

The Psychology of Saving

I recently attended a workshop called *The millionaire mind intensive*, which naturally got me thinking about the subject of money. This seminar is largely based on T. Harv Eker's brilliant book called, *The secrets of a millionaire mind*, and delves into the psychology of why some of us are programmed to succeed at wealth, while others are programmed to fail.

Eker believes that if you change your programming you change your wealth.

As many of you may already know, I have spent the last 6 years studying the psychology of retirement and I am still searching for that creative solution that will motivate and inspire people to save for the future! I think that I may have very well found it in Eker's book. If you have not already picked up a copy I highly suggest that you do.

Based on current statistics, Canadians are in desperate need of Eker's advice on building wealth. And we need his advice now! Look at the numbers:

According to a 2006 study conducted by Desjardins Financial 35% of Canadians do not start investing in a nest egg until the age of 40 or older and they believe that less than \$50,000 will be sufficient to fund their retirements!

In 2003 Stats Can reported that one third of working Canadians in their late 40s and 50s expressed that their financial preparations were insufficient and they did not think that they would have enough income to sustain their current standard of living in retirement.

This got me thinking: when it comes to saving for our futures, why is it that so many of us fail miserably?

In an effort to discover why we are such bad financial planners I turned to the scientific literature to shed some light on the psychology of saving.

What follows is a condensed version of what I managed to dig up on saving behaviour.

According to *Matthew Rabin* of Berkley University people put off planning

for the future because it requires a tremendous amount of time and effort. Furthermore, there are minimal costs associated with delaying such a laborious chore. Often the problem is only realized once we near retirement and it suddenly dawns on us that building a nest egg requires years for investments to appreciate.

Economist *James Shulz* explains that financial planning is difficult because it must be achieved by trying to predict several of life's uncertainties such as future earnings, retirement needs, age at retirement, age at death, inflation and economic growth rates.

Quite the daunting task! Not to mention it is rather depressing.

I must confess that forecasting economic growth rates, inflation and my future retirement earnings is not really my forte.

But let's assume that I do manage to predict such uncertainties. I am now faced with the task of having to choose where to invest my money. If I am bad at predicting future economic growth rates, I am even worse at having to decide where to invest my money!

So I start to research my options and realize that I can invest in a number of financial vehicles: Stocks, bonds, RRSPs, real-estate, GIC's, mutual funds, term deposits, life insurance, segregated funds..... I can even segment my portfolio to encompass all of these options in order to minimize risk. But what does that mean and which mutual funds should I invest in? And what about the tax that I will have to pay on these different types of investments?

The number of options is so overwhelming that I break out into a full body sweat and I cannot make a decision. I am literally paralyzed by too much choice.

Luckily, *Sheena S. Iyengar of Columbia and Mark R. Lepper of Stanford* come to my rescue. According to their research people are less likely to make a decision when they face too many options.

So I reason to myself that I am good company.

In an effort to better understand the consequences of personal choice, Iyengar and Lepper set up sampling booths at a grocery store which offered a limited assortment of 6 choices of jam and a more extensive display of 24

jars of jam. Their findings indicated that 40% of people stopped at the booth featuring 6 different types of jam and 30% actually bought the product. In contrast, 60% stopped to taste from the 24 jars of jam yet only 3% actually bought the product.

"Having 'too much' choice seems...to have hampered their later motivation to buy," report Iyengar and Lepper.

Apparently, people are less likely to make a decision when they face too many options. At least I am in good company. So I ask myself, if we can easily become overwhelmed by 24 jars of jam, what do we do when we have thousands of mutual funds to choose from?

I don't know of any easy way to reduce the complexity of choosing the right investment vehicles for my particular age and stage of life other than educating myself and finding a competent financial planner. So I ask my friends and relatives if they can recommend a financial advisor that they trust and one who charges minimal fees.

I was cautioned to be careful about hidden fees as they can add up and rob you of a significant portion of your earnings.

So after overcoming the hurdle of finding a financial advisor and learning about where to invest my money and how much risk I should take, I reason that I am on the right track to financial freedom! Freedom 55 here I come!

And then it dawns on me. I am now facing an even bigger obstacle: I must actually place money aside so that I can invest and grow it! You see, rationally I believe saving money for my retirement is a worthwhile cause, yet behaviorally I cannot seem to get myself to actually save this money.

That was until I read the secrets of a millionaire mind.

Eker has found a way to ease this terribly painful process called saving! In fact I would even go as so far as to say that I am now actually motivated and excited to save my hard earned cash.

You should pick up a copy of the book if you want to find out the details of his simple money management system. But for now, one great strategy that you can IMMEDIATELY incorporate into your life is what Eker refers to as a PLAY ACCOUNT. This is how it works:

Every time you set aside money for your future, you ALSO set aside some PLAY MONEY. It doesn't have to be a lot of money but it has to be placed into this account at the same time as you make a deposit in to your future retirement account.

At the end of the month you need to SPEND all of your play money on something just for you. It can be a weekend getaway, a lavish dinner or a really expensive bottle of wine that you would have never dreamed of indulging in! BUT YOU MUST SPEND ALL OF YOUR PLAY MONEY.

When you get to play and spend some money in the present you will no longer feel resentful of having to save for your future.

Since I have incorporated Eker's money management system into my life, I have watched my retirement income grow and I have enjoyed spending every last penny of my PLAY account.

Try it and let me know how it works for you.

As always you have any comments, suggestions or questions please do not hesitate to contact me at gill@directionsrc.com

I look forward to speaking with you soon.

Until Then,

Happy Planning,

Gillian

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