How To Stop Overspending

Intro
Welcome! Rockstar Nation to the Financial Rockstar show. I'm your host Scott Alan Turner ready to help you get out of debt, save more money, and retire early. In the studio with me is producer Katie, who can open champagne faster than any waiter. On the show today we will be answering your questions about money, business, and life. If you have a question you would like answered on the show visit GoAskScott.com

Segment
Overspending is a true threat to a well made budget, getting out of debt, or saving for a future goal (house, car, vacation, retirement).

The worst part of overspending is that it seems minor and innocent until we realize it is a money sucking beast that is ruining our good intentions.

If you are tempted to splurge or find that you are spending $5-$10 dollars a day on junk, what do you need to do to get yourself under control?

First you need to figure out where the money is going. You can't manage what you don't measure. Keep every receipt for whatever you buy for an entire month. Print off receipts for items you purchase online and keep that tiny receipt from the gas station.

At the end of the month, review these receipts to find out where your money goes. You are looking for trends in money you spend without thinking.

Producer Katie gave me this story about how one woman realized her husband spent $80 one month on gas station candy. $2-$3 a day on gobbstopers I guess. Or twix bars. That's almost $1,000 a year on candy. On candy! Nothing wrong with an occasional twix bar, but not $1,000's worth.
Holy cow.

Maybe you eat out for lunch every day. Or get your nails done every ten days. Fine things if you can afford it, but you don't know if you can afford unless you figure out if you can afford it.

What about trying to have a no spend day, week or month?

If you have never had to really watch your cash, having a no spend month might be too overwhelming. Instead, try having a no spend day or week. Try to only buy what you need, not everything - or anything - you want. No eating out, shopping, Starbucks, iTunes, etc.

This will be a wake-up call to notice how you are accustomed to letting a few dollars here and there take a bite out of your budget.

We had a no Amazon.com month, and it helped break us of the habit of multiple orders per day.

If you like to splurge, good for you. Set aside an amount of money you are comfortable spending each month on fun items and put that amount of cash in an envelope. You will be able to see visually how much money you have left and how much you have spent.

It can help make you realize you don't want that $5 item in the checkout line or that you do have the money for something you want.

You see how easy and flexible my financial philosophies are. I try to meet you where you're at. There are some things I won't bend on. But if you want Starbucks everyday and you can afford it, and your saving enough for your goals, buy the Starbucks. If you're in debt, you have to wait until you get back to the daily Starbucks. Once a month or every two weeks just to keep you motivated. And sane.

If you spend too much put a calendar on your fridge and write how much each day you spend on non-necessities.

Many people find they spend over $1,000/month eating out. You don't even eat at super fancy restaurants. But if you buy food 50 times a month at inexpensive places, take out, morning coffee runs, etc, it adds up quick.

See how many zeros you can get on your monthly calendar.

Maybe you need to be held accountable by someone. Or join a twelve-step program. Join a Facebook group of similarly minded people. You can also find financial groups at your local community center, church or meetup.com.

Getting on a budget, spending less, and planning for your future can seem overwhelming and having a group to answer questions and cheer your successes can make all the difference.

Financial fitness is like physical fitness in that you can be influenced both positively and negatively by those who surround you. Surround yourself with people who will help impact your financial fitness positively. Avoid the people who go out to the bars every night and blow every last dollar and then some.

Lastly, going on a cash budget using the envelope system is the quickest and easiest way to stop spending too much.

Why? Because you can only spend what you have available in cash. Using the envelope system makes you a smarter and more thoughtful spender.

If you limit yourself each month to $500 to eat out, you quickly learn to watch your spending each day to avoid running out of money. It's the single best way to avoid overspending.

Now on to your question.

QUESTION: Jamie writes in to say one challenge for my husband and I is to figure out where to put our money first... Currently we are doing a little of everything. Retirement/life insurance/debt/savings. All seem important and hard to focus more on just one.

ANSWER: Normally the priorities would go in this order:

1. Pay off debts
2. Build up an emergency fund
3. Save for retirement

I'm assuming your life insurance is a fixed cost, yes? If it is I would keep paying on the policy so you don't let it expire.

Paying off all your debts (except a mortgage) has a guaranteed rate of return (the interest rate of the debt) and is a higher priority than retirement. While investments historically average 10%/year, the stock market may return -20% next year (nobody knows). To me it makes the most sense to pay off the high interest debts first, then focus on saving for retirement. That includes lowering your 401(k) contribution down to just the company match (if there is one) or to zero if there isn't.

Why?

If something bad happens you don't want to be saddled with debt payments due to a loss of income. Retirement savings don't matter if you can't pay off your debts.

If you follow that sequence it's the fastest way to get out of debt, build up savings, and save for retirement, rather than trying to do three things at once. You've got one bullet - your income. If you try to shoot at three targets at one time you'll end up missing all of them.

Thanks Jamie for the question.

QUESTION: Richard says I have about $30,000 in a Roth IRA and $15,000 in a 401K. The IRA is mostly cash because the trailing stops hit when the market went down and the stocks were sold. The 401K is now idle. My question is what do I do with my 401K and how do reinvest my cash in the Roth IRA?

ANSWER: With a 401(k) the best thing you can do is roll it over into an IRA. Any brokerage will assist you with this and it's easy to do. Why? It's because the investments that are available in anyone's 401(k) have really high fees. You pay these fees each year - whether you know it or not - but know you do because I'm telling you. In a 401(k) you have limited selection of investments available. When you roll a 401(k) over to an IRA - you can invest in anything. It doesn't mean you should, but you can. What you want to get into are low cost index funds. Low cost index funds in an IRA will leave you with thousands of more dollars when you retire compared to leaving money in a 401(k) where your investment choices are limited and the expenses are higher.

Your Roth IRA had a trailing stop order to sell due to falling market conditions. Now you have cash sitting idle. You may have missed the downslide but right now you're not in the market to catch the upside when it happens. I have a buy-and-hold mentality because buy-and-hold vs. market timing has been proven to beat trying to time the market 99.8% of the time. Studies have shown this. If I'm you I'm putting the money back to work for me in the stock market. Because you have at least a decade until you retire, you can ride out this market swing. And remember at age 65, we're not going to cash out our entire investment portfolio. We might take two or three more decades to draw it down. So you'll be in the stock market for a very long time even if you're in our 50's or 60's. That's a good thing - it's more money for you.

Because of the size of your investments you have enough to get started at Vanguard and meet their minimum contribution amounts. Vanguard is like a co-op for investing that's owned by its shareholders, similar to how a credit union is a co-op for banking. Vanguard has managed to offer better returns on their investors money because they charge lower expenses on their mutual funds. Vanguard charges one-fifth the management expenses of the industry average. If you find someone talking bad about Vanguard it's usually someone trying to sell you something other than Vanguard so they can make more for themselves or whoever they represent. I don't have any skin in the game, so invest with who you want but be sure to do your own research first.

If you are new to investing or you don't want to spend a lot of time on it, keep it simple and pick what's called a Target Date Fund. You pick the date you want to retire and the brokerage will divide up your investment funds into an allocation that gets more conservative as you approach your retirement date (the target date).

Thanks Richard and good luck.

QUESTION: Jason writes I have an old Toyota minivan (2001) that has been costing about $400/month to maintain the last year. We haven't had a car payment for years. We have two other cars that are older (86 and 95) but all paid off too. We thought about the money we were putting into the van and thought it would be better to get a hybrid car that gets twice the gas mileage and will last longer but now we have a $400/month car payment. We have the ability to sell some stock options in my company and pay the car off in the next 6 months but we also wanted to use that stock to pay the house down too. We fear that if we sell the car we might regret it when we have more problems with our old cars when we will have to pay to make them pass inspections again. So should we sell the new car and use stock to pay off the house and deal with car maintenance or should we pay the new car off?

Jason has some non-qualified-stock-options through his company he could sell to pay off the car in 6 months.

ANSWER: If you're holding company stock - in your 401k, in an employee stock purchase plan, stock options, your level of risk goes up significantly because of a lack of diversification. Enron, WorldCom, Lehman Brothers. These names might be familiar to you or not. They are companies that all went bankrupt. When they did on the news we heard stories of employees who lost big chunks and for some all of their retirement investments because they only owned company stock.

If you sell your stock you're going to be taxed at the ordinary income rate instead of the long term capital gains rate if you exercised the options and held on to them for 12 months.

I share all this because some people will think, 'well, why sell the stock and pay off the car when you can hold the stock for 12 months and pay 10% less in taxes?' That's a 10% return, right? Again, we don't know what's happening in 12 months. I'm not a fan of holding company stock, so if I'm in you're shoes I'm exercising my options just to get the money out.

Next, you can't drive a house to work. You need reliable transportation, and if you bought a hybrid it's clear your doing some commuting.

You mentioned selling the car, and that's a good option. My wife and I traded in her $24,000 Volkswagon that she owed $10,000 on and we got a new Honda Fit that cost $15,000. We got a new car, paid off the balance on the old car loan, and it was great.

What if you bought your hybrid two weeks ago brand new? The money you lose when you drive a new car off a dealer's lot, is gone. It's gone if you sell the car the next day and it's gone if you sell the car in five years. It is painful - really painful - to know you just lost $4k, $5k, $10k, whatever - as soon as you drive off the lot. But it's over and done. Make a decision on where you're trying to get to, not where you've been. How much money can you save going forward, not how much money you've lost. What's the best decision for my best future, not oh, I can't stomach losing money on this car or paying ordinary income tax when I could be paying long term capital gains.

Jason your email said 'We fear". We fear that if we sell the car we might regret it when we have more problems with our old cars when we will have to pay to make them pass inspections again. You've got some old cars that have had problems, and likely will again. The only way to get rid of your fear, your regrets, and to sleep better at night is to have some reliable transportation. If you have some equity in your new car take a look at selling it but replacing it with something cheaper with good gas milage you can pay for in cash. Then you have reliable transportation and no car loan.

Depending on the equity you have in the car, I would think about selling the car first and replacing it with a car you pay for in cash that gets better milage and is more reliable. I've been in your shoes with too much car and I did exactly the same thing. I lost my butt when I sold that car too. But I bought a cheap car in cash, and took the extra and what I was paying in car loans to pay down my house, and slept a lot better at night. Then I would look at exercising those stock options while they are worth something, and throw that money at the mortgage. Make sure you consult with a tax advisor first. You want to know if you're going to get bumped into a higher tax bracket.

Thank you Jason for the question.

I want to hear from you
If you have a money-related question you would like answered, please visit GoAskScott.com to get in touch with me. That website has my email address, twitter, and you can also leave me a voicemail. Please contact me, I'm here to help you.

Segment: Homes & Real Estate
If you're going to be selling a home, which is most of us, a study found if you offer potential home buyers a home warranty you'll get on average $2,300 more for your home, and it will sell quicker if you offer a home warranty to buyers.

Now these warranties are garbage for you as the buyer. If you own a home and are pitched to buy one, grab your wallet and run. But if you're selling a home, it makes sense to pay the $400 bucks for a warranty to help you sell the home faster and hopefully sell it for more money. Yeah it sounds scammy you're offering a piece of junk to a potential seller, but it's not likely you're ever going to get the opportunity to explain it to anyone otherwise.

"Yeah, we would offer a home warranty Mr. and Mrs. Smith, but based on studies home warranties are pieces of junk so we decided to not include one with the home because that's what's best for you as the seller." It's not going to fly. Just include it in the sale of your home knowing you did the best you can. Give sellers warm and fuzzies that they are getting some protection. They will have learn on their own that the warranty covers pretty much nothing.

Now back to your questions nation.

QUESTION: Katie writes in to say I find motivation to stay on the path is something I struggle with. You get burned out on not spending money and not doing anything fun.

ANSWER: My wife and I go to Mexico each Thanksgiving. We do this every year because sitting on the beach with a margarita is a lot more for to us than cooking in a hot kitchen all day.

When our trip is coming up we want to look our best. We want to be toned, ripped, shredded. Or at least try to. Some of us try this in the Spring too, to get ready for summer. Or we may elect to get started on January 1st. What's the key to sticking with these diets though? Because, dieting isn't fun. Digging ourselves out of debt isn't fun. I can't go two months without a chocolate chip cookie, let alone two years.

The long term goal is to get out of debt. And it can take years. But there are many, many milestones along the way you can celebrate. And you should celebrate. And you shold plan to celebrate in advance. That's where the motivation comes from. If you have a get out of debt plan, it's going to have a date. Because goals have dates. You're just going along, waiting for the day to arrive on the calendar, when you can say 'Yes, my debts are gone. I've arrived, I did it.' Or we did it.

But we have to stay sane. We have to have a chocolate chip cookie along the way otherwise something bad is going to happen on a Friday afternoon and we're going to say 'Forget it, I'm going to the all you can eat buffet, right now, and I'm not coming home until tomorrow morning.'

Mark on your calendar - physically mark it on a calendar on your refrigerator - 60 days from now - or whatever the date is for you - I will have paid off the $723 on the Sears card. I'm going to buy a $10 bottle of wine and a Five Guys Hamburger and Fries, and savor it. And it's going to be delicious. I'm going to enjoy every bite. And I'm going to dream about it every day for the next sixty days, and look forward to it. And you'll be motivated. We can fathom 30 days out, 60 days out, 90 days out. It's the 2 years, 3 years, 4 years that are so hard to comprehend. They seem hopeless. It's so far away. But every big goal is made up of small goals, down to the actions you take or don't take today that get you there. It's why it's so important for us to stay motivated and to keep from getting burnt out by writing down on a calendar all big and small goals. I can't emphasize how important is. It really does become just a matter of counting down the days. It's so much less overwhelming.

And when you set those mini goals - you will have fun. You will get to spend a little. Don't go crazy and drop $200 on dinner and front row seats to a concert - but give yourself a little reward that you budget for in advance. Because you do deserve it, and it will keep you from completely abandoning the program over the long haul.

On my website I want you to check out the article 11 Ways To Stay Motivated When You're Getting Out Of Debt.

Thanks for the question Katie.

Commercial break

Welcome back, everyone.

QUESTION: Jeff writes in we borrowed $50,000 from our 401k for a down payment on our house in order to have 20% down and to avoid PMI. The balance is now ~$45,000. The interest rate on that money is 4%. In order to pay it off early it needs to be a lump sum. We have $18,000 credit card debt with a 0% intro APR that expires in April. There is a $15,000 HELOC at 3.75%. Our plan is to pay off the 401k loan via the HELOC and then pay it off and then be debt free! The max limit on the HELOC is $40,000. We've temporarily discontinued 401k contributions in order to more aggressively eliminate debt. By doing that we're losing out on 4% matching on 8% contributions. How does this plan sound?
ANSWER: First, congrats on putting so much money towards your debts. $2k a month is no small amount to beat debt. And turning off your 401(k) contributions is a big sacrifice as well. Nobody likes giving up free money.

The credit card is unsecured, and the HELOC is secured (by the house) and is carrying interest charges. If something happens and you can't pay off the credit cards you can tell them to stuff it. But if something happens and you can't pay off the HELOC they will come after your house.

I'd pay off the HELOC first. With the money you are putting towards debt you can have it gone before April. Then before the credit card interest rate changes you can see if you can move it to another 0% card. If you can't, pay the balance in full using the HELOC to avoid the 18%+ interest rate the credit card is going to hit you with.

By paying off the HELOC first you'll save a little money in interest payments.

Again, it's not the wisest move paying off unsecured debts (credit cards) with your house, but paying 18%+ in interest isn't great either. Hopefully you can find a 0% balance transfer. If you can, then you can consider paying off the 401(k) loan with the HELOC since it would have a $0 balance.

On my show I'm open about sharing the lessons I've learned over the years and that I continue to learn. Part of helping each other get ahead is sharing what works and what doesn't. So I asked Jeff what, if anything, he would have done differently. I wanted to have him share with us so we can all learn.

He wrote back: We made a conscious decision to sell our condo and buy a larger home. We like our new home but we could be happier. Market timing was right but timing was not right for us. We took on unnecessary risk, debt and cost to have it now instead of waiting. I'm also convinced that it has delayed my retirement. We're dealing with all of that now. At this point we're working hard to become debt free. I really want to know what life feels like without debt.

That's straight from Jeff. I'm a single voice and while I have a lot to share, it's just as important to hear from your fellow listeners. We all benefit from the experiences of others. If anyone has a tip to share, a warning, a story, an encouraging word, a win, send it in. Let's get it on the show and bring it to the masses.

Thanks Jeff for the question and the valuable lesson.

Daily inspiration
I've made a lot of bumbling errors in my finances over the years. It's been a reverse hockey stick though. A lot of money moron moments when I was young and getting out of college. Less and less as I got older. I'm still not mistake free, because perfection is a pretty lofty goal to attain. Occasionally I'll forget to negotiate a deal. After I buy something I'll think back later - uh! I could have bargained for that. When you don't buy a lot of stuff sometimes you forget to ask for a deal.

But the next time I go out, it's always another opportunity to try again. Ask for that free dessert. See if that end of season grill at the home improvement store can be had for a little less than the advertised price.

You see, you get a second chance every second. Not matter what happened last minute, last hour, yesterday, last week, last year - you get a second chance, every second. Yep, I started my diet last week and had a piece of Jim's birthday cake at work today. I get a second chance every second. I leased that car ten months ago and now learned leasing a car is a bad deal for me. I get a second chance every second. My husband and I can't control our impulse spending and have tried three times to follow a spending plan. I get a second chance every second. I got a job that pays me $40k a year that cost me $100,000 in student loans. I get a second chance every second.

None of use gets a do-over, but we all get a chance to do it better next time.

We get to learn from our past to pursue a better future.

Those are the words.

Outro

That's it for this episode. I'm your host Scott Alan Turner. Rockstar Katie is my producer. All the links mentioned in the show are available in the show notes on ScottAlanTurner.com

Today's episode was powered by Ben & Jerry's ice cream. We won't quit until we get a flavor named after the show. Or at least some coupons to give away.

Thanks for listening!