exact same coverage. You can do this easily online today. Another thing you should consider is raising your deductibles. This can typically save 15% to 30% or more according to the Insurance Information Institute. It is suggested you raise your auto deductibles to at least $500 or $1,000 if you can.

Telephone is another area you can look at. The typical home spends more than $600 a year. One of the best ways to achieve savings in this area is to use Voice over Internet Protocol (VoIP). The market leader in this is Vonage. It is not hard to switch and you can keep your same telephone and telephone number. The installation is simple but you do need a high-speed Internet connection. Your wireless phone can also produce some great savings. In fact, Americans today spend far more on their wireless phone service than on their home phone service. The average American is spending $84 a month on wireless phones. It really pays to shop around on this—depending on your needs you can often cut your costs in half.

This takes us to Chapter 2 which has an interesting title. "Know Thine Enemy; It Is Us." As you have probably guessed, this chapter is on self-examination to see where your money is going and to make a conscious decision that it is going to the right place. It asks the question, are you spending your money on purpose, by accident, or by habit?

You see, ultimately your current financial situation is the sum result of the many money decisions you make every day of your life. If you make more of the decisions that impact, you'll be financially comfortable. Too many bad decisions, and you struggle. Every day you are confronted with spending decisions. Sometimes it is the decision to spend or not to spend. Other times it's a question to spend on item A or B. Still other times it's spend now, or spend later. Repeatedly making good decisions puts you on the road to prosperity. The root issue here is your behavior. Your spending behavior determines your outcomes.

There is a principle that the experts call mental accounting. This simple behavior needs to be addressed. For example, if you see a pair of shoes for $75, and another store five blocks away has the same pair of shoes for $50, would you walk the five blocks to get the cheaper pair of shoes for $50? Most of us would say, yes. But now imagine that you're buying a new furniture set and the cost is $2,500. But five blocks away there is the exact same set of furniture for $2,475. Would you walk the five blocks to the other store? Most people say, no. Why is this? In the context of a $75 pair of shoes, the $25 was significant.  Some people see a huge 33% savings. But in the purchase of $2,500 the savings seem insignificant—just 1%.  But our pocketbooks and bank accounts don't know the percentages.  They just know the decision is about $25.  This irrational thinking can cost you a lot of money over a lifetime.

The author then goes into an interesting area called “Psychological Spending.”  It is different for every person.  When you buy a car for example, your purpose is to have a means of transportation.  That is really all it is good for, but your purchase of a car is heavily influenced by your personal psychology.  If you feel a sense of accomplishment you might buy a Lexus or Mercedes—if you are adventurous, a Jeep or Hummer.  A mother with a baby will go for a safe Volvo.  All these people spend different amounts depending on their psychology.  It is important to review this and ask yourself if you are spending based on poor psychology.  This can often save you a lot of money.

Perhaps the greatest spending problem is impulse spending.  Your generation has to face a challenge others before you did not—instant everything.  With easy credit, ATM’s, online shopping—it is so easy to get caught in the trap.  The only cure for this is to learn to overcome your urge. Learn to say, no, to yourself.  Avoid temptation.  Keep your long-term goals in mind and remind yourself that your Number One purchase is your personal investments like your 401K or IRA.  To do this we have to quit making excuses.  We have to buckle down and discipline ourselves.

Another interesting thing to become aware of is your personality.  Research shows a very strong link between personality and purchases.  Marketers really know this.  Your money personality is not the same as your social personality.  Let’s examine the six personalities.

1. The Jones.  You are keeping up with the Jones.  You are focusing on letting others know how successful you are by buying lots of stuff. You equate money with success.
2. Gamblers.  You are a thrill seeker and risk taker.  You often think you are smarter than the rest.
3. Financial Fugitive.  You get a thrill from buying which causes you to overspend and go in debt.  You overspend and under earn.

4. A cruiser. You live comfortably for today, pay your bills, and have a drink at the pub each night. Not doing anything wrong, just not doing anything right. No long-term retirement plans.
5. Ostrich. You bury your head in the sand, and stay in denial of your financial status.
6. A miser. You hoard money and are always afraid of losing it. Pretty much a joyless existence.

Each of these personalities has a price to pay. Examine yourself carefully and weed out all problems. Twenty-four million people suffer from compulsive spending. It stems from a desire to feel better, but the price you pay is heavy.

Chapter 3 is on how to control waste. The author lists some of his personal pet peeves.

1. Bottled water. Americans spent $16 billion on bottled water last year. But why? Is it better quality? You should know that companies like Dasani and Aquafina simply use municipal tap water run through a filter. Is it safer? Not at all. In fact, Federal regulations for tap water are stricter than bottled water. Just remember if bottled water was gasoline you would be paying over $10.00 a gallon. Do I hear the word "Stupid?"
2. Over insuring. The biggest money waster here is extended warranties. A basic rule is, just say no, to all of them. Fifty-seven percent of company profits come from warranties. Other insurances, such as specific death insurance, child life insurance, rental car insurance, credit card loss insurance are all generally covered under your term life, regular auto insurance and by the credit card companies themselves. So why pay extra?
3. Timeshare vacations. Timeshare sales were $10 billion last year. Timeshares are simply a lousy investment, hard to unload, have high maintenance fees, it takes a long time to break even, and you lose a lot of flexibility. If you are still foolish enough to buy one, at least buy one second-hand from a frustrated owner who has taken the initial beating—there are literally millions of them anxious for you to take it off their hands.
4. Smoking. I don't need to say more. A pack-a-day smoker spends $2,000 a year on cigarettes. That same money put into a Roth IRA for 40 years at 11% would be worth $3 million!

5. Ink jet cartridges. This is a necessary evil. However, using name brand cartridges is a waste. Online shopping is the cheapest way to go. In surveys done, a $30 cartridge in a brand name can be purchased online for $7. That is one-fourth the price!
6. The Lottery. There is a reason lotteries are called “a tax on the stupid.” Your chances are one in 175-million to win. If you put that $1 a day in a Mutual Fund earning 12% for 65 years you would have $5 million dollars.
7. College Textbooks. A typical student spends $1,000 a year. Shop online, you can get the same books for one fourth the price.
8. Hybrid vehicles. Sorry, all the hype you have heard is not true. They cost more, your mileage is seldom better, the tax credits are over, they depreciate twice as fast as a regular car, and cost more to maintain.
9. Greeting cards. We spend $7.5 billion on these cards. Some of this is necessary. But you can save by buying a year in advance. My wife always buys the day after the holiday and gets the cards at a 75% discount. E-Cards are much more economical.

The intention of this chapter is to simply help you see that you have a lot of extra money sitting around that you could save by adjusting a few of your spending habits. Keep thinking and you will be on your way.

Chapter 4 gets us into the big picture. It begins with comparison-shopping. Taking the time to compare pays off—particularly in purchases over $250. Start tracking your spending. Sure a $3 latte and $7 lunch don’t seem like a lot, but that amounts to $2,500 a year. You could do without the caffeine, brown bag your lunch and it will only cost you $500. Save that $2,000 each year for 40 years of work and you have millions in the bank.

Keep receipts—they are worth great savings in tax.

These are general rules, some of which will apply to you and others won’t. Let’s review them.

1. Spend half of your after-tax income on “must haves.” This is food, toilet paper, etc. Spend 30% on “wants” and 20% on savings.
2. Your mortgage should not exceed 29% of your monthly gross income.
3. Total debts should not exceed 36% of gross income.
4. No more than 7% of your gross income should be spent on a car loan.
5. Car repairs should not exceed more than half the value of the car.

6. Life Insurance should not be more than 6 to 10 times that of gross pay.
7. Learn to negotiate the price. Amazing savings can be made this way.

The author then discusses the blessings and curses of automatic payments. When it comes to saving like in your 401K, automatic is a blessing because it requires no work on your part. It makes people's lack of self-discipline work for them. But in areas you spend, it is a curse—that automatic gym membership each month, cable channels you don't watch, etc. Be aware of the many costs of automatic spending and stop this where you can.

Being smart about buying used items can result in great savings. A good car takes a 30% hit in the first year, and 20% in the second year. A used golf ball is as good as a new one for one-fourth the price. If you buy used items carefully you can save a lot.

Membership has privileges—not all but some. AAA, for example if you travel a lot like I do is a real saver. AARP can save a lot of money for active older persons. Warehouse clubs like Sam's Club or Costco can save a lot for you. Credit cards have all kinds of perks like free air miles, discounts on automobiles, etc. So get the most out of all these things.

In Chapter 5, the author begins to look around your home and everyday spending. This is the kind of spending you do every day, over and over without giving it much thought—things like heating and cooling. This can save hundreds of dollars a year. You might be surprised to know I heat my whole home with a wood stove. We have radiant heat in the floors but in the winter it costs $600 a month on propane. So, I have a good chain saw that I spent $500 on many years ago, and last year my total expense to cut wood, replace a chain, and drive the wood to the woodshed was about $80 for the whole year.

Gas is another huge expense. The average home spends $2,700 on gas a year. There are many ways to reduce this cost, from properly inflated tires, clean air filters, driving slower, etc. If you are a two-car family, have one car that is small and gets 40 mpg to do your daily running.

TV is my personal pet peeve. It is the biggest money waster in the world. You could not pay me to own one for viewing. TV is a "Want" not a "Need." By the time you calculate depreciation on a large screen and the cable or satellite fees, the average American spends $1,000 a year on TV. If you are in debt or have limited savings you have no business owning a TV. That may sound harsh, but it is the truth. Get rid of it and use those hours to work, start a business and save.

Pets. This is a hard one. Americans spend over $40 billion on their pets each year. That is the same amount Korea spends on its entire economy each year. We all know pets are important, but most of the money we spend on them is not for their sake, but rather to make us feel good. We have a little dog and believe me it does not know the difference between a Christmas bone that cost $5.00 or a piece of dog food that costs a half-cent. Your dog doesn't care so it is a waste. Food, veterinarian care, medicine, pet grooming, pet boarding, and the cost of the animal can add up to a lot. So be aware of this.

Medicine. Americans spent $250 billion on prescription drugs last year. This is one of the biggest expenses of all. So begin with getting rid of name brands and go with generic. This alone saves 20-80%. Buy in larger quantities—a 6-month supply compared to a 1-month supply is generally 40% less.

Use your library. I am amazed to see people sit at Barnes and Noble sipping a latte and buying a book or magazine when they could go to their library and do the same thing free. Internet is free in most libraries now. Cultural programs, business resource centers, audio CD's, DVD's, books on tape, free meeting rooms, research centers—you name it, the library has it free.

Lawn and garden. Americans spend $34 billion on lawn care and gardens in mowing, fertilizer, plants and power equipment. Consider Eco yards. They are becoming popular and a lot of people are doing this. Using gravel, rock, and wood chips you can create a permanent yard that requires little or no maintenance. Using your own created mulch, collecting rainwater, composting and creating your own fertilizer are all ways to save.

Clothes. The average family of four spends $2,850 on clothes each year. Do you need the new clothes? For children growing up—you can often get excellent quality for one-tenth the price. Or, do as my wife does. Look at the high-end stores like Macy's, and wait for the close out sales. Our daughter wears $150 dresses and designer jeans for a tenth of the cost. Simply choose to never buy retail—it is foolish.

Chapter 6 gets into financial foolishness. The financial industry is fueled largely by consumers who don't need it. Consumers are intimidated by the world of money and think they have to pay a lot.

So, let's begin with bank accounts. You don't need to pay for someone to hold your money. ATM's are pure insanity. The average fee is $1.64 per transaction. Shop for a bank that has no fees. Free checking. Use an online bank and make online payments for bills. Avoid all overdraft loans.

The same with credit card companies. Most people are not aware of it but you can save a lot by asking. If you are a good customer they don't want to lose you. You can ask for a lower rate, a higher limit, and waived fees. Do it often and you will be amazed the difference this can make.

When you invest use companies with low transaction fees, or no load funds. Why pay a fund manager 3-4% when you can get the same funds and stocks for free at a discount broker? Vanguard leads the investment industry in this.

Identity Theft is a much-debated issue. However, the facts are that it is not nearly the problem the radio ads would have you believe. Just 1.5% of Americans are victims according to the FTC. Of the 1.5%, fifty percent of the time the crime is committed by a family member! So most products in this area are a waste of money. The Fed limits a person's liability for this, and two-thirds of the people who have been victims have had no out-of-pocket expense. The main problem here is not financial—it is the hassle of fixing it, which takes an average of 30 hours. So, don't buy identity theft insurance, don't pay for credit monitoring service, and don't buy credit reports. You can get them free at www.annualcreditreport.com. Don't buy credit card insurance. Do guard your information, do buy a shredder, and do be smart about mail.

Chapter 7 goes into seasonal strategy. Foreseeing events like holidays, school opening, and other events can save you a lot. Back to school spending now costs Americans $563 per child per year. So plan and budget. Start shopping in the off-season. Buy used items or items on sale.

The same with Christmas. My favorite quote on this is: "People spend thousands of dollars of money they don't have, on stuff they don't need, for people they don't even like!" The majority of this shopping takes place in the last three weeks of December when prices are their highest, costing the average American $900 a year per person. So, do what my wife does. Do your Christmas shopping in September when the prices are the most economical. Shop online. Adhere to a set budget. Give gift or cash cards. It ends up saving you a fortune. I like nothing better than getting a $25 card from Cabela's or Bass Pro shop. That beats any $50 shirt.

Another area is tax preparation. This is a tricky area because if you make a good sum of money and own a home business a good tax attorney can save you thousands of dollars. However, if you are an employee and have a relatively simple life then you can do much better alone. Read some good tax books. Try turbotax.com. Believe it or not, you can figure out tax deductions better than most people who prepare them. In fact, most tax offices like H&R Block purposely do not get you as many deductions as they could. They play it very safe to avoid a possible audit. This is costing you thousands of dollars. So get self-educated and learn the secrets of the rich. Above all, do what we teach in All Power—open a home business and get the 42 tax deductions you can't get as an individual. Over a lifetime this can be worth literally millions to you. I still shake my head in disbelief of how many people are too lazy to open a home-based business.

Wedding gifts are another issue. Americans spend the average of $85 for a gift. The same with birthdays—Americans spend $10 billion on birthday expenses. Paying retail for amusement parks can set you back a lot. Hotels can add up hugely compared to camping or sharing a home or condo rental. Tammy and Cierra go to Florida almost every year when I go hunting in Alaska. She often goes with her parents, sister, and brother. They get a three-bedroom luxury condo for a week for $1,000 or $250 per family. They cook their own food, pack their own lunches, get tickets to Disney World online at the discount sales and can do a vacation for one-third the normal cost.

Chapter 8 is about how life happens. This is about the large infrequent expenses that happen less often—cars, weddings, medical bills, etc. Let's begin with a car. What you want is often very different from what you need. If you buy what you want in most cases the result is crippling debt if you buy vehicles you can't afford. You will be stuck with a liability that is losing value every day. The bottom line rule when it comes to cars is, if you can't pay cash you can't afford it.

How much home can you afford? Buying a home is likely the biggest purchase you will ever make. More than that, what about moving costs? This is something you want to do with a lot of forethought and research.

One of the overall things we are dealing with in major purchases is wanting to make an impression on people. It is important to get out of this mentality and do what is right. A wedding for example is something that can be extremely expensive. The average cost is $30,000 in the USA. With careful planning you can have the same wedding for one-fourth the cost by being creative with everything from the flowers to cake, dress, guests, food, etc.

College is the same way. Go with a community college. The price difference is amazing. Going to a private college including all expenses is $33,301 a year. Going to a community college and getting the same education costs $5,995. That is one-fifth of the cost! Generally, community colleges have smaller classes and produce better results. You can still live at home, keep a local job or your business, and have much more freedom.

Even funerals are a marketing gimmick and work on your emotions. It is important to separate your grief from the business. You can have a very dignified funeral for a loved one and not spend $10,000.

The closing thoughts on the final page are good. It asks the question, "What do you care about?" How should you spend your money to derive the greatest happiness? Can you buy happiness?

The answer is, yes you can. Positive life experiences contribute to happiness more than things do. Many studies have shown that people get more happiness from experiences than material goods. Memories are a unique psychological experience. For some reason, the brain makes the experience improve with time. That is why you can re-live a memory over and over and it never gets old.

By contrast, material things lose value as they age and we lose our appreciation for them. So spending smarter can free up money, and in that way money can buy happiness.

Leo