

LOADED

MONEY, PSYCHOLOGY, AND HOW TO GET AHEAD
WITHOUT LEAVING YOUR VALUES BEHIND



SARAH NEWCOMB, PhD

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Money, Psychology, and How
to Get Ahead without Leaving
Your Values Behind

Sarah Newcomb

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To Zoë: May you never stand in the way of your own dreams.

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Introduction

THERE IS NO SHORTAGE of books for those who love money. Enter any bookstore and you will find guides to help you think rich, attract money, or beat Wall Street. These may appeal to people who aspire to great wealth and luxury and those who associate money with opportunity, happiness, and freedom. But where is the book for the rest of us? Where is the book for the people who have come to equate money with stress, inequality, barriers, or greed? Where is the book that acknowledges the darker side of the financial world?

That book is here.

My own journey into the world of financial psychology began in 2005 when, after receiving a bachelor's degree in mathematics, I still struggled to make sense of my financial life. As a *summa cum laude* in math, I had to admit that my issues with money had nothing to do with numbers. I love numbers. I had no trouble understanding interest rates and balance sheets. Why, then, wasn't I able to get a handle on my own money? Why did it seem that no matter how I tried, there was never enough?

In the fall of 2006, I began a graduate program in personal financial planning. I wanted to put an end to my financial stress, and learning how experts manage money seemed the most logical way. It was during my time at Bentley University that I met the teacher who would change my financial life and alter the course of my career. Dr. James Grubman's class, *Psychology in Financial Planning*, was a turning point. The purpose of the course was to prepare us as young financial planners for the client who would one day walk into our office feeling like a complete failure because he had only made \$50 million that year.

How would we handle this? Would we inwardly scoff and judge, or would we listen long enough to understand that this young business owner lived in the shadow of his father's legacy, and that no matter how successful he became, he would remain convinced that his father could have done better?

I learned a priceless lesson from Dr. Grubman: A person's relationship with money is almost never about the numbers. It is about the stories we tell ourselves because of those numbers. Each of us has come to believe certain stories based on our upbringing and our experiences with money: stories about who we are and who we are not, stories about what we can and cannot do in the world. This is where our relationship with money is rooted, and this is where sound money management begins. It starts with a story.

When I examined my own relationship with money, I discovered that my story was filled with anger and resentment. Financial stress is survival stress, and by my mid-twenties I had scarcely known a day without it. As far back as I could remember, money had been a source of anxiety and conflict. My parents worked several jobs to keep food on the table for my three siblings and me. Unlike many, we never went hungry, and for that I am extremely grateful. Still, there was the tension, the anxiety, and the feeling of helplessness that accompanied daily life in a low-income family. As I grew to understand the world and my place within it, the dark cloud of lack seemed to hang over every part of life. Opportunities passed me by. Dreams were deferred, and deferred again, for lack of money. Social connections were hindered because I could not dress the part or afford the same hobbies and hangouts as my middle-class peers. By early adulthood I was worn down. I was poor. I always had been, and I always would be. It was as much a part of my identity as my name.

Many people respond to a childhood of lack by focusing all their energies on making as much money as possible in adulthood. I found this idea abhorrent. I had not only come to resent the lack of money but money itself. The culture of my immediate family, and many of the people I most respected, was anti-wealth. While I don't recall them saying it out loud, the message I absorbed from the people around me

was clear: You either care about people, or you care about money. The logical extension of this belief is that people who focus on making a lot of money don't care about their fellows, but are driven by greed. It was a call to choose sides, and my allegiance was with the Common Man, so I turned my back on money.

Knowing something about their stories, I can see now why my friends, family, and neighbors had come to adopt this anti-money perspective. I can also see how my childhood mind may have warped a more innocent message into this rather cynical version of the world. I care about justice and equality, yet I witnessed money being used as an arbitrary divider and a means of exploitation. I value autonomy and creativity, but I experienced the need for money as a stifling drain on my energies (long hours at low-paying jobs do not create an ideal setting for creativity and innovation).

However it came to be formed, the power of this core belief was tremendous. My disdain for money and the financial world led me to choose the low-paying road over and over again, even as my skills and talents grew more valuable. I sabotaged my own financial progress because I believed that money had the power to corrupt me.

When I decided to go to an elite private business school to study financial planning, I was afraid to tell my family. I knew what they would think: I had gone over to the dark side. But 10 years of supporting myself without financial knowledge had taught me one important thing: If you don't pay attention to money, it will rule your life. By not learning about money, and not considering finances in my career choices, I had fewer opportunities and less autonomy in my daily life. By avoiding money, I was choosing to continue the familiar pattern of lack and financial anxiety.

I made the decision to take control of my financial life, but it was not book knowledge or estate-planning techniques that changed me—it was psychology. In my own financial narrative, I had confused injustice and inequality with money itself. In essence, I was blaming an inanimate object with no power of its own for the choices that some people were making with their stores of it. My indignation needed an outlet, but my anger was misplaced. Once I understood my mistake, I

was able to separate my frustration from the concept of money and place it more productively on the systems and human frailties that create and perpetuate exploitation and corruption. Only then could I see money for what it truly is: a simple tool.

Money itself is a neutral resource, full of possibilities. It can be used for good or for ill, and how a person uses it is entirely a matter of personal choice. Once I understood what money is, and what it is not, I was able to break the habits of self-sabotage that had dogged me since childhood. I was finally free to create a life of great value without compromising my personal values.

Your experience will be unique.

In the 10 years since my journey into the world of financial psychology began, I have continued to plumb the depths of this fascinating and important topic in order to learn more about how smart, talented people can get in the way of their own financial goals. I have studied accounting, finance, economics, and consumer, social, and cognitive psychology, and I have researched how several different psychological factors contribute to (or stand in the way of) good money management. More than this, I have counseled and taught individuals, couples, small business owners, students, parents, professionals, and teachers with myriad financial challenges and needs. In every case, there is a story that runs parallel to the numbers. Those stories are as unique as the individuals who crafted them, but each plays a powerful, yet often unconscious, role in the financial decisions they make. By working with the story first, I have found that the numbers change more easily, and that change is more likely to be permanent.

This book is divided under two major themes, one abstract and one concrete. Chapters 1 through 3 give a broad overview of money and its place in our lives as a cultural and social phenomenon. These chapters are intended to give you a glimpse into the roots of your own financial narrative, and identify any problematic patterns of thinking that may be contributing to an unhealthy relationship with money. While many people want to jump immediately into making a new financial plan, I believe that first examining the beliefs you currently

hold, and challenging those that may be sabotaging your success, is an important first step toward true financial freedom.

Chapter 4 offers a new framework for working with your personal finances. This budgeting structure, which I call the LOADED budget, incorporates several principles from psychology that are missing or misaligned in traditional budgeting methods. This money management method offers a way of changing your financial life by creating a plan for your money that is both deeply satisfying and also sustainable over the long term. However, since the LOADED budget incorporates psychology, it is best used after you have taken a good look at your personal beliefs and how they may manifest in your current financial choices. You may, of course, skip ahead to this section if you find the background psychology uninteresting, but I believe that you will have a more meaningful experience if you read the book cover to cover.

Along the way, you will read many people's stories. Not all are recorded as exact factual accounts; in some cases, they are meant simply to illustrate beliefs and experiences that are common to many people. In some instances, I have combined several people's stories into one narrative. In every case, the names have been changed to protect the privacy of the people involved. If there is a quotation in a personal account, however, you can trust it is a direct quote.

Last, it is important to note that personal change is not an effortless task. Because everyone has their own story, because none but you can unearth your core beliefs, because there is no shortcut past introspection, no scan to pinpoint the significant moments that shaped your thoughts about money, and no silver bullet to end financial trouble . . . because change takes effort, this book alone will not transform you. It cannot.

The pages that follow are meant to set you on a path of discovery and understanding that leads to more peace and satisfaction in your financial life. What you bring to the fore will determine your experience.

When It Comes to Money, We've All Got Issues

WE KNOW WE have problems with money. As individuals we know it, and as a country we know it. Private and public foundations spend millions of dollars every year trying to teach people how to budget, save, invest, and get out of debt. There's just one problem: It doesn't seem to be working.

Everyone has a theory as to why. One camp says it's because people are apathetic and don't care to learn. Another says it's because we aren't taught about money from an early age. I think it's because most of the financial management programs out there speak to our balance sheets, not to our *minds*.

Financial management workshops and investment classes feel irrelevant to many people. What does it matter how much you can earn at 10 percent interest over 40 years if you're struggling just to pay

your grocery bill? So much of the material in financial workshops is so remote, so far from our current reality, that it's easy to check out mentally. If you can't go home and put it to use right away, what does it matter? It's just another math class.

That's why I made a promise to myself as a financial educator that as much as possible, I would not use numbers. Don't misunderstand; I love numbers. Still, learning about numbers didn't solve my financial problems. Learning about myself did that. Of course, to manage your money well you will need to do some number crunching, eventually. Regardless, I honestly believe that for most of us money management is less about numbers and more about the *stories we tell ourselves* because of those numbers. Money carries deep cultural and social meaning for each of us, and we each have developed an attitude about it based on those narratives. The decisions we make concerning money are profoundly affected by the cultural, social, and emotional meaning we attach to it, yet most financial educators completely ignore these aspects. Instead, we are taught about money as if all of our financial decisions were made in the sterile environment of a classroom, with our calculators at the ready and our rational minds playing absolute commander over our passions and desires. This is not the case at all. The entire field of behavioral economics is based on the growing body of evidence that people are not always rational when making financial decisions. Despite the waves this notion made in the field of economics, it comes as a surprise to pretty much no one.

Money is probably the most emotionally meaningful object in contemporary life; only food and sex are its close competitors as common carriers of such strong and diverse feelings, significances, and strivings.

—David W. Krueger, MD¹

The reality is that we make our financial decisions in the context of our wider lives. Every purchase, payment, investment, or gift takes place within the larger picture that encompasses our work, our families,