

## **Can I afford it?**

### **5 Questions You Need to Ask before You Buy.**

There is no doubt that you have asked yourself this question before many times. Unfortunately there are many things to consider before we rush out and buy something, especially major capital purchases like cars, televisions and other major appliances. The following tips are simple suggestions to consider that can provide you guidance in determining if you can afford to buy what your eyes have determined you need. It is important to know a fundamental truth about accumulating things which is the eye is never satisfied. No matter what we have there will always be something out there that is better, bigger, prettier, and usually more costly.

#### **1: Have I considered the cost?**

By this we mean not only what you have to pay but the opportunity cost as well. When you buy anything it has the cost of what you are going to have to pay to get it but you must also consider what that same money could have earned for you had you not given it away which is called opportunity cost. Every dollar you earn has value. You can decide to save and invest it which will make it worth more in the future or you can spend it giving up that value which could have been yours had you kept it. When you consider the opportunity cost as well as the price you need to ask yourself if you can afford to spend that much money to have it.

*Financial Wisdom: Ask yourself if you can afford to give up the interest the money you are about to spend as well as the money to have it today?*

#### **2: Will I have to drain a tank to buy it?**

Be careful here because using money you have put away in savings and investments for your future can be a huge temptation. If you have to drain a tank to get it you probably can't afford it. It is important to recognize the difference between Current lifestyle and Future lifestyle dollars. Our recommendation is that you never drain future dollars to pay for a current lifestyle desired expense. Everyone has the intention to repay their savings or investment account with dollars they have yet to earn. I know a few people who even put back what they took from their future but I do not know anyone who also put back the interest their account would have earned had they not touched that money.

*Financial Wisdom: There are very few things you want today that are worth what you pay to have them.*

### **3: Will I have to reduce the amount I am saving or investing for my future to buy it?**

It is difficult to put away enough money to retire at the same standard of living as you are enjoying today but it is almost impossible if you keep robbing from that account to buy things along the way. Determine how much you need to be saving and make sure that you pay yourself first before you get yourself in a financial position where you have robbed your future and reset compounding .

*Financial Wisdom: There is little you need today that will be worth you giving up the security of your future lifestyle.*

### **4: Do I have the collateral capacity?**

This means that you have more than enough money in your savings and investment accounts to be able to buy what you want. Be careful here because having enough money in your future savings and investment tanks does not necessarily mean you can afford it. It does mean that you can pay for it in full if you drain your tanks but you are going to collateralize against your money requiring current cash flow payments to some institution while your money is continuing to earn uninterrupted compound interest and maximizing benefits. If you do not have enough money equal to your purchase in an account you own and control you can't afford it.

*Financial Wisdom: Cash flow is a better indicator than what you have in the tank.*

**5: Will my purchase reduce my collateral capacity to less than 50%.**

Having access to cash is perhaps the best source to relieve financial stress in your life. Putting yourself in a financial position where the sun must shine constantly, meaning everything must work out just as you planned for you to make it, is not practical because it is certain you will see some storms along the way.

Our recommendation is that you never borrow more than 50% of your collateral capacity to protect yourself from finding you have no access to capital when unexpected expenses come up.

*Financial Wisdom: Just because you can, does not always mean you should.*