Reining in emotions about money can boost bottom line

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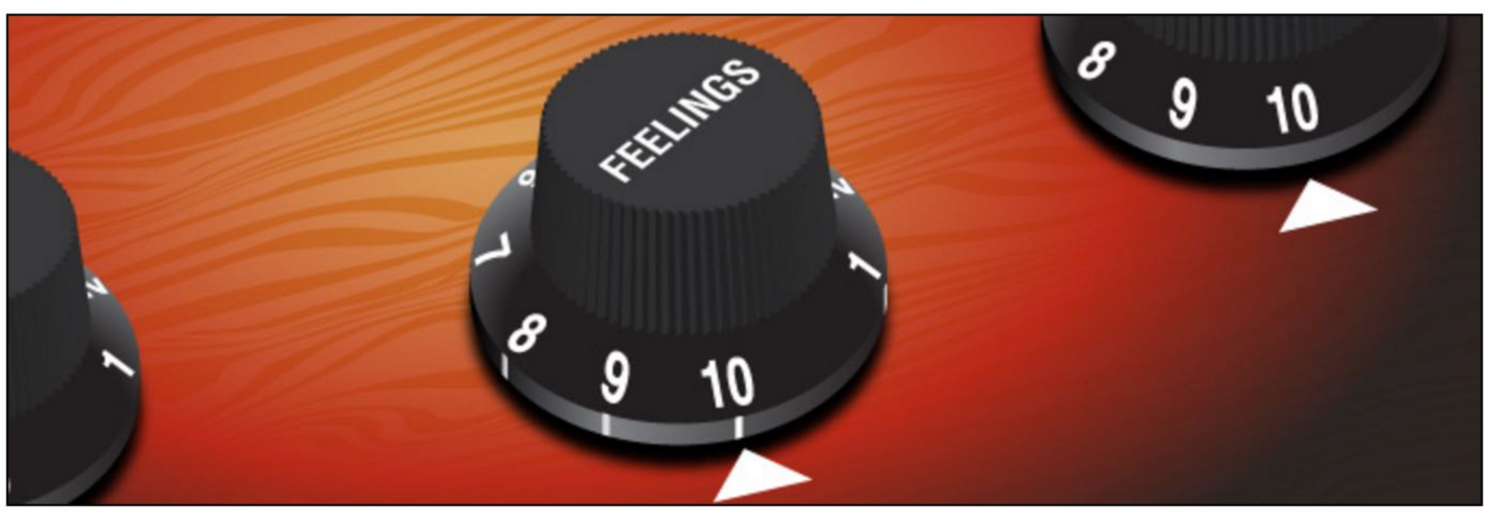
October 7, 2015



Anyone who has ever solicited financial wisdom has probably received the following advice from a trusted friend, adviser, book or blog: Avoid making emotional decisions.

Good financial decisions, society insists, are decisions made with the head, not the heart. And yet, the heart and wallet are inextricably linked, research suggests. A 2015 study by the American Psychological Association, for instance, found that nearly three-quarters (72 percent) of Americans report feeling stressed about money.

Knowing how to effectively manage that stress – and other emotions involving money – can ease the pain.

"Good or bad, everybody has emotions related to money," says Kristy Archuleta, Ph.D., editor of the Journal of Financial Therapy, associate professor of personal financial planning at Kansas State University, and president of the Financial Therapy Association.

"We can never really turn off our feelings, so trying to cut our emotions off from financial decision-making isn't necessarily productive. Understanding what our emotions are around money, however, is really important and can help us change maladaptive financial behaviors."

Indeed, there are no bad financial feelings; there are only bad financial behaviors, says certified financial planner Tyler Landes, founder of Tandem Financial Guidance in Kansas City, Missouri. "Your feelings are neither good nor bad if they're not getting you into trouble," he says. "The problem arises when you let those emotions take over."

If you feel your money situation is controlled by your emotions, acknowledging them could be a first step toward achieving your financial goals. Whether money makes you feel guilty or envious, joyful or afraid, here's how to respond when your limbic system tugs at your purse strings:

1. Joy

Despite the popular saying, money *can* buy happiness for some people, if at least temporarily. If it does for you, you might find yourself spending frivolously to make yourself feel better or to reward yourself. That's OK if you can afford it. If you can't, it could lead to a debt spiral.

"Many people turn to 'retail therapy' to feel better," says financial adviser Craig McDaniel, president of The McDaniel Corp. in Columbia, South Carolina. "It's OK to shop when you're sad, as long as it's in your budget. But if you end up in debt, I promise those purchases to make yourself happy will make you sadder in the long run."

If you're prone to this behavior, having a budget can keep you in line.

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"Although 'budget' can be a bad word, you need to have a spending plan and you need to track where your money is actually going," explains Landes, who says people may be less likely to use money as a mood enhancer if they see how much it's costing them.

"By putting the information in front of yourself you can see what habits you're actually practicing and take corrective action if needed."

If necessary, build a "reward" category into your budget so you're not depriving yourself entirely. Or, look for new, less material ways to experience joy. Instead of buying a new outfit, for example, take your family to the beach.

"According to psychologists, experiences meet more of our needs," McDaniel says. "They are often shared with other people, giving us a greater sense of connection."

2. Fear

Fear is commonly linked to money.

"I've worked with people who had trouble opening their bills because they were so afraid to look inside," Archuleta says. "They've developed a belief that money is stressful, so they think, 'If I don't open this bill, then I don't have to deal with the anxiety it's going to create.'"

Some fears — for example, the fear of defaulting on a loan, which inspires you to repay it — can lead to positive financial behaviors. Other fears, however, can be dangerous. For example, the fear of losing one's money in the stock market can lead you to prematurely sell a stock when the market drops rather than wait until the market and stock price recovers.

One way to counteract negative fears is by educating yourself. "Sometimes, fear comes from a lack of knowledge; money is stressful because you don't understand it," Archuleta explains. "Receiving some basic financial education can help alleviate some of that anxiety."

Another way to reduce financial fear — particularly when it comes to investing — is with planning.

"Create what professionals call an 'investment policy statement. This is the 'operating agreement' for your portfolio," Landes advises. "Outline under what circumstances you'll make a change. How much of a 'dip' are you comfortable with? … This way when the market sags, you can reference your 'policy' and make an unemotional decision."

3. Guilt

Guilt can easily influence your financial behavior. Successful people may feel pressure to provide for less successful family members, for instance. Or parents may feel pressure to shower their children with gifts, or philanthropists may feel pressure to donate to their favorite charities, even when things are tight.

"That becomes problematic when people begin giving beyond their means," Archuleta says. "They may be providing *too much* support when they can't really afford it, and they might be doing it to the detriment of their own goals, like retirement."

Instead of donating money to a charity, for example, perhaps you can donate time. Or instead of buying your spouse extravagant gifts, perhaps you could prepare a romantic meal.

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"If something's not working, you need to do something different," Archuleta says.

4. Envy

Envy and money are natural bedfellows. "Many people have a 'keeping up with the Joneses' mentality," Landes says. "They look at the car their neighbor drives or the trips their sister and her husband take and they think, 'I want that, too.' And then they end up racking up a bunch of debt to get it."

Focus on what you have – not what others have, financial experts say. If you have an accurate assessment of your financial picture, it helps to set realistic goals.

"When you decide, for example, that what you really want is to have a child — you want to be able to send them to the best school and take them down to Florida to visit Grandma while she's still around — all the other stuff suddenly seems less important," Landes continues.

And then work toward achieving your goals. Staying the course and focused helps keep the green-eyed monster at bay.

Emotional assistance

At the end of the day, emotions can negatively impact your wallet. If you can't unpack, interpret and respond to them yourself, a good listener can help.

Says McDaniel, "Sometimes having an objective third party, like a financial adviser or friend, can give you the distance you need to put aside your (feelings) and make a more rational choice."

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