



# Do you *feel* rich?

## How emotion impacts our finances

Money is, more often than not, a numbers game. You're supposed to spend less than you earn, save your money, and invest it. You must balance the risk of losing money against potential return. All of these concepts usually boil down to math.

But despite the quantifiable nature of wealth, one of the biggest influences on whether we feel rich or not has nothing to do with numbers. In fact, attitude is everything. (OK, maybe not everything. But it's a big part of the equation.)

Let's look at how perception can get in the way of reality when it comes to growing, managing, and enjoying wealth.

### **What's your money story?**

Our views on money, saving, and spending start in childhood. They're formed by everything from how our parents and family talk about and manage money to our friends and neighbors and even society overall.

If your parents were constantly worried about money, you may have anxiety around saving and budgeting as an adult, even if you earn a seven-figure salary and have built a significant nest egg. If your family was upper class and always had enough, you might not think about your monthly budget and could end up overspending your income.

Societal cues can have an impact, too. If you lived in an area with lots of shopping, you may feel more inclined to spend than someone who grew up with fewer temptations. Similarly, if you're exposed to a lot of media—whether it's TV commercials or shows that glamourize the latest trend—you may feel more pressure to keep up with the Joneses.

Our habits are shaped by more than daily occurrences. Big events in childhood—an unexpected lay off, a medical emergency, or a contentious divorce—can all shape how people think about family (shared) finances, risk management, spending, saving, and more.

Taking a moment to analyze what you think about money, and where you formed those opinions, can help improve your relationship with your finances. These questions can help you get started:

- **How often do you worry about *having enough*?** As a follow up: When's the last time you truly didn't have enough money to cover something you wanted? What about something you needed?
- **Are you comfortable talking about money?** Do you talk about money with your family now? Did you talk about it with your family when you were a child?
- **How comfortable are you with risk?** How much money would you be comfortably losing on a given day without panicking? How does that number line up with your spouse's sense of risk? What about the other members of your family?

## Money is emotional

In general, our history with money develops into one of two money mindsets: scarcity or abundance.

A **scarcity mindset** refers to the belief that your resources are limited and gradually diminishing. People with a scarcity mindset, which can also be called a fixed mindset, tend to look at wealth like a zero-sum game—if other people acquire more, there's less to go around, and less available for them.

People with scarcity mindsets tend to be risk averse—they're so scared of losing money they'd rather keep it in a mattress than invest it. They can also stay in jobs they hate in exchange for security; they may see wealth as an end-goal (versus a means to an end).

People with an **abundance mindset** (also called a growth mindset) believe there is always more money to be earned. This can lead them to spend freely on material goods or gifts. Abundance-minded people may also be inclined to take on risk, whether it be higher-risk investments, quitting a job they don't like, or not saving for a rainy day because they believe things will just work out.

Scarcity and abundance mindsets don't correlate to a specific net worth or dollar amount. Somebody who has millions in their savings account could still feel it's "never enough" if they view life with a scarcity mindset. On the other hand, someone who tends to overexert their finances or sets aside too little in savings may feel they have more than enough to get by.

In general, our culture today tends to prioritize and reward an abundance mindset. Think of the characters who embody a scarcity mindset in pop culture: Scrooge, Daddy Warbucks (from Annie), and Mr Potter (from It's a Wonderful Life). Because of these portrayals, we're aware of the risks that come from hoarding wealth. But there may be good reason for the scarcity mindset—all three of these stories take place against the backdrop of depression.

On the other hand, the abundance mindset is glamorized—think about George Bailey, [Batman](#), or Ted Lasso. But that doesn't mean it's always a good thing. [Around 70% of adults](#) say they've allowed their emotions to drive their spending decisions in the past. Of this group, 76% said those emotions led them to overspend. For many in the group, they overspent to the point of debt.

Generally speaking, both mindsets benefit from reality checks from time to time, and that's where a financial advisor can come in.

## **Get realistic about your finances**

A financial advisor can help you look at your finances objectively. First and foremost, that means looking at your "cash flow" today—how does your spending stack up to your income? If your finances are aligned today, we want to make sure you have enough in place for your future. If you have a realistic appreciation for where you're at now, and where you're headed in the future, you're less likely to be derailed by your emotions around money.

An advisor can also help you run the numbers on certain "what if" scenarios. What if the market declines? What if you lose your job? What if you face an unexpected medical emergency? Often times, these projections can help you quantify the scenarios that you would otherwise fret about, which makes them less scary.

This objectivity can also help you evaluate big money decisions, from selling an investment to making a large purchase. In all of these conversations, the advisor should help you balance your current wants and emotions with your long-term investing strategy and big picture financial goals.

In other words, I won't tell you to stop being emotional for the sake of it. I'll just make sure you're asking the right questions about how the decision might impact your future, the other components of your financial plan, and so on.

My goal is to help you enjoy your wealth while ensuring you have enough of it to meet your goals, whether that's living a robust retirement or creating generational wealth for your heirs. If you feel like your finances are skewing more towards either abundance or scarcity, let's find a time to discuss.