

# The Emotional Side of Money

Understanding one of the most important relationships in your life: the one between you and your money

*By Alvin Hall*

## OUR EMOTIONS DETERMINE OUR financial success or failure. This is the guiding principle examined by Alvin Hall in his latest personal finance title, *You & Your Money: It's More Than Just the Numbers*

(Atria Books; \$24). To understand your own style of financial management, he says it's first necessary to be comfortable in your own skin: to know and accept who you are, what you want, and what money means to you.

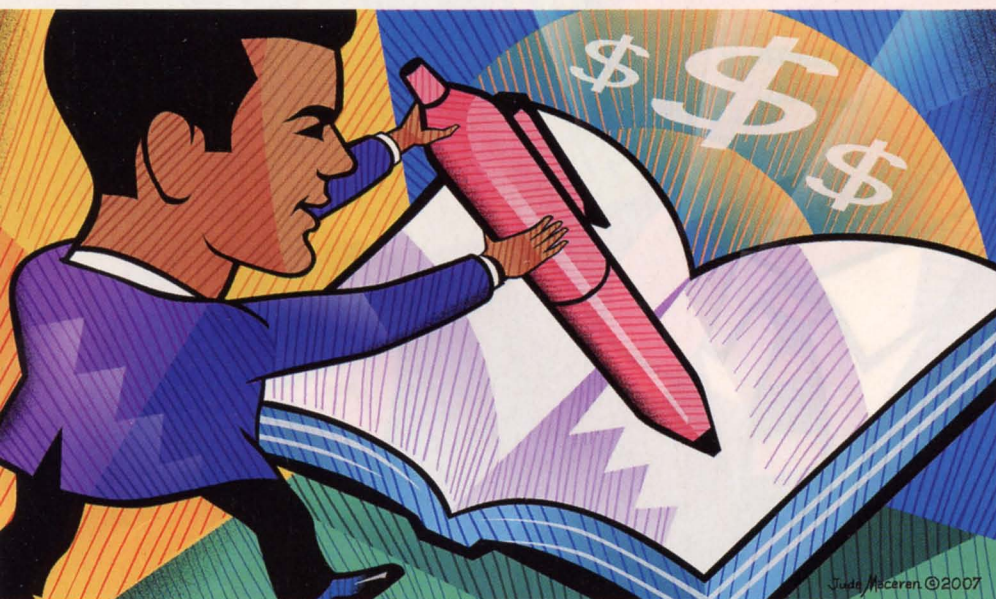
### GETTING TO KNOW YOU

Here are eight exercises that will help you get to know your own money habits and tendencies better. You don't necessarily have to perform all eight; instead, you can pick the two or three that seem

newspaper) and items you buy with a check or a credit/debit card.

At the end of the day, take a moment to add a brief note describing how you feel about that day's spending. Do you feel joy? Guilt? Regret? Disappointment? Contentment? What you write will vary from day to day, of course. One day you might write, "I'm so excited about the new shoes I bought today." Another day you might write, "I feel bad about spending so much money on snacks and drinks today. I really meant to save that cash for the weekend. Hope I can do better tomorrow."

There will be times when keeping the diary feels like a total bore or a nuisance. You'll be tempted to quit. Don't! A full month's worth of notes will tell you a lot about your money habits, good and bad, and help you understand the ways in which your money habits bring you happiness and grief.



## 2 Examine your sources of income.

List everyone who provided you with any money during the past year, along with the amounts you received. A few of these sources will be obvious: the salary paid by your employer or the income from your own business, for example. Others may be easy to overlook. Did you receive any payments from the federal, state, or local government? Did your parents or other family members give or lend you money? Did you win money from a lottery, a contest, or gambling? Did you receive money as a result of a lawsuit or an insurance claim? List everything.

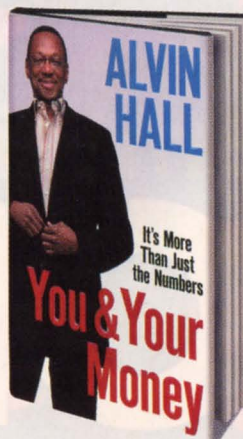
Once you've created the list, consider what it tells you about your present and future sources of income. How secure are the past year's sources of income? Which sources are likely to increase in the future—and which are likely to shrink or disappear? What new sources of income can you develop? An honest evaluation of this list can help you figure out whether your future prospects are bright or you have been living on borrowed time.

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most relevant to you and see what they can teach you. The goal of all eight exercises is the same: to help you better understand the role of money in your life. How does money bring you happiness? How does it cause you regret, anxiety, or disappointment? Answering these questions is a vital first step toward defining the kind of relationship you'd like to have with your money—and taking the steps necessary to achieve it.

## 1 Keep a diary of your spending and the emotions that go with it.

Buy a little notebook especially for the purpose and carry it with you everywhere you go for a month. During that time, write down everything you buy, no matter how big or how small. List each purchase and its price. Include items for which you pay cash (like your morning coffee and



why you bought it? Do you still have it? If so, do you still use it? In retrospect, was it worth buying? Count up the number of items you bought that were smart, satisfying purchases and compare this to the number of items you now wish you hadn't bought. What patterns do you notice? What types of purchases do you consistently regret? Are there particular kinds of items you tend to waste ►

## 3 Analyze one credit card bill from the past year.

Identify each item you bought (if you can) and measure how much pleasure it gave you. Do you remember the item? Do you remember

waste money on? Which kinds of purchases consistently bring you lasting pleasure? When do you stop or cut back using the credit card, and what causes this change?

**4 Count the number of purchases you made last year.** A relatively easy way to do this is to request the year-end summary of your spending that most credit card companies will provide. Also review your checkbook register or checking account statements and try to list most or all of the items you bought using cash. How many purchases did you make altogether? How does the number compare to the number of days in the year? Did you buy something every day, every two days, every three days? Is it hard for you to go through a day without spending money? If so, do you know why?

to walk, use public transportation, or carpool. Not only will you save money, but you might meet some interesting new people who could change your life or career.

In other cases, avoiding particular expenses may be short-sighted. If you put off patching the roof or servicing the furnace, for example, you may end up having to make a more costly repair or replacement in the long run. Listing your own pet hates when it comes to spending can show where your emotions may overrule your reason, leading to short-term and self-defeating thinking.

**7 List your best and worst expenditures.** Make a list of the five things you did with money last year that enhanced your life the most. Then make a separate list of your five worst mistakes—money decisions that were a setback or damaged your life.

What were the reasons behind each of these decisions, good or bad? What lessons can you derive from them?

There's no single right or wrong way to compile these two lists. One person's brilliant choice may be another person's disaster. For Susan, spending \$3,000 on a week's holiday in the Caribbean may have been just the break she needed to clear her head after a tough year at the office, energizing her to start looking for a better job upon her return to work. For Cynthia, the same holiday may have maxed out her credit card, speeding up a dangerous spiral into excessive debt that ruined any pleasure she might have taken from her days in the sun. Only you can define your best and worst uses of money.

**8 Test your money self-discipline.** You can also learn more about

your money psychology by experimenting with short-term behavior changes. I am testing my own self-discipline through a simple but surprisingly tough challenge: for one year, I am forbidding myself to buy shirts. (I have 60 shirts of all kinds, and I love to get new ones.) In the past, I have tried other, similar experiments; for example, I once locked away my credit cards for a month, forcing myself to pay for everything in cash. I found that this act of self-discipline made me more aware of my own cash flow and forced me to re-evaluate what I spend.

Among other benefits, such limited acts of self-denial help you to appreciate more the good things you have and increase your self-confidence by demonstrating and strengthening your ability to determine what's needless and do without it. Most important, they help you know yourself more intimately. What kinds of money behavior have the greatest hold over you? Which money habits are easy to change? Which changes really hurt? Above all, who is in control: you or your money? **EE**

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**5 Examine your unconscious forms of spending.**

List all the automatic purchases on your credit card: gym memberships, magazine subscriptions, or any other automatic deductions. If you use an automatic banking service that provides for direct debits for regular monthly expenses, list these as well. Automatically deducted expenditures can be an inadvertent trap that can help make it easy for you to spend money without thinking about it. How many of these can you reduce or eliminate?

**6 List the things you hate to spend money on.**

Some of these may be needless expenses you can eliminate by making a change in your life. For example, if you hate paying the costs of driving to work, perhaps you can set your alarm clock for half an hour earlier, making it possible for you