

CHAPTER 10

Wealth Mindset #3: We Buy What We Need

- *What Couples in a Wealth Mindset Do Extremely Well*
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- *Exercise: Are You Sure You Need That?*
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What Couples in a Wealth Mindset Do Extremely Well

Couples living in a Wealth Mindset do five things extremely well:

1. Distinguishing needs from wants (food is a need; designer shoes are a want).
2. Agreeing as a couple on what the needs and wants of the household are.
3. Prioritizing spending based on what is needed, not what can be afforded.
4. Separating real needs (food) from automatic purchasing

decisions (for example, food is a real need; buying that food from a restaurant is not).

5. Finding ways to fulfill needs in the most economical way possible (e.g., carpooling or buying a used Chevy rather than a new Lexus).

Distinguishing Needs from Wants

As already discussed in Chapter 3, wants and needs are two different things. But a clear distinction between the two is not always obvious and can depend on context. For example, designer shoes can be classified as a want in one context (“I want those shoes because everybody else has them”) and a need in another context (“Designer shoes are an important part of the mandatory dress code at work”). One could argue that for many couples living in the United States, many if not most purchases could be considered wants because most basic survival needs (food, shelter) are satisfied. Therefore, living in a Wealth Mindset means constantly evaluating and reevaluating what is a need and what is a want as defined by the current household situation. Couples must agree on what the wants and needs in the relationship are. In some households, items that contribute to physical fitness (gym memberships, sports equipment, etc.) are considered needs because physical fitness is an important family value and purchases that contribute to the health and well-being of family members are needed, agreed-upon purchases. In other households, those purchases would be wants, and that's fine. What matters is that couples have clear rules and guidelines to distinguish wants from needs. These distinctions will be personal to each couple. Even

within the couple itself, a gym membership could be a legitimate need for one person and a want for the other.

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Prioritizing Your Spending Based on What You Need

Once they have agreed on clear definitions and guidelines regarding wants and needs, couples in a Wealth Mindset use those rules to prioritize spending. Needs will be satisfied before wants, and many wants will not be satisfied at all depending on the couple's financial situation. It is important to note here that for couples in a Wealth Mindset, needs will drive buying

decisions—not the amount of disposable income on hand or how much they can “afford.” The amount of disposable income available should never determine what is needed and what is wanted. The criteria for distinguishing needs from wants should come from family values, health and well-being, and long-term financial goals. The wealth-minded couple that has all current needs satisfied doesn't change the criteria because they have an extra \$1,000 in disposable income; rather, the \$1,000 is put into savings.

Distinguishing Real Needs from Automatic Purchases

Wealth-minded couples are very adept at uncovering wants masquerading as needs. For example, they are very clear that buying lunch at a restaurant every day is a “want” in spite of the fact that food is a need. People want the convenience of buying lunch, and no doubt the delicious choices as well, but there are other, more economical options to satisfy this need. Some people bring a nice lunch from home almost every day (I do). The cost of this approach would be approximately \$3.00/day. People who buy lunch out every day spend a minimum of between \$7.00-\$10.00/day, every day. The person who brings lunch from home saves approximately \$5.00/day, which amounts to a total savings of around \$1,150 after-tax dollars per year, based on 230 work days per year. Assuming the tax man takes 20 percent income tax per year, the average person would need to make \$1,437.50 *and* work for 72 hours (based on a \$20.00 per hour salary) to pay for those lunches out. That's a lot of hard work! Let's say both members of the couple stop buying lunches and begin to bring lunch from home each work day. Jointly, they would save \$2,300

per year. Assuming they do so for thirty years and the money not spent on buying lunches out is invested in an account that earns them 5 percent per year, they will find themselves with \$160,450 they would not otherwise have had. This is a significant amount of money. Even if the money saved made no interest, the couple would still be \$69,000 ahead!

Wealth-minded couples are not only able to recognize wants masquerading as needs, but are also able to find economical ways to satisfy their needs in a positive way. I recently bought a fantastic new car. It's a Mazda 6 and I love it. It cost a little over \$20,000 and I got 0 percent financing for five years. I needed a safe, economical and reliable commuter car that would get me to and from work each day. The Mazda 6 was exactly what I needed. I could have "afforded" a more expensive car, but I was able to satisfy this need in a very economical way. Figuring out how to satisfy your needs with the most economical solution is critical wealth-building skill.

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