



INTRODUCTION

*“Money has never made many happy, nor will it,
there is nothing in its nature to produce happiness.
The more of it one has the more one wants.”*

Benjamin Franklin



“Global Slowdown Hits U.S. Factories.” This was the lead headline on a hot, steamy day in the July, 2012 Globe & Mail Report on Business. Other headlines in the Report on Business that day included: *“Why are oil prices falling?”* *“Spain’s economy minister addresses business leaders as the country negotiates terms of a bank bailout with the Euro zone.”* *“Microsoft takes \$6.2 billion hit in online ad business.”* *“Wall Street slides”*.

These headlines are just for one day in one paper in Canada. Similar headlines and stories appear in other newspapers, on the radio, television and Internet around the world every day.

Is it any wonder that many of us are concerned about our money and our futures?

This concern is heightened when combined with the daily financial concerns that occupy us all. Paying for daycare, coping with increasing interest rates, mortgage costs, and car repairs are on-going worries. Investor fatigue plagues those who have had little or no returns on their money for the past 5 to 10 years and face imminent retirement.

I must admit that I am getting anxious even as I write this. These pressures can lead people to behave in positive ways, but also in ways that are detrimental to their financial well-being.

Some people pay no attention to world financial headlines. Their day-to-day pressures are enough to create uncertainty and concern.

For years, many of the world's economists have stood by "The Efficient Market Theory" This theory maintains that stock prices reflect all of the publicly available information and that new information will automatically be reflected in those prices. This suggests stock prices have little to do with human emotions and behaviour.

The experience of the past five years has clearly underlined the shortcomings of this view. Human emotion and behaviour, in fact, have a lot to do with prices and the returns people receive on their stocks, i.e. selling at the bottom out of fear or buying at the top with unrealistic expectations. Emotions play a major role in the state of the world and personal finances.

When they are afraid, people often stop buying. This has a huge ripple effect on the economy Money certainly does make the world go around, but it is emotions that make the money go around. And I'm convinced that combining knowledge with your emotions and then acting is the best way to make your money go around.

In reality, money is merely a medium of exchange for the goods, services and lifestyle we wish to obtain. The challenge is to use it wisely in this context and to keep its importance in proper perspective.

That's what this book is about: emotions, behaviour, knowledge and action. Let's leave emotions to one side for the moment and look more closely at the last three.

BEHAVIOUR //

My interest in human behaviour as it relates to money dates back 47 years to when I first entered the financial services business as an insurance agent.

In my early training sessions, I was taught me to ask the client: "If you were driving downtown, would you wait for every light to turn green before you started or would you start driving and deal with the lights as you came to them? Is your decision about buying some life insurance any different?" Even

though circumstances are not perfect (many red lights), making a commitment to make it happen and sticking with the decision in spite of the obstacles is better than doing nothing.

I was also trained to plan my work and work my plan. This organized my own activities, but it applied equally well to making a long-term financial plan and resulted in more good advice for both my clients and me.

These gems of information from the insurance industry were invaluable insights on people and their behaviour, and in spite of changing times, they are as true today as they were then.

Interest in human behaviour and personal finance has gained steam in the past few years as a result of the stock market downturn and recession. This has led to a challenge for “The Efficient Market Theory” from a field of thought called Behavioural Finance. While most of what has been written has been about investor psychology, proper habits and behaviour are just as pertinent in other areas of personal finance. The recent stock market turmoil, for example, brought about extremes in human behaviour, ranging from greed at one extreme to fear verging on panic at the other.

In the 2008 stock market downturn, we saw the power of fear. The fear created irrational behaviour as tens of thousands who had jumped into trendy stocks now ran from a tsunami when markets deteriorated. Once again, the biggest obstacle in the way of decent investment returns was the individual investor. Instead of buying low and selling high, many investors did the exact opposite and not only missed great opportunities but also increased their previous losses unnecessarily. And of course, many of them blamed everyone from the government to Wall Street and Bay Street to their financial advisors – anyone but themselves.

While the behaviour of the ‘professionals’ and the institutions at the heart of our financial system indeed played a part, much of the losses were the result of personal investor reaction and panic behaviour resulting from a lack of both self- and market-knowledge and emotional understanding. Ultimately, each and every one of us is responsible for our own actions or inactions, and eventually we must live with the results.

While creating wealth is important, it is not the only thing in life. For many of us, money ranks well down the totem pole of what is important. At the top of that pole is happiness. We all strive to be happy. The United Nations recently

sponsored a conference on happiness, and asked the Earth Institute, headed by renowned economist, Jeffrey Sachs, to create a Happiness Index¹.

The timing was certainly right. Historically, the GDP (Gross Domestic Product of individuals, business and government) measurement has been the guiding light to much public policy and was clearly leading to unsustainable growth and self-destruction. So what are we doing wrong? Who is happy, and why?

The four happiest countries in this report were Denmark, Norway, Finland and the Netherlands. Canada followed in fifth place. All of these countries, it should be noted, have good social safety networks.

What does all of this mean? It shows that a nation's happiness is not necessarily tied to its economy. As well, on a personal level, while money is not the most important thing in our lives, it is a major component in making us happy. Money and its importance should be kept in perspective.

To change behaviour, you need to change your habits. This can mean changing direction and often following the path less travelled. Changing habits, behaviour and direction can take you out of your comfort or secure zone. It can, on the other hand, also lead to knowledge and adventure and a different and often clearer view of things.



Victoria Roberts

"If you want a positive outlook, you're going to have to turn your chair around, Walter."

KNOWLEDGE //

One of the most important lessons I have learned in life is the importance of knowing all the facts before I act. Take the case of Marlise. She had just inherited \$100,000 from her father. She decided to use the money to pay down her mortgage that was coming due in a year. She was afraid that if she put

the money in the bank, she would spend it. Instead, she put the cheque in a drawer. It was discovered nine months later by the executor for her father's will, that she had not cashed the cheque. By this time, the cheque was stale dated and a new cheque had to be issued.

Had Marlise had the knowledge or spoken with an advisor she would have known she could have put the money in a one-year non-cashable GIC. This was at a time when the interest rate for a one-year GIC was 4%. This behaviour resulting from lack of knowledge cost her \$4,000.

During the worst of the downturn, many people made their investment decisions by reading and following fear-provoking news headlines without knowing what was really happening.

Having knowledge can make you feel secure. Knowledge is helpful in making prudent decisions.

In spite of my 47-plus years in the financial advice business, I was astounded when I read some of the findings of the Financial Literacy Commission. In particular:

- 42% of Canadians struggle with reading, and 50% struggle with simple tasks involving math and numbers to the point where they have difficulty understanding basic financial information
- 160,000 Canadians who are eligible to receive Old Age Security and 55,000 who are eligible to receive CPP payments are not doing so
- only 40% of eligible Canadians are taking advantage of the Canadian Education Savings Grant for RESPs
- only 6% of the eligible contribution room for RRSPs is being utilized
- Only 51% of Canadians have a budget, a basic tenet of good financial planning. Developing a budget and sticking to it can relieve anxiety and save you money.

We should look upon financial literacy as an essential life skill, and this learning needs to be ongoing and lifelong. There is plenty of information and opportunity for learning available, but it is up to the individual to take the initiative to learn.

While the mission of improving financial literacy is a shared responsibility, the commission says that the Canadian government should take the lead role.

Unfortunately, it's only reasonable to assume that this will likely take a long time to happen.

Personal finance is not rocket science. Much of it is mathematical, but much of it is psychological. And even more is simply basic common sense. So while we're waiting for support from the government, each of us needs to assume responsibility for our own financial well-being. This does not mean doing it all ourselves, but seeking guidance and help when required. In fact, one of the main educators is your financial advisor.

ACTIONS //

Many people habitually and spontaneously respond to their emotions and desires. "I want this or I need this". Those, however, who combine rational thinking with their emotions and think things through, will generally fare better than those who do not. I expand on this in Chapter 1.

those who did the best, were those who:

- started early,
- continually educated themselves about money,
- knew what they wanted,
- set goals,
- developed habits, behaviour and activities to help themselves reach their goals (These included automatic enrollment systems and programs, keeping track of where they were at, continually working on their finances with a competent advisor and dealing with their emotions in a rational way.), and
- continually kept money in proper perspective.

HOW TO USE THIS BOOK //

Be Smart With Your Money is designed to be practical and interactive. It covers virtually all areas of personal finance and is a guide that focuses on the interaction of emotional and rational behaviour with financial knowledge and actions.

The best way to use *Be Smart* is to read it from start to finish, and then go back and read one chapter at a time, implementing the ideas suggested there as you

go along. There are also useful questionnaires and forms you can use in the Appendices.

Be Smart is also meant to be an ongoing reference guide. Some chapters may be useful today and others in the future. It is intended to be a source of financial information for all ages and stages.

No one chapter is meant to be the only or definitive source of knowledge on the subject. For example, taxes can be very complex. The tax chapter will give you the basics and an understanding of how you can use the rules to your advantage. It will not give you in-depth subtleties. That will require working with a tax specialist.

CHANGES

Benjamin Franklin is quoted as saying “the only things in life for sure are death and taxes”. I would add a third certainty -“change”.

I hope that *Be Smart With Your Money* will help you understand your emotions, influence your behaviour, and provide you with some valuable knowledge, leading to wise actions. This process will help you to minimize your anxieties, enjoy your money and look forward to a solid financial future.

Never forget that we are all subject to many imperfections and shortcomings, so don't be too hard on yourself and your money along the way. What you can do though is **Be Smart With Your Money**. Good luck!

Chris Snyder
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