

## **SPENDING, FAST AND SLOW**



# **\$PENDING FAST**

**AND**

Why your money  
disappears so fast and  
how to slow down the flow

# **SLOW**

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# Introduction

In today's world, it's all too easy to find ourselves swept away by consumerism, instant gratification and debt – or just feel as if we're not getting ahead as fast as we should be. Money, like sand, seems to slip through our fingers, leaving us wondering where it all went and how we can regain control. We're also facing rising housing costs, whether we're renters or mortgage holders, and inflation is pushing up the cost of everything else.

If you pay attention to most financial commentators in the media, you could be forgiven for thinking that you're the problem and you need to change your attitude to money. I've been married for 31 years and long ago realised that my wife, Kelly, is completely different to me with money and can't just change.

The obvious solution to money woes – the rational solution, even – is to spend less and save more, cut out unnecessary purchases and spend only on what's strictly necessary after searching out the best value. However, in my experience, only 10% of people behave rationally with money all day every day – and this minority is normally referred to as 'Scrooges', 'tight-arses', 'accountants' or 'financial planners'. The other 90% of us – including the partners of this minority group, like Kelly – behave normally. They want stuff, they seem to have enough money, and the maths is too hard and too boring for them to calculate the consequences of every decision they make.

So, where does that leave people who are struggling to get ahead, who find they're consistently missing their saving goals or whose credit card debt just isn't shrinking, despite their best efforts?

I don't believe that the solution is depriving yourself of life's pleasures or forcing yourself into a miserly existence. Instead, it's about understanding the deep-rooted psychological factors that drive your spending habits and learning how to harness them to create a life of financial stability and true abundance. By slowing down your spending and setting up structures that trigger you to think before you spend, you can make better decisions every day – and ultimately get more out of life.

In the chapters to come, I'll delve into the fascinating intersection of psychology and money, exploring how our brains are wired to approach financial decisions large and small, and provide strategies to make it harder to spend thoughtlessly to help you stay on track.

## **Thinking – and spending – in the real world**

I've long been fascinated by people's behaviour with money and why what they think they do and what they actually do are so different. Let me illustrate by sharing a conversation I had with a young couple recently:

*Me:* How much do you spend each month?

*Daniel:* Around \$2000.

*Me:* That seems really low! The average is \$3000 a month. How much is your credit card bill?

*Susan:* Around \$4000.

*Me:* ...



This is typical of hundreds of conversations that I've had as a finance professional over the past decade and a half. Daniel and Susan believed they were spending \$1000 a month less than the average, when in fact they were spending \$1000 *more* than the average and \$2000 more than they first thought.

This pattern of thought isn't unique to month-to-month spending practices, either. One study suggests that people underestimate future spending by 27%. In fact, my wife and I had this problem for over a decade before discovering, by sheer luck, a better way to manage our money.

When I became a finance professional and found I kept having the same conversations over and over again, I wanted to dig deeper to understand why most people aren't good with money. Good money management is not just a learned skill that is almost never taught anymore; it's also an understanding that we will always be our own worst enemies.

This book isn't about economics, though I do have an honours degree in the subject. It's about understanding how our psychology affects our behaviour with money. We all stumble into our own ways of doing things and then arbitrarily decide if it's working for us or not without ever really testing any alternatives. I've been refining the process I describe in this book by practising new approaches with Kelly and people like Daniel and Susan over the years, reading books and watching videos on the psychology of money and sharing what I learn along the way.

One of my heroes is Daniel Kahneman, a world-renowned psychologist and recipient of the Nobel Prize for economics for his groundbreaking work on prospect theory, which is considered to be the foundation of behavioural economics. If you haven't read Kahneman's international bestseller *Thinking, Fast and Slow*, I highly recommend you do. It's quite a thick book, but it's filled

with great ideas. One of the central concepts is that the way we think is not what we think thinking is. Let me repeat that:

The way we think is not what we think thinking is.

Our brains tend to do lots and lots of automatic or intuitive thinking, which Kahneman calls 'System 1' thinking. This is in contrast to the much more effortful, logical and analytical 'System 2' thinking, which is what we think thinking is. To understand the difference between the two, consider the simple problem Kahneman poses:

If a bat and ball together cost \$1.10, but the ball costs \$1 less than the bat, how much does the ball cost?

The answer that immediately comes to mind is 10 cents, but that's wrong. Around 50% of people, when asked this question, won't bother thinking beyond their intuitive, *fast* answer or checking to see if they're correct. This is System 1 thinking at work. However, if the ball is 10 cents and the bat is a dollar more, then the bat would be \$1.10 and the combined cost would be \$1.20 – so the answer '10 cents' has to be wrong. The correct answer is five cents. If the ball is five cents and the bat is a dollar more, that would be \$1.05, plus five cents is \$1.10. To work it out properly requires effort, which is System 2, *slow* thinking.

We spend most of our lives using the fast, intuitive System 1 thinking because it saves us time and energy. System 2 thinking is much slower and requires much more effort, which our brain tries avoid whenever possible. In a world where food was scarce, evolution helped us to keep out of trouble by making fast decisions to conserve energy by not engaging our whole brain every minute of every day. Yet we all have the ability to use System 2

thinking, so we naturally assume the rest of our thoughts are just as rational as we feel we are. This is a good foundation to keep in mind as you progress through this book.

### **My story**

In my early career I worked for a huge manufacturer of fast-moving consumer goods typically found in supermarkets. The category I was responsible for, washing powder, was the most unprofitable part of their business, because it's a very competitive market. The thinking within the business was that washing powder only sells when it's on promotion, that people wait for the promotions before they buy. However, my observation was that although it would be rational for consumers to buy only when the price of powder is the cheapest, not everyone works like that.

Shopping for specials was the behaviour that I personally exhibited. However, when Kelly went shopping, she didn't care what was on special. Her favourite brand is Omo, so she would buy Omo. She liked the 1 kg packs, so she would buy the 1 kg pack even if the 1.5 kg pack was on special at the same price as the 1 kg with a big ticket saying '50% EXTRA FREE'. She simply wouldn't see the promotions because she was only looking for the 1 kg pack of Omo.

Hunting for specials is the rational way to shop. It makes sense to me and other tight-arses, but Kelly's behaviour represents the majority. Imagine how much slower and more exhausting a shopping trip would be if we all shopped for every item in the rational way: scanning the whole shelf, looking for the right quality at the right price.

When I dug a bit deeper, I found that in a supermarket, there is a certain level of sales that happens for every single product,

regardless of what else is going on around them. In the super-competitive, highly promoted category of washing powder, non-promoted products still account for around 50% of all sales. The other 50% of sales come from people just switching within sizes of the same brand to get whatever's on special at that time, or switching within a cluster of brands to get whichever is cheapest. However, retailers were much smarter than consumers. They would only buy when manufacturers were offering a special and then fill up their warehouses, knowing that they could sell the discounted goods to their customers at full price when the manufacturers' promotion ended.

In 2001, I ran a year-long experiment, stopping most promotional activities. Instead, I introduced wonderfully priced promotional packs that were deliberately designed to attract the attention of the rational, promotion-hungry buyers such as myself. I left the rest of the products at full price, both to retailers and customers, so that people like my wife would end up spending more in the supermarket. For the company, this was brilliant. It went from losing millions of dollars on washing powder to making millions. Although I got promoted as a result, I didn't feel great about it, and I eventually left that company and career to become a teacher.

I've always loved teaching. I love the art of helping someone understand a concept or process that at first seemed unfathomable to them. However, when I moved back to Australia with my family in 2009, the NSW Department of Education didn't like my UK qualification, so I turned my hand to finance. This is where I found my true calling, because people really need a financial education – and I've made providing that education my mission.

At my company Golden Eggs, I now use the same psychological principles that I used back in my early career, those so

well-articulated by Kahneman, to help normal people manage their money better. Every day, I help people save more, pay debt down faster and spend on things that make them happier – all without experiencing the money worries that are familiar to so many people all over the world, regardless of how high their income is.

### **This book**

I'm not a psychologist, but I have spent most of my adult life adding value to the work that I do by understanding that people are different and changeable – and not only that people are different to one another, but also that their behaviour is often different to what they think their behaviour is. My ambition with this book is to show you how to relax and let your System 1 thinking take the reins most of the time, while setting up barriers to prevent overspending and trigger System 2 thinking when System 1 is leading you astray.

Drawing inspiration from groundbreaking works of behavioural economics and psychology, the first part of *Spending, Fast and Slow* explores the intricacies of human decision-making and uncovers the cognitive biases and heuristics that lead people astray when it comes to spending. Then, through a blend of practical advice, relatable anecdotes and research, I'll help you uncover the mental traps that may be holding you back or causing stress. I delve into impulse buying, the power of advertising and the modern monetary system, highlighting the invisible forces that shape our financial choices. From there, I move on to practical strategies for budgeting, saving to invest and saving to spend, showing you how to apply these principles to create a solid financial foundation.

In these early chapters, I'm going to coach you to deliberately engage your System 2 thinking. This means starting to plan and set some goals for what you want to do with your money in the future to help you prioritise the way you use it today. There'll always be a gap between what you think you're doing and what you're actually doing, and it's important to understand why that gap exists to try and make sure that you don't repeat the mistakes of the past. Central to this is understanding that the way your finances are set up can encourage you to spend *fast*, using the intuitive side of your brain, or more *slowly* and thoughtfully and on the things that are a priority for you.

In the second part of this book, I'll walk you through the Fast and Slow System, which separates money into different buckets with different banks to make it as difficult as possible to fall victim to fast spending. I've been coaching this system since 2011 (and using it myself since 2004), so I know it works. I'll also support you to tailor your system to your unique personality and goals, because I've learned that if the outcome isn't tailored to the way the individual operates then it's just not going to fly. More importantly, unless we can learn from others and implement a better system, we're always going to struggle with money – or be far less efficient with it than we could be. To help you with this, I'm going to give you support around several common problems and barriers that many people face when learning to being good with money – the biggest of which is credit cards.

The final phase is about execution, but that's about more than just implementing the Fast and Slow System. It's also about how you live and enjoy your life. The funny thing is, what makes people happiest is helping and connecting with others and having treats and experiences, not spending money on stuff. I'm going to look at that in more detail in the final chapter, because what

## Introduction

I really want is for you to have a great and happy life – not just be the richest person in the graveyard.

To help our clients manage their money using the Fast and Slow System, the Golden Eggs team has built a web app, located at [app.goldeneggs.info](http://app.goldeneggs.info). This app walks users through the process of setting up and managing a spending plan – everything from personality combinations and long-term goal setting to calculations for spending, paying down a mortgage and hitting savings goals. You may find it a helpful support as you read and implement the ideas in this book. Plus, it can be integrated with your Australian bank accounts to extract spending data before and after you set up a spending plan. It's accessible (with all the features) for the first month at no charge. One day it'll be a downloadable app, but as of 2023 it's fully online and best viewed via desktop rather than on a phone.

As you progress through all three parts of *Spending, Fast and Slow*, you'll begin to see your relationship with money in a new light and, with this newfound understanding, be better equipped to make choices that align with your values and goals. This book is an invitation to a life of greater financial awareness, resilience and freedom – a life in which money becomes a tool for achieving your dreams rather than an ever-present source of stress.

So, take a deep breath. Let's embark on this journey together. Here's to a future of spending more slowly, and to the richer, more fulfilling life that awaits you.