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Live Life On Purpose

Emotions Can Be Hazardous To Your Wealth

How to Take Control of Your Money and Your Life

Within ten minutes of coming into my office, the wife of a prominent doctor was in tears. She explained that she and her husband were on the verge of divorce. He had finished his medical training 10 years earlier with $500,000 in student loans. After a decade of earning hundreds of thousands of dollars a year, they were $1M in debt. Somehow, they had managed to double what they owed! Financial stress was tearing them apart and she didn’t know what to do.

I realized immediately that poor financial management was a symptom but not the problem. Most advisors would put them on a strict budget and create a plan with lots of pretty graphs and spreadsheets. But I didn’t think that would work. What would you do?

You’ll get the rest of their story throughout this essay.

The purpose of almost everything I do is help people lead a happier, less stressful and more productive life by getting their financial house in order. In this essay I will specifically help you understand the biggest challenge most of us face when it comes to managing money and how your financial choices impact your health, your relationships and virtually every area of your life.

What I love about money is studying the behavioral side of it. Why do some people succeed and others never quite get the hang of it? One thing I can tell you for sure is that financial success has very little to do with your level of income or your level of education. I’ve worked with highly educated doctors, attorneys and business executives who earn hundreds of thousands of dollars. And yet, they are a financial disaster when they walk into my office.

So I’ve made it my life’s mission to understand why that happens and how others can avoid similar mistakes. For 25 years I’ve read every book I could about behavioral economics, financial habits and the psychology of money. I’ve written a few books, created training programs on developing better financial habits and lectured extensively on the subject.

I can summarize the most important lesson I've learned in 7 key words. When properly understood and applied, these 7 key words can make almost anyone's situation better. You might be managing a multi-million portfolio or struggling with debt. You might be earning $1M a year or be a school teacher with a modest income. These 7 words can help! Are you ready for them?

Emotions can be hazardous to your wealth!

Let me explain what I mean by that, how it impacts you and your family as well as offer a simple solution that will take about 15 minutes to do. I'll also refer back to the doctor and his wife from time to time.

According to a new report issued by American Psychological Association in Feb 2016 called *Stress in America: Paying With Our Health*, 75% of people list money as the biggest cause of stress in their lives today. That means it causes more stress than everything else combined! Marital and relationship problems, drug and alcohol abuse—all the other problems out there all stacked up together cause less stress than managing your money.

There are many reasons why dealing with financial issues can cause so much stress. In my full training course, I reveal several of them. In this essay, I'll focus on just one and it's a biggie: information overload!

Your brain has two basic parts: a rational part that wants to carefully consider all options and choose the best one, and an emotional part that wants to avoid pain or get pleasure NOW! The emotional part also has a built in fight or flight instinct. Things go smoothly when these two parts work together.

For thousands of years, our species survived by using the emotional "avoid pain, get pleasure now" part of the brain. Our ancestors' whole focus was on how to get something to eat and provide/maintain some basic shelter. They also wanted to avoid the many real dangers that surrounded them almost constantly. Instincts and emotional reactions helped them survive. Is it any wonder then that the emotional side of our brain is so powerful?

Up until recently, the luxury of thinking rationally and planning things out was something that only kings and very rich people could afford. It has only been in the last century or two that the common person could provide for their basic needs and have some time left over to think. In terms of the history of mankind, we were given the gift of time just a short while ago. We have used that time to create great advances in technology, medicine, science and an increase in our overall knowledge base.

While an increase in knowledge has many advantages, it also has some major disadvantages. One study showed that in 2011, Americans took in 5 times more information every day than they did in 1986. It comes in the form of emails, tweets, 300 channels on cable TV, YouTube, Facebook and more.

With an overwhelming amount of information and choices being thrust upon us, our brains are getting tired. Specifically, the left and logical side of our brain is getting worn-out. Literally.

An excellent clarification of this problem is described in *The Organized Brain* by Daniel J Levitin:

Neurons are living cells with a metabolism; they need oxygen and glucose to survive and when they've been working hard, we experience fatigue. Every status update you read on Facebook, every tweet or text message you get from a friend, is competing for resources in your brain with important things like whether to put your savings in stocks or bonds.

No wonder your brain is so fatigued! It is constantly being asked to process information and make decisions.

When your rational brain is tired from all those choices, the emotional side is allowed to take over. This observation was discovered in a fascinating study at MIT and described in the book *How We Decide* by Jonah Lehrer. Students were divided into two groups and each one was asked to memorize some numbers. One group had to remember 7 numbers and the other only two numbers. That was not the experiment. What happened next was.

When they were done, each group was asked if they would like something to eat and offered cake or fruit. One group overwhelmingly chose fruit and the other cake. Any guesses which was which?

In the group asked to memorize 7 numbers, almost everyone chose cake. The other group preferred fresh fruit. Scientists concluded that the brains of those who remembered 7 numbers were tired and when presented with cake or fruit, the emotional side took over and grabbed some delicious cake! Those who memorized 2 numbers were less fatigued and able to realize that fruit was a better choice.

Let's now put this newfound knowledge in the context of managing your money. Imagine this: after making literally thousands of small choices in a day and being inundated with information, it's 8pm and you need to figure out how to rollover that old 401k that's been ignored for too long. Your brain is tired.

You type "how to invest" into Google and it lists 267,000,000 websites! If you looked at 100 websites per day for 365 days a year, it would take you 73 years to get through them all. Even if you managed to do it, what would you accomplish? Absolutely nothing! And in the process, you might lose your family, job and everything that matters to you. 100 websites a day with no vacations for 73 years will probably alienate those around you.

To make matters worse, many of the websites conflict. Then you have the Wall Street Journal, CNN Money, Fortune magazine, Jim Kramer yelling at you on TV, and Fox Business news with those numbers scrolling across the bottom of your TV screen. With all this conflicting information overloading your senses, you're supposed to make an intelligent decision with your money? Hah!

What do you usually do when you're faced with an important financial choice and you feel overwhelmed and confused? It's typically one of two things: make a decision or delay the decision. Let's look at each of these outcomes.

If you make a decision while your brain is tired and feeling overwhelmed, which side of your brain do you think is in charge? Is it the logical side or the emotional side? Chances are, it is the emotional side. You want to get it over with and end up doing whatever feels right in the moment.

This switch to the emotional explains why you sometimes make a choice and later regret it. Have you ever bought something or made an investment and a year later wished you hadn't? As you look back, you say to yourself, "What was I thinking?!" Chances are the rational side of your brain had been overworked and the emotional side took over. You literally were NOT thinking!

Or maybe you went with the second option of not deciding anything at all. Instead, you threw it in your financial junk drawer and delayed making that choice. All of us have kitchen junk drawers. They are filled with things that may or may not work, and we may not need them. We are not sure what to do, so we throw it in the junk drawer.

When I meet with a couple for the first time, their financial situation can often be best described as a financial junk drawer. All of these junk drawers follow a similar pattern. They are full of accounts and insurance plans that the couple is not sure what to do with. So in the drawer it goes, which allows them to delay making a decision.

Other things you may find in a financial junk drawer are old IRAs and 401Ks or maybe a savings bond your grandmother bought when you were five.

Postponing these important decisions does not make them go away, nor does it reduce your financial stress. It may offer a little bit of temporary relief, but over time, the problem builds up and gets worse.

Whether your financial stress comes from making emotional decisions you later regret or delaying decisions or both, the stress adds up.

The cost of financial worry can be huge. And it goes far beyond dollars and cents, interest rates and debt. How can you measure the cost in human terms? What if the doctor and his wife get divorced? What does that cost them as a couple? What does it cost their children? The hospital where he works? Their community? When a family falls apart, the impact can be staggering.

One study showed that people with high levels of financial stress are:

- 2.5 times more likely to suffer from ulcers and stomach problems.
- 5 times more likely to suffer from depression.
- 10 times more likely to have headaches or migraines.

Source: Business News Daily article Apr 25, 2012

It's my belief that financial stress impacts virtually every area of your life. Your relationships, your health, your emotional well-being are all impacted by how well you control your money. It's often said that money is a leading cause of divorce. That's partially true. It's not money that leads to divorce, but rather a lack of communication about money. The solution I'll offer at the end of this will go a long way in helping you improve the communication between you and your partner when you talk about finances.

So what is the solution? How can you eliminate or at least reduce the stress in your life when it comes to managing money?

A popular myth is that having more money will solve your financial problems. That's NOT true! Often times, more money makes matters worse. If money solved financial problems, then every lottery winner would live happily ever after. But the majority loses it. And some lose more than just the money. They lose family, friends and even end up divorced.

In the case of the doctor and his wife, income and money were NOT the problem. They had plenty of it.

So, if the answer to your financial problems is not having more money, what is it?

The answer is to make better choices.

People who succeed financially are not better looking or smarter than the rest of us. They don't work any harder or have special skills compared to others. They have simply learned how to make better decisions than the rest of us. And what drives all of our financial decisions? It's how we think our choices will make us feel! Hence the phrase, emotions can be hazardous to your wealth.

As it turned out, the doctor in my story dealt with the stress of practicing medicine with reckless spending. He was constantly buying things he didn't need. What he actually needed was a mental break from the pressure of patient care, paperwork and everything else that goes into running a practice. He found that he could let go of all that, temporarily, by going online and looking for things to buy. He loved doing the research and comparisons. He loved finding a good deal, even when it was something he didn't really want or need.

When I teach classes about how to develop better financial habits, I show a picture of the very first I-phone being sold in my hometown at 1 minute past midnight. People surrounding the buyer are literally applauding and have looks of joy on their faces! The caption below says, "This is pretty much the single best experience of my life!" Think about it. The single best experience of her life was spending $500 on a phone at one minute past midnight. What happened to the price of that phone two months later? It dropped by half. I-phone is currently on their 6th generation. The single best experience of her life is now obsolete!

Did she have to have that phone at one minute past midnight? No. Why did she do it? Because of how it made her feel. There are some people who get a thrill and true emotional satisfaction from having the latest and greatest technology.

Maybe that doesn't describe you. But you are not immune from the impact of emotions and how they influence your spending decisions. The car you drive and the kind of clothes you buy. Where you go out to eat and where you vacation. Virtually every spending decision you make is based on how you think it will make you feel. This logic applies to people on both ends of the spectrum: those who are frugal and those who are spend-a-holics, and everyone in-between.

Now let's look at emotions and investing. Many studies have shown that emotional responses to investment trends can lead to lower returns.

Fidelity conducted a study on the performance of its flagship Magellan mutual fund during the tenure of its famous manager Peter Lynch. Peter Lynch ran the Fidelity Magellan fund from 1977-1990, delivering an astonishing 29% average annual return. Despite his remarkable performance while running the fund, Fidelity found that the average investor actually lost money during his 13-year tenure. How is that possible? According to Fidelity, investors would run for the doors during periods of poor performance and come rushing in after periods of success. Such behavior, commonly known as performance chasing, is something that affects the great majority of investors and is one of the reasons that most investors never experience the returns they expect.

When it comes to managing your spending, your investments and everything to do with money, I hope that you'll agree that emotions can be hazardous to your wealth. They drive your financial decisions and can add stress to your lives that impacts your health, your relationships, your spirituality and overall happiness and well-being. So what can you do about it?

Discover and understand your money personality.

Your money personality (or money DNA) is the lens through which you view your entire financial world. It impacts how you earn, save, spend and invest your money.

Imagine that you're driving on the freeway at 75mph. It's a speed at which you feel comfortable. Suddenly, someone whizzes by you at 90mph. What do you think of that person? Do you praise their driving skills and ability to go fast? No! You probably think they are a danger on the streets and ought to lose their license! While you are in the middle of that thought, you come up behind someone who is driving 10mph slower than you and you can't get around them. What do you think of that person? Do you praise their cautious nature? No! You probably think they are a danger on the streets and ought to lose their license.

You tend to drive at a speed that is comfortable for you. And you think that anyone who drives faster or slower than you is dangerous.

The same thinking applies to the way you manage your money. You try to do it in a way that feels comfortable to you. You can't understand anyone who takes more or less risk than you. You can't understand someone who saves, spends or invests different than you. And chances are you are married to that person! This is what leads to conflicts in a marriage and not the money itself.

There are 5 basic money personalities:

1. Saver
2. Adventurer
3. Spender
4. Avoider
5. Steward

One personality is not better than another. You should not try to change yours or that of your spouse. It's better to recognize, understand and respect each one.

In a related example, if a risk taker comes into my office and I create for them a conservative strategy, they probably won't stick with it, even if the plan is likely to achieve their goals and do so with minimum risk. They get a sense of emotional satisfaction from taking risk.

A primary function of any good wealth manager is not to tell their clients what to feel or how much risk to take. It's not to recommend to each person the same thing they recommend to everyone else, even if it's a great idea. A good wealth manager should try to understand how his or her client really feels about money and then build a plan around it.

You will begin to make better choices with your money and reduce your stress levels when you embrace your personality rather than ignore it or try to override it. It's very easy to get caught up in current trends and what's popular now. You may feel some pressure to join the crowd, even if doing so goes against your personality. Don't do it!

It's simple to find out what your money personality is go to the resources page of www.AchieveMoreRetirement.com. You will find a link on the right side. Click on it and answer some questions. It is important that each spouse do this separately. For each question, choose the answer that first pops into your head without overthinking.

You'll get a special report within 2 business days. It will outline the strengths and weaknesses of each personality profile, including yours. The report will also give you ideas on how to better manage your money and still be who you are.

Going back to the example of my doctor client, here's how he'd fare with mainstream financial advice. Most financial professionals who don't deal with or understand money personalities would put him on a strict budget and cut off any unnecessary spending until he built up his savings. That won't work. While it's technically right, it doesn't take into consideration his profile. If his plan is not adjusted to meet his money personality, he won't stick with it.

Instead, I told him to set a goal of saving $2,000 a month. His reward would be to spend $200 of it, netting him $1,800. Spenders get a sense of relief whether the dollar amount is $20 or $20,000. He just needed the release that came with looking for and buying things online. I didn't want to take that away from him completely. This is a plan that is more likely to get results because it is sustainable.

Remember near the start of this essay I said money doesn't cause divorce but rather it's a lack of communication about money. You and your spouse should each find out what your money personality is. It's important to do this separately so that you do not influence each other's answers. You'll be surprised at the insights this simple exercise gives you.

Imagine that a couple is driving across country. The husband wants to drive 12 hours a day and get there as soon as possible. His wife likes to stop at places of interest along the way and enjoy the journey. Do you think that might cause some conflict along the way? Who is right?

Neither one is right or wrong. They are just different. If they each understand and respect how the other feels, they will have a much more peaceful journey than if they each try to prove their way is right. An example of the compromise would look like this: Instead of three 12-hour days of driving, the husband might agree to five days of just over 7 hours each. And instead of wanting to stop at every historic marker along the way, the wife might agree to plan in advance and pick just one or two places of interest each day.

If you would like to get on the road to leading a happier, less stressful and more productive life, the first step on your journey is to discover your money personality. Go to www.AchieveMoreFinancial.com.

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Martin Hurlburt started **AchieveMore Retirement** to help people Live Life On Purpose! He can help you put together the many parts of a successful retirement into a cohesive plan. The end result is that you know where you are going and how you will get there.

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