



**Philequity Corner (October 23, 2017)**

**By Antonio R. Samson**

### **The supply and demand side of lifestyle decisions**

The “marginal propensity to save” (MPS) is defined as the percentage amount of additional income that is *not* spent on consumption but stocked away instead, perhaps to buy assets or investments. Clearly, the reciprocal of the MPS is the marginal propensity to consume (MPC).

The best way to appreciate this metric for saving and investment (which is why this is a subject for this column) is to look at how we spend on lifestyle options.

### **The supply and demand sides**

As in all things dealing with economics, lifestyle too can be defined in terms of supply and demand. On the demand side, you can ask—what lifestyle can I afford with my present income? Taking the supply side of this equation is different—how much money do I need for the lifestyle I aspire for?

The usual approach to adjusting your lifestyle in the face of declining financial prospects is expressed routinely as “tightening your belt”. This metaphor of moving one hole or two inward an accessory that holds up your pants gives an inaccurate imagery. Presumably, this move is due to some weight loss associated with, in this case, having nothing to eat rather than following a particular diet, and is clearly a demand side approach. The logic presumes that with the reduction in the level of income, the lifestyle one can afford needs to be notched down as well.

### **Old-fashioned values**

Strangely, these trite appeals to old-fashioned values of a less flashy time (before glossy magazines defined status) are always attributed to characters that never had cell phones, withdrew money from ATM machines, and associated “notebook” with stationeries and supplies. Thus, the homey appeals to a thrifty life of savings rather than conspicuous consumption are lessons learned from dead people like grandmothers and company founders who squeezed the *calamansi* until it was flat enough to serve as a table stabilizer.

The supply side of the lifestyle issue is not about affordability at all but desires. Rags-to-riches stories abound with this supply side dynamic as a goad to success. The poor waif, in a case of unmitigated envy, looks at the lifestyle of the truly rich and then works hard to get this through boxing or hard work. In this fairy tale, the disadvantaged child dreams (biographers never use the word “envy”) of a life with a car, a mansion, and a resort home with a view of the sunset.

### **Discretionary spending**

Lifestyle costs fall in the realm of what economists call “discretionary spending”. This is different from cost-of-living items like rent, food, tuition fees for kids, electric and telecoms utilities and transport to go to work. For readers of this magazine, this includes amortization for the house and even cable TV and Internet connections. It also covers contingency costs like health care, but not necessarily cosmetic enhancements.

Discretionary spending has more to do with status issues than economic necessities. These involve unnecessary or avoidable expenses which can be postponed until the market recovers sufficiently to exceed your average buying cost.

### **Costing out your lifestyle**

Costing out your lifestyle gives you control over financial decisions. It allows you to avoid surprises: Is that how much a wedding in Paris costs now? Is the entourage of publicity staff already factored in?

What do you include in costing a lifestyle? How detailed should it be?

Let's take the item on travel as an example. Say, you are planning a two-week stay in New York. You include the plane fare for two (economy or business). Then, the hotel cost for the two weeks, unless you have a flat in Manhattan or plan to stay with relatives. The daily expense of meals, taxis, and gifts (for those staying with relatives) are factored in. Maybe, a number of plays to see and out-of-town trips and some allocation for fine dining (keeping in mind the 15-20% tip)—note that eating is different from dining, as hot dogs from the sidewalk are a different experience from a three-course dinner with wine in a dark place. Nutritional value is not even a factor. Do not forget shopping.

Costing out a lifestyle gives an idea of where your money and credit card charges are going. Sometimes, you are not even aware how much things cost until you jot them down. This computation will also show you how much debt you have been using to keep up with the Joneses. It is a way of putting a number on the costs of social climbing, which may or may not be successful. Like a true tenor, hitting the high notes should be performed with seeming lack of effort. To show too much strain in shelling out money for a Mediterranean cruise with your friends gives the game away. (Sorry, I'll be training at that time for the triathlon.)

It is even possible to compute how long the money will last without the need for the kindness of relatives and strangers. Thus, a retiree, which is now defined not by age and ownership of a senior citizen's card but by a financial state where revenues become unpredictable, if not non-existent, needs to make a simple calculation.

How much do you spend in one month and this number serves as denominator to determine how many months the savings and their pathetically small interest will last. This is not counting contracting a dreaded disease.

### **The marginal propensity to save**

Financial advisers always counsel the wisdom of setting aside a fixed percentage of additional income for savings and investments, or monitoring the MPS. Of course, there is the other school of thought that equates happiness (and status symbols) with high consumption. Their motto is "*carpe diem*" (seize the day). They seldom ask the wet blanket's question—what about the day after?

Filipinos like to walk their financial tightropes without a safety net. The assumption is that children who are now making big bucks will take fiscal responsibility for their parents in need. This conveniently forgets that they too have a lifestyle to support...and the in-law's say on the matter.

Costing out a lifestyle should include savings for life...after the trips and the parties are just digital photographs to be deleted.

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