

THINK FORWARD - THEN LOOK BACK: IMMEDIATE GRATIFICATION VERSUS DELAYED GRATIFICATION: The Money Marathon, December 2012

In a dinner table discussion with my oldest son, Jared, he mentioned that many people aren't able to understand the consequences of their action or inaction. As I thought about this, I realized that this is a huge financial issue, as well as a much broader problem that accounts for most problems in the world today. Here are just a few examples.

In the area of finance, most people don't save because they don't appreciate how small amounts saved and invested wisely today can grow to large amounts later. That was the message of my first book, "Making a Million With Only \$2000-Every Young Person Can Do It". Consequently, people don't save adequately for retirement. People don't appreciate the importance of good credit in borrowing, purchasing insurance, and even getting a job. Consequently, far too many people make decisions that lead to bad credit.

Now let's apply this to other areas. If people could look forward and then think back, would they eat excessively or choose not to exercise or smoke if they could examine their health down the road? Would criminals commit crimes if they could see themselves in prison? Would young people drop out of school or have children out of wedlock if they could see the consequences of their actions? Would Congress and our President and the people they serve continue to want benefits we can't afford if they could see the country in 10 or 20 years in the position of Greece and a bankrupt entitlement system? Would any one person or country ever want war if they could really see the horrible consequences?

The answer to all these question seems like it should be no. However, we know that it is difficult for people to look forward and then think back. Most good things in life that result in true happiness take time, discipline, hard work and maybe even some pain. Non-stop fun is easy to define for most everyone, but is far from a true source of happiness as is evidenced by the Hollywood super indulgent, many of whom are also very unhappy, unfulfilled, and in some cases suicidal. Meaningful accomplishments, loving and helping others, achieving an education degree, building a strong spiritual relationship with God, growing a business, committing to a lifetime relationship with your spouse, and successfully raising children (not necessarily called fun by many parents) all take time, effort, discipline and in some cases some pain. However, they really are true sources of happiness. Realizing that nonstop fun does not lead to happiness is, therefore, liberating because it frees a person to focus on the important things in life.

It should also be noted that most instant gratifications are tradeoffs between short-term pleasures and significantly magnified long-term pleasure or pain. Spending every penny a person makes now might allow an extra couple of times eating out a month, but prevents financial security for life in the future. I tell students that I am not asking them to save a dollar today so they can spend a dollar tomorrow. I am asking them to save a dollar today so they can turn that one dollar into \$500 (\$2000 to a \$1 million) so

that they can spend the interest - \$50 a year and growing forever. \$50 per year forever is a much better deal than \$1 once.

Likewise, a moment of pleasure compared against a lifetime of heartache in the cases of crime, an unwanted pregnancy, or many other examples don't seem to make sense. It is hard for people to fully appreciate the consequences of their actions or inactions.

Look forward and then think back. Help educate your children with this concept. Instant gratification is usually a very bad tradeoff between meaningful accomplishments and things that lead to true happiness. I would like to wish all my readers a Merry Christmas and a Happy New Year.

Remember - every investor's situation is unique; and it is important to review your specific situation with a financial professional.

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