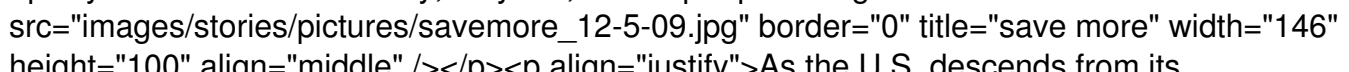


By Barbara Kiviat Monday, May. 18, 2009

A small graphic with the text "save more" in a simple, sans-serif font. The graphic is rectangular and has a white background with a thin black border.

As the U.S. descends from its decades-long, debt-fueled, free-spending high, Americans are finding ways to save more money. In March, the average person saved 4.2% of disposable income, compared with just 0.2% a year earlier. Thanks to a deep recession, our buy-it-now-and-buy-it-big culture is moving into a lower gear, at least temporarily.

Downshifting on consumption is tough, when the intuitive way most people think about cutting back is to trim daily cash expenditures--especially the petty indulgences--on the fly. There's a danger, though, in forcing yourself to save \$4 a day by passing up Starbucks every morning. "If you feel like you're acting poorer, you may not last," says Mackey McNeill, a CPA and personal-financial specialist in Covington, Ky. "It's like bingeing on a diet--you feel so deprived, you go shopping, and the next thing you know, you've got \$1,000 on your credit card."

How to win at the psychology of saving? A big part is understanding where the money goes. If you're part of a typical American household, 12% of your spending is on food. That's a big chunk, but smaller than the 18% that goes for transportation and the 34% that pays for housing. Cataloging expenses using software like Quicken or Mint.com or jotting them down, may be annoying, but it can be life-changing. "It gets people thinking when they realize they spend five times as much on their car as they do on recreation," says Robert Manning, a consumer-finance research professor at the Rochester Institute of Technology.

Big, embedded expenses are hard to pare. What are you going to do, buy a smaller house tomorrow? The trick is to see through the fiction that certain costs are "fixed." The typical family spends \$1,303 a year on electricity; by simply unplugging appliances when you're not using them, you can shave 5% to 10% off that bill. And when was the last time you shopped for cheaper car insurance? It's an expense that's out of sight most of the year but a significant chunk of what we spend.

Yeah, yeah, the lattes--and the DVDs and trips to the salon--do add up. That's why there's no shortage of talking heads telling you how to pinch pennies. Having manicure nights at home with friends, borrowing DVDs from the library, sipping water alongside your pricey cocktail--these may sound like neat ideas to you. Or complete mood killers.

For you to stick to cutbacks on discretionary spending, it's important to do it in a way that puts you in the right frame of mind. For every dollar you cut out, you could put 50¢ in the bank and 50¢ toward buying something fun--so being thrifty morphs from denying yourself what you want into anticipating what you're going to buy. When you do buy things, use cash. Handing bills over the counter underscores what you're spending in a way that swiping a piece of plastic never will.

Inserting some wait time between the decision to spend money and the actual spending of it is another strategy. Write out a shopping list in advance, then keep to it, says certified credit counselor Alberta Gibbs. Whenever you want to get anything expensive--maybe \$100 is your cutoff--don't do it right away. Give yourself a 24- or 48-hour cooling-off period, says Yale University behavioral economist Dean Karlan. If you still want the shoes--or the video game or the wineglasses--a day or two later, then allow yourself to head to the store.

Most important, realize that, done right, spending less doesn't mean being miserable--just making sure that the things you pay for are truly important to you. "There's no right or wrong budget," says Leslie Linfield, executive director of the Institute for Financial Literacy. "The only rule is, don't spend more than you make." Because breaking that rule is what got us here in the first place.

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