



# Twins!

## Newsletter of Managing God's Money Ministries



Fourth Edition - September 2002



### The Economy

As expected, the Bank of Canada ("Bank") increased its official interest rate by 0.25% in July to 2.75%, where it is today. Recently, the Governor of the Bank affirmed that interest rates will likely increase; but, the pace of increase will depend on a resolution of *"external uncertainties."*

**Guaranteed Investment Certificates' ("GIC") rates should remain low and mortgage rates should increase slightly.** Presently one-year GIC rates vary between 1.4 and 1.9%, and mortgage rates between 4.5% and 6.5% (up to a five-year term).

In its September *Current Analysis* report, the RBC Financial Group noted that the *"...loss in household wealth associated with the crash in equity prices that began in 2000 has yet to have a noticeable impact on Canadian or U.S. consumer spending..."* They do not expect any negative impact for the rest of this year and into 2003. Effectively, consumers will continue to spend from current income and from easily available, though expensive, credit.

Before implementing any savings, investing or financing decisions, ensure you understand your options, and the full implications including the impact on your goals.



### Your Credit May Be Too Good

Recently a young couple (whom I will call Pierre and Patsy) related this incident to me. It's a good news - bad news story that I am presenting to alert you to "be on guard".

They visited a department store to purchase an item which they needed and for which they have a budget. As with many similar stores, it was offering an incentive to use its credit card: It presented a six-month deferred payment option if they applied for and received its credit card, which carries an interest rate of about 30% per year on outstanding balances. Although Pierre and Patsy have the funds to pay the amount in full, they decided to apply for the card to take advantage of the credit being offered.

Pierre, who has an above average income in Canada, and a good credit rating, completed the application, but credit was denied! **The store suggested that Patsy, a stay-at-home-mom with minimal income, complete an application. She did, and it was approved!**

**The good news** is that Pierre and Patsy have the funds and will pay the purchase price in full in six months; they know they should not make spending decisions based solely on attractive financing! Effectively, they will use the system to their advantage! **The bad news** is the potentially devastating consequences of the store's policy on many of its customers! Let's examine this "policy:"

**Why did the store refuse Pierre's application?** It assumed correctly that he would pay the debt in full after six months and would not normally carry monthly balances. Conversely, it assumed, incorrectly, that his wife would not be able to pay the debt in six months and would carry monthly balances. It expects her to become a long-term credit customer, who will make regular purchases and pay interest at about 30% on monthly balances. Of course, the store would not formally agree with this analysis!

These stores know they can entice customers with clever advertising and "incentive" financing deals. They understand what Professor Lester C. Thurlow of Massachusetts Institute Of Technology wrote about on April 17, 2001 in the Boston Globe: *"... capitalism taps into the greed that seems to be built into human beings. The desire to have 'more,' however much one already has, is the human desire that makes capitalism work..."* Greed is one reason Canadians and others continue to fall deeper into debt. In Luke 12:15, Jesus warned us about greed: *"...Beware and be on your guard against every form of greed; for not even when one has an abundance does his life consist of his possessions..."*

**How do we combat the onslaught from department stores and others** who continue to entice us to spend on credit to buy goods and services we don't need and we can't afford? First and most important, we must understand and accept our role in the spending process. Though we are continually being coerced to get into debt, ultimately we make these decisions! The buck stops with us! Further, we need to know that if we are in debt, neither extended repayment plans nor consolidating loans will eliminate them unless we change our attitude and behaviour toward spending! Here are a few coping tips:

- Always work within a realistic budget that reflects projected expenses below expected "firm" income (such as current salary): exclude "promised" income such as a raise or bonus. Now is a good time to prepare a budget for 2003: If you have never prepared one, start recording your expenses now to get to know your spending pattern.
- Understand two key, but **separate** aspects of each spending decision<sup>ii</sup>:
  - 1) **The Need** - Do I need it?
  - 2) **The Affordability** - Can I buy it now for cash (excluding decision to buy a home)? If the answer to one is "yes", and to two is "no", decide to save to buy the item.
- **Never buy any item based solely on attractive financing:** Leasing cars became popular when **car prices became unaffordable!** Although leasing for personal use generally is more expensive than outright purchase (refer *Managing God's*

*Money - The Basics*, page 155), because of "low" monthly payments, consumers continue to acquire new cars at regular intervals.

- Never buy non-budgeted items, unless you eliminate another item of corresponding value from the budget: When the urge to buy comes, wait at least 24 hours, then go through the spending process above (1 & 2)!
- Plan to buy only at sale prices: However, never buy because the item is on sale; buy because you need it!



### Did You Know

- According to the 2001 Household Internet Use Survey, 2.2 million households spent almost \$ 2 billion shopping on the Internet: British Columbia had the highest average household expenditure (\$1394), and Quebec the lowest (\$566).
- Based on the recent *Canadian Attitudes on the Family* report by Focus on the Family Canada, when asked to identify "*The most important issue facing Canadian families*" the most common responses relate to the general issue of household economics. The most frequently cited issue is "money/supporting my family" (13%). View the entire report on [www.fotf.ca/familyfacts/](http://www.fotf.ca/familyfacts/).
- "*By first grade, most American children have learned 200 logos, and research shows they are much more likely to stick with those brands throughout their lifetime. That's why companies are eager to expose their logos to as many youngsters as possible, stamping corporate logos all over children's toys and hanging their banners at children's events like the circus or ice-skating programs...*" ABC News, May 11, 2002.



### Upcoming Events

In conjunction with Focus on the Family Canada, we will be presenting *Managing God's Money* seminars in all provinces in 2003. Meanwhile, we will be in Ottawa on September 28 (Embassy West Hotel, Carling Avenue), and Edmonton on 26 October (Holiday Inn The Palace, 4235 Calgary Trail). Visit [www.managinggodsmoney.com](http://www.managinggodsmoney.com) for more information.

As planned, we moved to Milton, Ontario, on 30 August. Michel is now full time in this ministry and has started to develop other seminars, among other things. Already completed (in 2001) is *Improving Personal Effectiveness*; under development is *the Christian Executive in the Secular Business Environment*, and *The Negotiating Challenge*. We will post details of these and others on the website no later than March 2003.

*We welcome your comments on this newsletter and suggestions for future newsletters.*

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<sup>i</sup> New American Standard Bible, © THE LOCKMAN FOUNDATION, All Rights Reserved.

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<sup>ii</sup> Refer to The Affordability Index on page 106 of *Managing God's Money-The Basics* or to The Affordability Index page on our website.