CHAPTER 3

Saving Strategy # 1: Stay Emotionally Connected to Your Money

"I gotta dollar!"
—YOU, AGE 5

It's 11 AM Saturday morning and Uncle Robert has just pulled his car onto your driveway. Your brother excitedly wonders if the visitor will have any new toys with him.

For you, the suspense is minimal. Even as a kindergartener, you know which relatives bring you new toys—entertaining you nonstop for nearly 20 minutes—and those family members, like Uncle Robert, who greet you with a hug and a kiss only. Disappointed, you retreat to your room, forced to play with the same old stuff you got yesterday. (One of the joys of being five years old is such behavior is nearly excusable; adults acting similarly often require therapy.)

Tomorrow, Aunt Esther will visit and it will be a whole different story. Rather than give you a toy or arrive empty-handed, she will give you money. It won't be much, but it will be yours—totally yours.

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Perhaps you recall receiving money as a present from certain people when you were a child? If so, you probably remember which relatives did so and the amount they gave. On the other hand, you likely cannot recollect more than a handful of all the toys your extended family gave you during your childhood.

You: Why not?

Your emotional connection to money was much stronger than it was to new toys. As a child, you knew exactly what you were going to do with your money—you had plans![1] If you were going to spend it, you knew how: maybe you'd get Milk Duds®, a doll, or some baseball cards. Maybe you'd use it at a vending machine, pay for a ride outside on one of those toys outside the grocery store, or purchase stickers. If, on the other hand, you were going to save your money, you also knew how you were going to do that, whether by putting it in your wallet, your desk drawer, your piggy bank, or your purse with a princess on it.

If upon waking up the morning after Aunt Esther's visit, you discovered your money wasn't exactly where you left it, you'd go into your brother's room and start pummeling him. After all, he *must* have taken it—no way you could have "just spent" your new money as many do today with far greater sums.

When you were five years old, you could account for every single dollar. As an adult, things are quite different.

You: Tell me about it.

A Typical Friday Afternoon?

Your Boss: Hey there. Just wanted to let you know I really appreciate all your hard work. In particular, you did a great job taking care of that situation with Brian. It could have been a lot worse but, thanks to you, we're all set now. Thanks.

You: No problem, boss. You know me—always trying to help.

[At this point, your boss starts counting out twenties for your week's pay.]

[1] A psychologist might say "Your strong emotional connection to this gift of money is caused by the time spent processing its possibilities. The more time spent thinking about something, the more likely you are to remember it." A psychologist married to a personal finance author looking to support his theories would definitely say it.

Does that scenario sound familiar?

You: No, that never happens to me. I don't get paid in cash. (Come to think of it, I don't receive compliments at work either, but that's another story.)

Few people are paid in cash.[2] Do you receive a paycheck—a real paper check—you take to the bank instead?

You: No, I am paid by direct deposit.

Most people are. Direct deposit is a good thing; it's cheaper for your company and saves you the time and hassle of depositing your paycheck at the bank. Plus, many banks waive minimum balance requirements or offer other small perks for establishing a direct deposit relationship with them.

But for all the advantages of direct deposit, one big negative looms: direct deposit emotionally separates you from your income. While you may visit your bank's web site on payday to be sure your *first* paycheck arrives, it's unlikely you bother to verify each subsequent deposit. I bet you're incredibly busy.

You: Swamped. It's one reason I haven't managed to get my financial house in order yet.

I understand completely. You have neither the time nor the desire to verify something which has worked 38 consecutive times will work the 39th. So when it comes to direct deposit, you simply trust your money is there—which is okay, because the money *is* there.

You: Right.

But because you're not seeing and touching your money, you're emotionally separated from it. Now, your disconnection isn't from some toy bought at a drugstore, it's from your entire paycheck—hundreds or thousands of dollars. Worse, the same emotional separation happens on the way out.

You: On the way out?

Your money often goes out of your bank account shortly after your paycheck goes in. Such withdrawals include automatic payments such as rent/mortgage, heat, electric, phone, Netflix™, gym membership, and so

[2] Legally.

on. Those are all bills *you* previously authorized to be paid with money in *your* checking account.

You: But it's convenient to automate.

Yes, it is. I pay many of my bills the same way. But remember the cost.

You: What cost? I don't pay anything to automate my payments—why do you? Maybe I should I write a book.

I'm not talking about service fees or other charges banks sometimes assess for automatic payments; I'm speaking of the cost of your emotional separation. Between direct deposit and automatic payments, you're completely emotionally isolated from your income and your biggest monthly expenses. Undoubtedly, you're in a very different world than when you were five years old and thoroughly planned the future of a small gift of money.

Today, most of your spending results from *previous* decisions. **The emotional separation created by convenient automation prevents many people, *including those who aggressively reduce their daily spending*, from achieving meaningful savings.**

DAILY SPENDING

Your day-to-day spending can also be affected by a lack of emotional connection to your money.

You: But you can't automate your daily spending.

True, but automation is not the sole cause of emotional separation.

You: What do you mean?

How much money do you have in your wallet?

You: Me?

Yes, you.

You: In my wallet?

Yes.

You: Right now?

Yup.

You: About twenty bucks.

Now go check your wallet.

You: Right now?

Yes, go check. See how close you came.

You: Okay, I checked. I was pretty close.

When I do this exercise in large groups, here are the results.[3]

- 35 percent know exactly how much money they have
- 20 percent are wrong, but are within $10 of the right amount
- 30 percent are off by more than $10
- 15 percent have no idea and don't bother to guess

Many people don't have a clue how much cash they have in their wallets until they're at some random place which doesn't accept credit cards. Then, they're embarrassed because they need to hit the ATM in order to pay the measly six bucks they owe.

You: I've seen that happen at the pizzeria. Why?

It's not the pizza. People caught without cash typically don't use much of it in the first place—they primarily spend using credit cards.

You: So?

To emotionally reconnect with your money, you've got to use cash.

You: What if I pay my credit card balance off every month?

Do you?

You: Sometimes.

Even if you avoid interest charges by paying your entire balance every month, you're still better off using cash for everyday expenses.

You: C'mon. Who cares if I charge everyday expenses I pay off right away?

You care.

You: But why?

FEEL THE PAIN

When you use a credit card, you spend more money and you spend more often. Even those who promptly pay their entire balances each month still face the real cost of emotional separation.

You: Prove it.

[3] These precise statistics are completely made up, but are indicative of what I've observed.