INFORM

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WINNING THE MONEY MIND GAMES

Success in generating long-term wealth has a lot to do with awareness of the tricks money can play on your mind. How many of these do you recognise?

Money and emotion are strongly connected. Purchases often mean something to us personally. They broadcast our identity. They make us feel special. They reward us for hard work. But in the background, behind our most basic reasons for spending or saving, our mind plays further tricks. If you become aware of these tricks then the added clarity will benefit your wealth generation.

1. Bigger is better

Consider the purchase of a new car. You have just spent $35,000, so when the salesperson offers you a special deal – a $700 upgrade pack including a towbar, carpet mats and alloy wheels – it seems like a bargain. But would you happily go out today and spend $700 elsewhere? How many grocery trips does that represent? And many of us will grab the opportunity to buy a $100 item that has had its price slashed to $50. But if a $5000 item is discounted to $4950, then the $50 saving is not nearly as attractive. Remember that a dollar is always worth a dollar, no matter how much or how little the related purchase happens to be.

2. Discounted = good value

It is increasingly rare to see a price ticket that is not marked down. But is the $130 jacket, marked down from $210, actually better value or better quality than the $100 jacket in the shop next door? Ignore the higher price (known as an 'anchor', intended to make the discounted price seem cheap) and consider the actual value. This works in several other situations. For instance, many restaurant menus offer a high-priced entrée and main to make the other options seem cheap. And in your local electronics store, the fancy $500 toaster is only really there to make the $140 toaster seem like a bargain.

3. Gifted money is not worth investing

You receive money as a gift so instead of adding it to savings, investment or retirement funds, you put it straight into the spending budget. Your mind is de-valuing the money, because it was a gift. In other words, you didn't have to work for it, so it is somehow of less value or not worthy of investment. But if you regularly invest a specific percentage of your income, then consider investing the same percentage (or more) of gifted money.

4. Small change is of little value

How much small change do we leave lying around, or in a container, or in the glove box, then happily spend it on little things without a second thought? But consider that a small money box for children can easily hold $400 in gold coins, and suddenly that small change becomes a very real driver of financial change. The same goes for small pay rises, which may not seem to make any difference right now but can make a very real difference over the long term.

5. Money buys happiness now

Buying something today produces a very measurable result. Saving for the future and putting money into superannuation or investments is difficult to quantify in terms of lifestyle. So make it quantifiable. Figure out your average monthly expenditure and buy future months of happiness with your savings and investments.

6. Reduced mortgage repayments represent a saving

In an environment of falling interest rates, many home owners have been offered a drop in mortgage repayments. That is great for our household budgets, right? But consider that if you drop your repayments, you will spend more on the mortgage in the long run and will lose more money in interest, as you take longer paying off the mortgage compared to keeping your repayments at the same level.

SPEAK TO US FOR MORE INFORMATION

Speak to us if you would like to understand more about how this information might impact your financial situation.