Gotta Have It Now

I don't know of anyone who has not experienced "Gotta Have It Now." We see something in print, television, or on the internet that really entices us, or a friend just acquired something and brags about it. The next thing we know, we have to purchase it. It may be a small thing like a pair of shoes or some electronic item. At the other end of the spectrum, it might be completely beyond our realistic financial ability such as a time-share or special automobile or even a new home.

The ease with which we now can purchase something is amazing. A couple of strokes on the keyboard of our computer can complete the entire transaction over the internet using a credit card. An advertisement or an eager salesperson may offer low monthly payments but is silent about the effective interest rate or fees. They may cite a low interest rate but make up for it with a higher price or loan fees. Rest assured that those who offer loans are not doing it for our benefit. To stay in business, the loan firm must earn interest at a rate higher than it will pay to borrow the money, pay income tax and provide a risk premium to account for the fact that the buyer may not ever finish all of the payments required.

We are in the midst of a consumption binge at the expense of saving for the future as is clearly evident from the national savings statistics. Before the binge started in the mid eighties, people consistently saved about 9% of their disposable income. By 2005, saving money had virtually gone out of style and has now risen a bit to a third of what we should be saving. Younger people who do not break away from this trend are destined to live in relative poverty in their retirement years. Older people are destined to have to work longer and be more dependent on welfare, government and relatives.

The path to success is delayed gratification. It is interesting how a "time-out" can bring us to a more reasoned approach. That "Gotta Have It Now" thing that was a must-purchase a year ago, has now been replaced by something with more capability and is now less expensive. Not only that, the euphoria that inspired the purchase has worn off, and we have found that it provides less satisfaction than the moment we made the purchase. It may even have some irritating flaws.

Consider that in the unlikely event you can get a loan at an interest rate not much above the return you can make on investments, the loan payments may make you buy other items on credit at a substantially higher rate. This often happens when people buy an automobile, time-share or home that is really beyond their means and then find themselves using credit to pay for a myriad of small things.

It is difficult to quantify the cost difference between saving-before-purchase and buying-on-credit for many reasons. It is impossible to know what a similar item might cost after saving-before-purchase. Moreover, it is often difficult to determine the real price difference between a cash purchase and the price used to determine the loan payments. Under the assumptions that we know what the future holds for our own returns, and we know the true interest cost of the loan, we can illustrate some examples below.

If we can earn 3% return on our investments over five years with a deferred purchase based on a five year loan at 6%, we will pay 25% more for "Gotta Have It Now." If the economy improves and our return on investments would be 5% and the loan interest 7%, we will pay almost a third more for "Gotta Have It Now." If we would have to use a credit card purchase and take ten years to pay off our balance, Gotta Have It could easily add more than 60% to the cost. Of course the costs will be even higher if the purchase so overburdened us with payments that we would have to buy other items on credit as well.

We can all increase our relative wealth by taking a deep breath and asking ourselves, "Do we really need this now?" If not, let's save the money before we make the purchase. That's how wealth is built.

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