

Consider "opportunity costs"

Last year, the *Burlington Free Press* ran an article about a 30-something woman who owed \$150,000. She felt trapped and overwhelmed by her debt. "I can never buy a house; I can't travel; I can't do anything," she admitted, because she was using one-quarter of her income every month to repay her debt.

While she was accumulating that debt, perhaps she wasn't considering the opportunity cost of every purchase. The term refers to the cost of giving up one thing in order to achieve another. Imagine you can either buy a pair of shoes today for \$50 or you can invest it for some future goal. If you invest it for 10 years, and your investment grows by an average of 11% per year, your original \$50 will become \$142. Now your decision becomes: "Would I rather have these shoes today, or would I rather have \$142 in 10 years toward a flight to Europe or the downpayment on a new car?" If you reframe every potential purchase with opportunity costs in mind, you can start to make very different choices.



- Pay for a college education.
- Build an off-the-grid house.
- Study Japanese *yabusame* (horseback archery).
- Buy a new truck.
- Start a business.
- Go hiking in New Zealand.
- Raise a family.
- Get a kayak.
- Drive across the country.

Name three life goals you want to achieve. Chances are that some of them, if not all, will involve money.

Establishing a habit of saving money now, when you're young, can go a long way toward making your goals happen. The fact is that total savings are determined significantly by the time period over which you save. This is because many savings plans pay compound interest — which means you earn interest not only on the amounts you invest, but also on the interest those investments earn. Basically, the *sooner* you start saving, even if it's in small amounts, the more you'll be able to amass over time.

Want to get serious about saving? Take a look at the tips below from www.fool.com/teens/teens_02.htm.

Columnist Selena Maranjian: See if your parents will "match" your savings. If they match your savings dollar for dollar, that will mean that for every \$25 you plunk into savings, they'll deposit an additional \$25. Perhaps they'll be willing to match a certain percentage, say 50 or even 25 percent. This may or may not work for you, but it's worth a shot.

Tacy Holliday, 19: When you buy something, use only bills. Put all your coins in a jar. That way, you'll be saving a little each day. You may find you've saved \$25 to 30 at the end of every month.

Jason Hart, 18: Take only what you really need for spending, and put the rest of it where it's difficult to get to, such as a long-term CD [certificate of deposit] or money market account. Making it inconvenient to get to your money might help you avoid the urge to spend it all. Also, decide exactly what percentage you'll spend and what you will save, and then follow your rules!

Donald Hoang, 14: I deposit my money into a bank instead of my wallet. That way, I have to take an extra step to get it if I want to spend it.

Robert Morgan III, 17: Carry very little money at all times. You can't spend money if you don't have it.

Clayton Smalley, 16: I taught myself discipline by keeping a \$20 bill in my pocket, walking around the mall all day and not buying anything. Now I don't have an urge to buy stuff when I go into a store.

Building good cash karma

No matter how much you earn, if you don't save, you're going to end up with nothing. If you can overcome some of the common obstacles to saving, you might end up in good financial health.

The first one? Wrap your mind around the reality that saving money is *learned behavior*; you have to teach yourself about your own spending habits, and then you have to discipline yourself not to spend it all (see some ideas to the left). Have you ever found yourself wondering where it all goes? If you don't know, find out! Keep a small notebook with you at all times and record every penny you spend for 30 days. At the end of the month, you might be staggered at the money you feel you wasted because you have nothing to show for it.

Next, get over the notion that saving means having to do without. As one advertisement says, "life comes at you fast," and you'll need a nest egg to cover expenses — not just annoying car repairs, but also the unexpected ski weekend with friends.

The best advice comes from columnist MP Dunleavy: Instead of thinking of saving money as denying yourself, think of it as future spending money.





Why we buy

The only thing one has to do to start saving money is to stop spending money. Sounds easy, eh? *Not!* It may help to learn *why* you spend money. Have you ever thought about it? Because advertisers have. They think so much about your money that they hire teams of psychologists to help them create their ad campaigns — all with the aim of separating you from your cash. They do this primarily by using *misdirection* and *seduction* to make you unhappy with the things you have or the person you are.

Misdirection

This strategy creates your interest in certain products by associating them with completely unrelated desires and values (like belonging, romance, adventure, or concern for the environment). Advertisers want you to believe that you'll achieve lasting happiness or popularity by having beautiful clothes, a rugged automobile, or the perfectly highlighted hair. They try to persuade you that having their stuff either will make you totally attractive to others or will make you feel better than anything else will or could. The problem with misdirection is that your

decisions become entirely irrational because you spend your money based on your emotions rather than on concrete considerations like "Do I really *need* this thing?" or "Can I *really* afford this?"

Often misdirection is defined as "getting the audience to look in the wrong place at the right time." What do you think this means in relation to today's advertising? Take a look at the commercials and print ads you see. Can you tell when the advertisers are misdirecting your attention by making promises that their products can't keep?

7 Things to Crave Right Now

This just in: the list of latest happening styles you'll lust for

The copy above appeared in an ad for teens. Was it for a clothing maker or a snowboarding equipment company? What's the difference? The strategy is always the same. Look at the words the ad uses. How do you think they affect your buying choices or state of mind?

Seduction

works by offering you endless things to want. This strategy doesn't just provide stuff that meets your needs; it creates new needs and desires that you didn't know you had. Neat stuff appears before you can even get bored with the stuff you have (like new fall clothing styles that appear each year just six months after you've bought last year's fall clothing). This keeps your anticipation going, but it also means you're never satisfied with what you have.

Buying behaviors & budget busters

Consider the most common buying behaviors described below. Then, to find out which ones might most often burn a hole in your budget, take a look at "What were you thinking?" in the box to the right.

Compulsive buying — buying something without a rational reason, without any explanation other than the fact that you really want it (perhaps because you think it will make you feel better)

Hoarding — buying extras (even though you may never need or use the items) so you can store them "just in case"

Impulse buying — buying something without having an identifiable need for it or any earlier plan to shop for it; buying it simply because you see it, think "Hey, cool!" and grab it

People pleasing — buying or paying for something against your own instincts because of pressure from someone else (or *yourself*)

What were you thinking?

Below are some thoughts that may pass through your mind before or after you lay down cash for some "have to have" goodie — even if the thought lasts for nanoseconds. Match the reasoning below with the four buying behaviors described to the right. Visit www.vsac.org for suggested answers (though some may have more than one correct answer).

- 1 My crew is competing in the fundraiser together, and they all think we should buy team shirts.
- 2 My BFF has one, so I just have to get one.
- 3 I might need one of these at some point.
- 4 I'll be a nice guy and pick up the pizza tab for everyone after the movie.
- 5 I just have to have it. I just *have* to have it!
- 6 Shopping just makes me feel better.

- 7 You can never have too many of these.
- 8 I don't like the color, but he says I look great in it.
- 9 Gotta have the latest technology to maintain my übergeek rep.
- 10 I don't really need it, but it's more than 50% off!
- 11 It's way expensive, but my girlfriend says it's mad cool.
- 12 Wow, this is sick! Maybe it'll match something in my closet.
- 13 I'll buy two of these in case one wears out.