

Wants vs. Needs – A Money Lesson We Can All Benefit From

By Mark Charnet

My two son's 11 and 9 want to buy a new video game system. My daughter wants to buy a new car. I'd like to buy a new vacation home. But, do we really need these things? The boy's already have the Wii system and a Nintendo system; do they need the new X-Box too? My daughter has a working vehicle; must she have a newer one? I ask you, is there anything you want to have or own that causes you to stop and think, "Do I really need that item?"

Like the "Devil and the Angel" sitting on opposite shoulders arguing "wants vs. needs" and in your mind you role play, "I want it, but, I don't need it". Practicality states that if I didn't have it yesterday, I probably don't *need* it today. Perhaps a better way to look at this is to argue **logic vs. emotion**. The dieter wants a box of cookies yet surely doesn't need them for sustenance. The fact of self-denial can be, at times, the most driving force behind the purchase based on feelings of entitlement and nobody is going to tell me I can't have those darn cookies! I work for my money and I can spend it any way I want, even on a box of cookies, even if I'm a diabetic, even if I am 100 pounds overweight! It's my right to have those cookies and have them I will.

This metaphor can be applied to the new car or gaming system as well. "Damn it, I'm worth it" becomes the rallying cry even though the consequences are clearly known well in advance. I want it, so therefore I shall get it! When we were all younger and under the influence and financial support of our parents, the difference between wants and needs were abundantly clear. As adults with the freedom of an individual paycheck, checkbook and savings account, it's easy to acquire things we want and really don't need. Most of the time I have found that the item in question is simply a luxury, a "feel good" item, something as cheap as a candy bar or as expensive as a new boat or car.

Please do not misunderstand me in that you should **ONLY** purchase necessities; a life without reward for hard work and a job well done can be detrimental in many ways. But, if those extraneous, unneeded, perhaps even frivolous purchases cut into your emergency funds or worse, your retirement portfolio, the consequences can be dire. I have met some people who share the attitude that "You only live once so live it up! You might not even be here tomorrow!" To these folks, I say their statements are factual, but, the logic is flawed. Yes, we only live once, but what if it is for nearly 100 years? Yes, we might not be here tomorrow, but, I'd bet millions of dollars that you will be here, as do the life insurance companies that collect premiums on 1,000 35 year olds and pay claims on only three of them that did not reach 36.

The odds are very much in your favor that you will be here for a very long time in relation to the duration of your saved and invested monies. I'd rather bet on a successful and enjoyable retirement than, "You might not even be here tomorrow." As I've stated in previous columns, based on the Consumer Price Index, a dollar purchased \$1 worth of "stuff" in 1967. Today, that dollar only has the purchasing power of 16¢, an 84% shrinkage in approximately 40 years. A good majority of the people alive today will also be alive 40 years from now and should inflation over the next 4 decades remain the same (though I believe it will be much worse) our dollar today will only purchase 16¢ of "stuff" and that dollar from 1967 will only purchase 2½¢ of "stuff".

The conclusion must be this, “a penny saved is a penny earned.” Put another way, removing a dollar from my portfolio isn’t a dollar at all. It comprises all of the earnings on that dollar lost over the rest of my life. One could argue that the purchase of a new video game system today might sacrifice my son’s ability to purchase a car outright sometime during his lifetime. My daughter’s desire to purchase a new car today could no doubt jeopardize her ability to purchase a house in the future.

The cost of living is too high and getting higher everyday. Taxes of every type are rising constantly with no end in sight. Government spending is out of control at all levels and our nation is being divided between the “haves and the have not’s.” Deciphering our Wants versus our Needs truly is a lesson we cannot afford to ignore or be lax about. The lost opportunity costs are just too high.

Remember these important rules of wealth accumulation: Reward yourself responsibly, respect the power of compounded returns and profit from them, live below your means and save 10% of every paycheck and invest aggressively another 10% too; preferably in tax-deferred vehicles, pay your credit card balances in full each month, if you can’t afford it don’t buy it, make paying off your mortgage early a priority, use coupons at the grocery store, never buy on impulse – if it’s a good deal today it will be a better deal tomorrow because you had a chance to analyze it, and my favorite rule of all is the 6 P’s: Prior Planning Prevents Poor Performance – Period! Need some help or advice without charge or fee? My contact information follows.

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