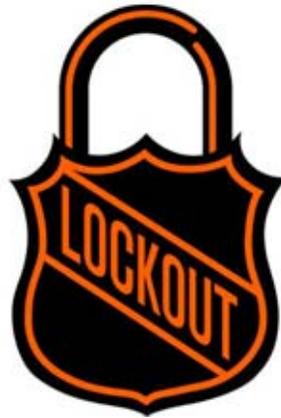


# Newsletter 5 – The Perils of Pre-Spending:

## Cautionary Tales from the NHL



It's official: the NHL is in lockout. Come October, the athletes will stop receiving pay cheques, and we'll be hearing the news stories about players who are in dire financial straits because they spent the summer spending money they hadn't yet earned. And many people will roll their eyes and mutter about 'poor little rich boys', and thereby miss out on an important life lesson – **a lesson that probably affects you and yours, me and mine.**

Consider these examples:

A newly minted physician makes up for all the years of financial deprivation she underwent in medical school by buying an awesome new car and great condo as soon as she lands her first job. Now she's having a hard time making ends meet on a monthly basis.

A man who knew he would be receiving a sizeable inheritance discovers that, by the time he's received it, he's already spent much of it on things that he thought would be making him feel much happier than he's actually feeling right now. On top of having overestimated the Happiness Hit he thought he'd get from the purchases, he's got major remorse about having squandered a legacy gift from his grandmother.

Knowing a \$1000 tax refund is due them, a couple allow themselves to spend more liberally than usual. When the credit card bill arrives,

they're shocked to realize that they've spent more than double their tax return.

**Promised money not yet received has a curious effect on our brains.** It's subject to a number of mental biases. One of the features of this mental accounting is that future funds are often mentally designated as '**Special**' Money, something that really doesn't have anything to do with regular family finances. As a result, the money is not managed with the same kind of prudence that we would normally apply to money that we have already earned ourselves.

Another tendency is for us to think of future funds in vague but overly optimistic terms. (e.g. "MORE money is coming my way. Woohoo!") It's mentally encoded only as 'MORE', which is so unbounded as to **unbuckle the spending monster.** That's why it's so common for people to find that they've already spent more than their tax refund, or their Christmas bonus, or their first pay cheque long before the funds ever arrive.



And finally, yet another quirk of this mental accounting is that it is **far less painful to spend future earnings** than it is to spend cash-in-the hand, here-and-now money. This leads to the phenomenon of credit card bills being truly, honestly, shockingly higher than we were expecting them to be. ([Click here for my previous article on cash versus credit.](#))

While a multi-million dollar sports contract may not be in your future, a tax refund, new job, or inheritance might be. As it turns out, some of the best financial advice given to professional athletes when they sign their contracts is sound advice for the rest of us. Want to know what that is?

1. **Do nothing with the funds until after they arrive, and then for a long time afterwards.**

Let them sit there until the emotions have calmed and the capacity for reasoned judgment is restored. This has the simultaneous benefit of

allowing the funds to seep into consciousness as something that is truly yours to manage, not some fairy-godmother-bestowed Magic Money that doesn't follow the normal rules of fiscal management.

**2. Continue to follow the same basic rules that form the basis for financial prudence and success in all walks of life.**

The primary use of the funds should be to stabilize your financial situation: to pay off consumer debt, to set aside money for predictable upcoming expenses, to establish an emergency fund.

**3. With the remaining funds, spend time researching and planning the experiences you'd like to create.**

It allows you to give to the people and causes that matter most to you. It also cuts down on Buyer's Remorse.



**4. Before making any major purchases or financial commitments, ask yourself, "What could go wrong? How could this bite me?"**

This serves as a really critical antidote to the excessive optimism that I sometimes see in my financial coaching clients. If things like a work disruption, illness, or unexpected legal issue should delay the release of the funds, would this wonderful buying or investment opportunity plunge you into financial crisis? If so, go back to the chamber of sober second thought and re-work your plan.

Just a few things to think about while you're not watching hockey for the next little while. Keep on with the challenge of making YOUR dealings with money work better for you and yours.