



The Psychology of Money

Taking a Rational Approach to Managing Your Wealth

Wealth is a complex concept, and your perceptions, biases and emotions about money can affect the financial decisions you make. Understanding this dynamic and developing strategies for making objective decisions about money can help you manage your wealth more wisely.

Your Relationship With Money

In many families, money is a taboo topic. Talk of money may bring up a range of complicated feelings— anxiety, embarrassment, guilt, envy, insecurity or even shame. It may also call into question what money means to you, and your understanding of its significance may be intertwined with deeply-held perceptions about love, control, independence, accomplishment, identity, self-esteem and self-worth.

FINANCIAL PERSONALITY TYPES¹

Money management habits tend to fit into four financial personality categories:

- 1. Confident money managers** are long-term thinkers who are more likely to create—and stick with—a financial plan
- 2. Short-term strategists** are careful, cautious planners who are more motivated by short-term financial goals than longer-term planning
- 3. Value-based planners** are future-oriented and tend to make financial decisions based on their values
- 4. Laid-back balancers** take a relaxed approach to money matters and put more importance of living their lives and following their intuition

Your financial personality type can affect your relationship with money, and the decisions you make about how to spend, save and invest it.

FINANCIAL STRESS IS COMMON

- 57% of all employees say finances are their top source of stress
- 52% say financial stress has had a negative impact their sleep
- 74% want help when it comes to personal finances

AND CAN HAVE ADVERSE CONSEQUENCES²

- Sleep
- Mental health
- Self esteem
- Physical health
- Relationships at home

Exploring your relationship with money, and understanding how your emotions about money affect the decisions that you make can help to alleviate financial stress, so you can focus on managing your wealth to achieve your goals.

Your Feelings About Money

Your feelings, beliefs and attitudes toward money may be influenced by:

- Your childhood, and how your parents handled money
- Your education
- Your conceptions—or misconceptions—about money. For example, “You need money to make money” or “I can’t be financially successful because my parents weren’t”

Examining and understanding your feelings, beliefs and attitudes towards money is an important first step in not only making more rational and informed financial decisions, but also imparting good money habits to your children.

How Emotions Affect Spending³

Your emotions can have a powerful impact on your spending:

- **SADNESS**—buying things can make you feel better, at least temporarily
- **ANGER**—you may take bigger risks or make less rational decisions
- **FEAR**—you may exaggerate risk or second-guess yourself
- **GUILT**—you may try to make up for things by spending money
- **GRATITUDE**—feeling thankful may help you delay gratification

When the Pursuit of Money Can Be Ineffective

We all need money to live, and money can sometimes make life easier and more comfortable, or provide access to better services. However, the pursuit of money can become ineffective if you allow it to consume you. Here are some common pitfalls to accumulating long-term wealth:

1. Confusing high income with high wealth.

Having a high income doesn’t guarantee wealth, especially if you also have a high amount of debt. When building long-term wealth, your debt is just as—if not more—important as your income. The truly wealthy have a high income and low debt.

2. Being driven by materialism and consumerism.

Trying to keep up with everyone else with the best gadgets, cars and houses can lead to overspending and an overreliance on credit, both of which can derail you from achieving your long-term goals.

3. Using money as a form of validation.

Sometimes, we feel better about ourselves when we have the latest iPhone or walk around in designer labels. But, these feelings of validation are typically transient and can lead to a never-ending cycle of spending and short-term validation.

4. Feeling entitled to wealth and fine things.

Having a sense of entitlement—believing that what you desire is what you deserve—can be unhealthy, especially for your children. The healthy pursuit of money should be tied to the effort involved in earning it, as well as the motivation that fuels that effort.

5. Needing instant gratification.

We’re hard-wired to want things, and to want them now. Instant gratification is a powerful force, but the need for it can be detrimental to your long-term financial health.

Money can enhance your life, but your world shouldn’t revolve around it and the key to long-term wealth is finding the balance.

Changing the Way You Think, Feel and Act About Money

Relating to money is just as important as relating to the people you care about. It requires time and effort to understand its implication and to find the proper place for it in your life.

FIVE WAYS TO IMPROVE YOUR RELATIONSHIP WITH MONEY:

1. Differentiate between wants and needs.

Recognizing the difference between what you want and what you need can help you keep your spending aligned with your current financial situation, as well as your overall financial objectives and goals. Every buying decision you make affects your ability to achieve financial security. Understanding your triggers for immediate gratification or overspending can help you focus on your long-term goals so you can prioritize your short-term spending.

2. Seek clarity.

This means taking the time to fully understand a situation before responding to it. This helps you avoid knee-jerk responses or emotional reactions.

3. Talk to your family.

Having meaningful family conversations about money is also an essential part of any family wealth management strategy, especially as an increasing number of families are sandwiched in the role of caring for both their children and their parents.

Talking about money can be an empowering first step to forming a healthy relationship with wealth, and families that succeed in having effective discussions about money are better equipped to find ways to use their financial capital to leverage the value of their family, intellectual and social capital.

Some things you might want to talk about are:

- What money means to you
- Why you've worked hard to acquire it
- What family history might be intertwined with its acquisition
- What challenges and responsibilities accompany it
- What the family wants to accomplish with it

4. Identify your goals and set realistic expectations.

Defining your goals, and then developing a wealth management strategy that aligns with those goals, is another way of changing the way you think about money. Setting goals and tracking your progress over time also helps you set realistic expectations about your financial future.

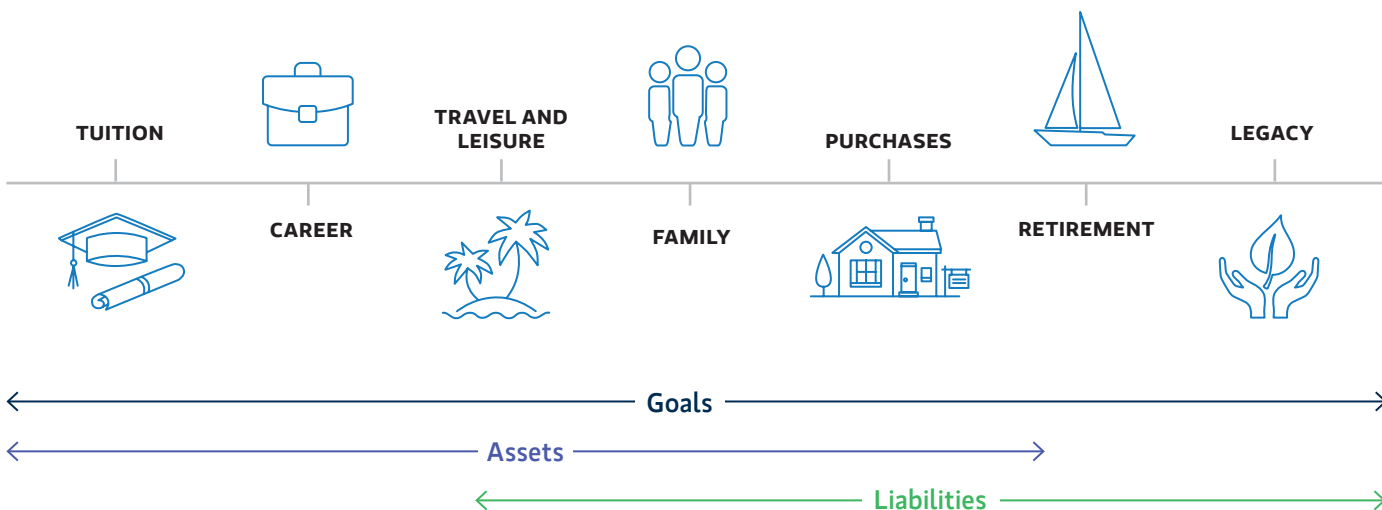
5. Have faith in long-term vision.

Believing in your long-term vision is particularly important. Markets are volatile and irrational, and your life can change in unexpected or unforeseen ways. Nothing is static, and the same is true of your relationship with money. Keeping sight of your long-term vision through the ups and downs of the markets and the highs and lows of life can help you stay the course.

Working With a Financial Advisor

In a world that constantly changes, you need a tailored goal plan that evolves with you. Morgan Stanley Financial Advisors are here to bring clarity and focus on what matters most to you.

We first work with you to determine your goals and outline your financial portrait, and then help you build a plan customized to your specific goals. We then help you periodically track your progress as you move through life, helping you adjust when necessary.



Ready to optimize your relationship with your wealth? Let's have that conversation.

¹ CNBC. In just 5 minutes, this quiz can reveal your financial personality type, February 27, 2023. Available at <https://www.cnbc.com/select/financial-personality-quiz/>.

² PwC. 2023 Employee Financial Wellness Survey. Available at <https://www.pwc.com/us/en/services/consulting/business-transformation/library/employee-financial-wellness-survey.html>.

³ The Smart Investor. Emotional Spending—What is it, Triggers, How to Control, May 20, 2023. Available at <https://thesmartinvestor.com/banking/savings/emotional-spending/>.

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