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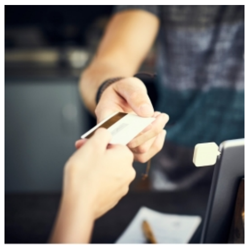
Financial Update

Ideas and Action Steps for Achievers

Pick Your Plastic: Debit or Credit?



According to a Federal Reserve study, Americans use debit cards more often than credit cards, but the total value and the average value of credit card transactions are higher than those of debit card transactions.

While consumers made 69.5 billion transactions using debit cards, the total value of these transactions was $2.56 trillion, with an average transaction value of $37. Credit card usage resulted in 33.8 billion transactions, with a total value of $3.16 trillion, and a $93 average transaction value.[1]

This reflects fundamental differences. A debit card acts like a plastic check and draws directly from your checking account, whereas a credit card transaction is a loan that remains interest-free only if you pay your monthly bill on time. For this reason, people may use a debit card for regular expenses and a credit card for "extras." However, when deciding which card to use, you should be aware of other differences.

Fraud protection

In general, you are liable for no more than $50 in fraudulent credit card charges. For debit cards, a $50 limit applies only if a lost card or PIN is reported within 48 hours. The limit is $500 if reported within 60 days, with unlimited liability after that. A credit card may be safer in higher-risk situations, such as when shopping online, when the card will leave your sight in a restaurant, or when you are concerned about a card reader. If you regularly use a debit card in these situations, you may want to maintain a lower checking balance and keep most of your funds in savings.

Merchant disputes

You can dispute a credit card charge before paying your bill and shouldn't have to pay it while the charge is under dispute. Disputing a debit card charge can be more difficult when the charge has been deducted from your account, and it may take some time before the funds are returned.

Rewards and extra benefits

Debit cards offer little or no additional benefits, while some credit cards offer cash-back rewards, and major cards typically include extra benefits such as travel insurance, extended warranties, and secondary collision and theft coverage for rental cars (up to policy limits). Of course, if you do not pay your credit card bill in full each month, the interest you pay can outweigh any financial rewards.

Credit history

Using a credit card responsibly can help you build a positive credit history because your usage is reported to credit reporting agencies. A debit card has no effect on your credit.

Money management

Using a debit card helps ensure that you don't overspend. Because purchases are deducted right away from your checking account, you aren't in the dark about how much you're spending. You can quickly check your balance online or at an ATM, and see which purchases are pending.

A credit card offers you the flexibility of tracking your monthly expenses on one bill, which can help you establish and stick to a realistic budget. A credit card can also be used in emergencies.

Considering the additional protections and benefits, a credit card may be a better choice in some situations — but only if you pay your monthly bill on time. The good news is, you don't have to choose just one option.

[1] U.S. Federal Reserve, 2016 (2015 transactions, most recent data available)

"Time famine" is the feeling of being overwhelmed by the demands of work and life. Also known as time scarcity and time stress, this pressure is a "critical factor" in the rising rates of obesity.

Source: "Buying Time Promotes Happiness," PNAS, July 24, 2017

Investing to Save Time Boosts Happiness Returns

The more money you make, the more valuable you perceive your time to be — and the more time-strapped you may feel, according to University of British Columbia psychology professor Elizabeth Dunn.[1] So wouldn't it stand to reason that if you use some of your hard-earned money to buy yourself more time — for example, by paying someone to clean your house or mow your lawn — you might achieve a greater level of happiness? Indeed, that was the primary finding in a series of studies by Professor Dunn and other researchers published in the Proceedings of the National Academy of Sciences (PNAS).[2]

The discovery

The study's authors surveyed 6,000 individuals at diverse income levels in multiple countries, including the United States, Canada, the Netherlands, and Denmark. The surveys queried participants about whether they spent money on a monthly basis to hire others to take care of unpleasant or time-consuming daily tasks or chores — such as cleaning, yard work, cooking, and errand-running — and if so, how much they spent. Respondents were also asked to rate their "satisfaction with life" and report demographic information, such as their income level and whether they were married and had children.

Researchers found that across all national samples, 28.2% of respondents spent an average of about $148 per month to outsource disliked tasks, while in the United States, 50% of respondents spent an average of $80 to $99 on services that save time. Across all studies, those who spent money to outsource disliked tasks and/or save time had a stronger life satisfaction rating. Findings were consistent across income spectrums; in fact, in the United States, researchers found a stronger correlation among the less-affluent respondents. The authors noted, however, that their studies did not include enough people at the lowest end of the income spectrum to attribute similar findings to this group.

Of course, correlation does not necessarily indicate causality, so the researchers designed a follow-up experiment to further test their hypothesis.

In this experiment, researchers gave a group of 40 adults $80 each to spend over the course of two weekends. During the first weekend, they were to spend $40 on something that would save them time, such as ordering groceries online and having them delivered. On the second weekend, they were directed to spend $40 on a nice material purchase, such as clothes, board games, or a bottle of wine. On average, those who spent money to save time reported better moods at the end of the day than those who purchased material goods. And according to the researchers, over time, the effect of regular mood boosts can add up to greater overall satisfaction with life.

In a third study, researchers asked respondents how they would spend an extra $40. Just 2% indicated they would use the unexpected bonus to invest in time-saving services.

Perhaps most surprising of all the findings? Researchers polled 800 millionaires from the Netherlands about whether they spent money to save time. Despite the fact that these individuals could readily afford to hire others to take care of time-consuming tasks, only about half of them reported doing so on a monthly basis. Researchers surmise that the reason might be because such individuals feel guilty or don't want to be perceived as lazy for outsourcing chores they can easily do themselves.

The lesson

"If you have a lot of money and a lot of nice stuff, but you're spending your time doing things that you dislike, then your minute-to-minute happiness and overall happiness is likely to be pretty low," said Dunn in an interview about the research.[3] In the PNAS report, the study's authors contend that this may be especially true for women:

"Within many cultures, women may feel obligated to complete household tasks themselves, working a 'second-shift' at home, even when they can afford to pay someone to help. In recent decades, women have made gains, such as improved access to education, but their life satisfaction has declined; increasing uptake of time-saving services may provide a pathway toward reducing the harmful effects of women's second shift."

The bottom line? If you can afford it, don't shy away from spending money to save time. Doing so is an investment that provides immeasurable returns in the form of overall well-being.

[1] "What Is Your Time Really Worth?" Elizabeth Dunn, TEDx Colorado Springs, December 1, 2014

[2] "Buying Time Promotes Happiness," PNAS, July 24, 2017

[3] "A Psychology Expert Says Spending Your Money on This Can Boost Your Happiness," CNBC, November 10, 2017

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Shopping for a New or Used Car

Should you buy a brand-new car or a used one? Consider these factors.

It's time to replace your current car. But should you buy a new car or a used one? Consider the following advantages and disadvantages of each as you shop around for the vehicle that's right for you.

Buying a new car

Advantages. That new-car smell, a clean interior, and the latest technology and safety features...there's no denying the appeal of buying a new car. Aesthetics aside, there is an additional advantage to buying new: starting with a blank slate. You won't need to worry about how the previous driver treated the vehicle. Ownership of a new car comes with the freedom to decide whether to modify the vehicle, how much to drive it, and how much insurance to carry (although your lender may impose some minimum requirements if you take out a loan to buy the car). Bear in mind that there are also state requirements as to how much insurance you need.

The warranty on a new car is typically much better than a used one, offering you greater protection against any defects that may cause your car to malfunction in the first few years of ownership. A new vehicle also comes with benefits like roadside assistance, higher fuel efficiency standards, and the latest safety features. These features help make your car safer to drive, which can provide you with peace of mind.

Disadvantages. The major downside of buying a new car is the hit it will take on your wallet. New cars tend to cost more than used cars for the same make and model, and they also depreciate in value more quickly. In fact, a vehicle loses the majority of its value in the first few years of ownership.

And remember, your new car won't stay new forever. Eventually, the new-car smell will fade, dents and scratches could appear, and the interior will experience wear and tear.

Buying a used car

Advantages. Even if you can afford a new car, buying a used car can be a smart alternative. In addition to saving on the upfront cost, you're also likely to save on insurance because used cars tend to be less expensive to insure than new cars.

Compared to new vehicles, used vehicles tend to depreciate less rapidly. Chances are that a used car's previous owner paid for the bulk of depreciation.

Since most modern cars can go 100,000 miles or more with few mechanical problems, you might not even notice a difference between buying a late-model used car with low mileage and buying a new car.

Disadvantages. A used vehicle comes with many unknowns. You probably won't know why it was traded in or how it was treated by the previous owner. As a result, you may need to be prepared to pay for required maintenance sooner than you would on a new car. You'll want to have a reputable mechanic check out a used vehicle before you buy it. Though you'll have to pay a mechanic for this service, it could end up saving you from paying costly repair bills down the road.

Bear in mind that your choice of models and options is much more limited if you decide to buy a used car. If you have your heart set on a specific kind of car or certain features, this might mean that you'll need to spend a much longer time shopping around.

Additional considerations

Whether you choose to buy a new or used car, make sure you consider the following questions as you go through the car shopping process:

- What do you like and dislike about your current car?
- How will you use the car? Will it be a commuter vehicle that's driven on highways daily, or will it be used less frequently around town?
- Do you need a larger car with a roomy trunk and plenty of seating to accommodate your family, or will a smaller two-door car suit your needs?
- What kinds of features are on your wish list? Do you want a car with the latest technology, or one with a leather interior? Is there a particular body style that you'd favor over another?

If you prefer to trade in your car for a new one every few years, explore leasing as an alternative to buying a new car. Monthly lease payments are generally lower than the payments on a loan to purchase the same vehicle. But leasing a car could mean that you're required to carry more insurance than if you purchase the car. Plus, lease contracts can be confusing, so make sure you know exactly how they work to avoid paying more than you need to.

Buying a car is an important financial decision. Do your research and understand how this purchase will affect you in the short term and the long term to make the most out of your new ride.

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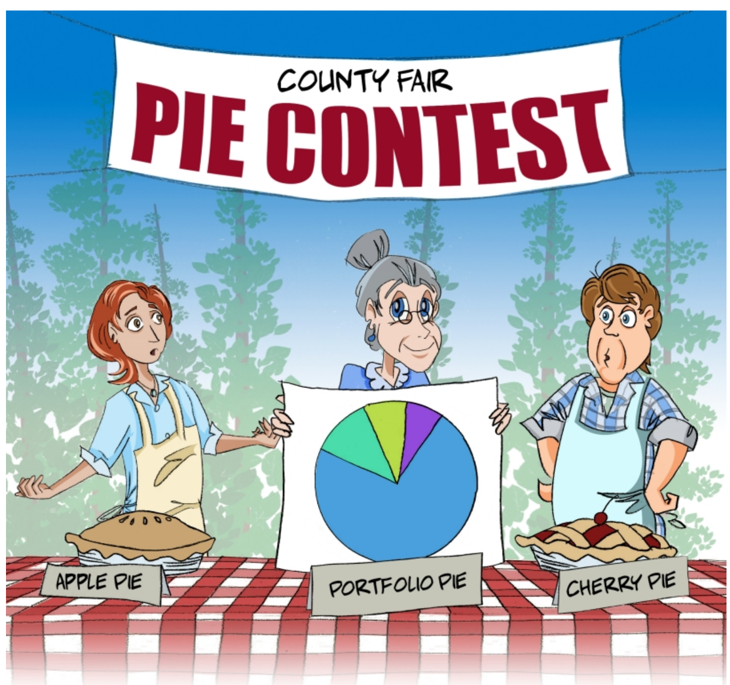
What is gross domestic product, and why is it important to investors?

GDP, or gross domestic product, measures the value of goods and services produced by a nation's economy less the value of goods and services used in production. In essence, GDP is a broad measure of the nation's overall economic activity and serves as a gauge of the country's economic health. Countries with the largest GDP are the United States, China, Japan, Germany, and the United Kingdom.

GDP generally provides economic information on a quarterly basis and is calculated for most of the world's countries, allowing for comparisons among various economies. Important information that can be gleaned from GDP includes:

- A measure of the prices paid for goods and services purchased by, or on behalf of, consumers (personal consumption expenditures), including durable goods (such as cars and appliances), nondurable goods (food and clothing), and services (transportation, education, and banking)
- Personal (pre-tax) and disposable (after-tax) income and personal savings
- Residential (purchases of private housing) and nonresidential investment (purchases of both nonresidential structures and business equipment and software, as well as changes in inventories)
- Net exports (the sum of exports less imports)
- Government spending on goods and services

GDP can offer valuable information to investors, including whether the economy is expanding or contracting, trends in consumer spending, the status of residential and business investing, and whether prices for goods and services are rising or falling. A strong economy is usually good for corporations and their profits, which may boost stock prices. Increasing prices for goods and services may indicate advancing inflation, which can impact bond prices and yields. In short, GDP provides a snapshot of the strength of the economy over a specific period and can play a role when making financial decisions. All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.



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