CHRIS ZADEH & ANGELIQUE SCHOUTEN

MONKEY MONEY MIND

HOW TO STOP MONKEYING AROUND WITH YOUR MONEY

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ABOUT THE AUTHORS

ABOUT CHRIS

His life's vision; position as founder and chairman of a fast-growing FinTech company; passion for travel, shark diving, yoga, and martial arts have made it possible for Chris to live up to this quote: "Life is too short to permit yourself the luxury of living it badly." In 2000, Chris joined the founders of the first online broker in Europe: BinckBank. There, he served as chief engineer and was responsible for building the bank's platform for the Netherlands, Belgium, and France. In 2003, he became the managing director of the Netherlands' branch, overseeing strategy and operations.

After eight years at BinckBank, it was time for a new adventure. While traveling the world, he reflected on all those years at BinckBank and thought about game-changing technology, like the cloud. He had a vision of banks just plugging into cloud-based administration factories to efficiently administer accounts. Chris founded the first cloud-based core-banking engine, Ohpen, by putting together a team of highly experienced banking professionals and software engineers to join him on a mission to build the best core-banking engine in the world. Contact: chriszadeh on LinkedIn or theyogiceo (Instagram).

ABOUT ANGELIQUE

Angelique Schouten has a lifelong passion for nature, financial services, technology, and developing female leadership. She has over a decade of experience in standing out in retail banking, insurance, asset management, and FinTech at companies such as ING, Aon, and Ohpen. She was responsible for running the first online robo-investor in the Netherlands, making online investments accessible for everyone starting at €1. In 2014, Angelique cofounded two start-ups: contract-management tool Cloudtract and sports-hospitality review website Sportz Guru. Angelique met Chris at his company, Ohpen, where she served as chief marketing officer and CEO of Ohpen UK, after having established Ohpen's first international office and company in the United Kingdom. After this adventure, Angelique joined the global board of Ohpen as chief commercial officer.

She holds a master's degree in business from Nyenrode Business University (where she met her husband, Eelco, who has been her bedrock ever since) and a bachelor's degree in economics and marketing management from Fontys University. In addition to being a true foodie and book addict, Angelique spends her time off attending sports matches, traveling, and hiking.

She has been featured as an inspirational, promising, and ambitious young professional by different magazines and publications in Europe. She also served as a coauthor of *The WealthTech Book*, selected by BookAuthority as one of the "Best FinTech Books of All Time." Contact: angeliqueschouten on LinkedIn or angelique4real (Twitter, Instagram, Facebook).

INTRODUCTION

MAKING SENSE OF HOW WE USE OUR CENTS

If you asked Chris today, he could still probably tell you exactly how many 1¼-inch drywall screws fit in a standard five-pound box. He should know; as a teenager he spent an entire summer counting screws for a local Dutch manufacturer, scrupulously saving his earnings. He had a clear goal: he would buy his first shares in a company with that money. He didn't really understand the first thing about financial markets, but the numbers on the newspaper's financial page fascinated him.

In Chris's mind, the stock market was the quickest way out of the unfortunate financial situation in which his family had found itself. Four years earlier, the advent of the digital camera had ruined his father's photography business … and consequently, his life. After his company went bankrupt, his dad began drinking heavily, and eventually, his parents divorced.

Living with a single parent and little financial resources, Chris was determined to not have the same worries that kept his mother up at night. There was money out there, moving in and out of hands, back and forth across companies, and he wanted a part of it.

When he finally had enough to invest, one stock name immediately stood out to him: KLMR, the symbol for the flagship airline of the Netherlands. It was his first stock investment, and, while he never kept track of his return, the excitement of that investment became the driving force behind his decision to join the financial sector only a few years later.

Even in the early stages of his career, however, it surprised Chris to learn that many seasoned investors used the same stock-purchasing strategy that he had at age sixteen: basing their purchases on a whim with little to no research. Or worse, they simply looked at what other investors were doing and did the same, convinced that by blindly following perceived trends they could somehow predict the stock market, even though it's a statistical improbability.

Why, he wondered, *are so many financial decisions based on feelings rather than hard facts? Finance is supposed to be a rational, exacting science, not a dating game.*

It wasn't until years later that he met someone who wondered the same thing.

Angelique grew up in an entrepreneurial family where both father and mother had a sense for business. She was "born on Persian carpets and raised with cat and dog supplies," as her mother would say. It was normal for everyone in the family to chip in and help wherever they could—from offloading trucks to counting stock levels and selling damaged items at local markets. Everything was working well until Angelique's parents divorced and her father abandoned her family, forging her mother's signature to empty their joint bank account and disappearing to Thailand. Angelique was about twelve years old at the time, and her sister was nine.

Ever since that day, Angelique worked. Her mother did what she could, but Dutch employment practices were against her—the high pension contributions required from employers made them far less likely to hire anyone over the age of fifty—so she took what part-time jobs she could find, saving everything, wasting nothing. It was exhausting, but her mother never gave up; she was determined to keep her family together in the home in which they lived.

"If you want something," Angelique's mother told her, "you have to work for it." If Angelique wanted to continue taking riding lessons, or if she wanted to purchase rollerblades or even a simple treat like an ice cream, she had to earn it. So, at age eleven, she took a summer job on a farm, planting 850-meter rows of leeks for ƒ17.50 a row, with each row taking her up to an hour and a half to complete.

Every day she knelt in the dirt, doing her best to plant as quickly and as carefully as she could. Yet even on the days when it poured rain, she was grateful for it—not just the opportunity to make money, but also to earn it based on performance. The faster she planted, the more she made. Her pay was not limited by the hours in a day, only by how well she could do her job.

With each row of leeks planted, Angelique mentally checked off the goals she'd earned, and tallied exactly how much harder she had to work to earn the next one: a new riding saddle, for example. It was a mental value estimation ("How many rows of leeks will this cost me?") that would stick with her for the rest of her life—and not only with her, but also with the farmers as they came to her mother's house the next summer to ask if Angelique was available again, as they had never seen a more focused and hardworking person in their field.

As the years progressed, it became more difficult financially for Angelique's family to keep up their old ways of living; so much so that Angelique's high school history teacher, Mr. Korsten, sometimes chipped in by giving her lunch money. It was at that point that Angelique's financial perception slowly started shifting. She began to drift away from "mainstream" groups in college, as she could not understand why they spent so much money on expensive, unnecessary items, like brand-name clothes, that a lot of parents simply could not afford.

Angelique sunk deeper and deeper into debt from the student loans she needed to finish her education and to make ends meet, even though she maintained several jobs. In chapter 2: "It Should Hurt to Pay: Why Easy Payments Lead to Easy Loss," Angelique provides deeper insight into this all-to-common struggle and how she overcame it.

It wasn't until she graduated and started working in the financial industry that the same questions that occurred to Chris occurred to Angelique: Why do we think of money borrowed so differently than money earned? Why are we so willing to take out loans when we have funds in savings? Why do we make so many of our financial decisions based on emotion rather than fact?

Why so much senseless behavior when it comes to managing our cents?

This combined realization was what prompted Chris and Angelique to write *Monkey Money Mind,* so that others could understand the impact of irrationality and emotions on financial choices, how borrowing money today is still money we have to earn in the future, and how, ultimately, we can circumvent this mind-set in favor of simple, rational financial decision-making.

WHAT IS THE MONKEY MONEY MIND?

In its most simple form, the human mind consists of two parts: the *Shin* and the *Yi*. The *Shin* is our state of mind: our passion, emotions, and affection. The *Yi* is our intellect: our thoughts, ideas, opinions, sentiments, will, wishes, and meaning. Most of the time, these two parts are fighting each other, and, while we may understand—*Yi*—that our emotions can make us act irrationally, we often do little to stop the stronger *Shin* when it rises against the rational.

The Monkey Money Mind is a hybrid of two concepts; it's the psychological influences on our financial decisions blended with the Buddhist concept of the monkey mind, the presence within us that remains restless and unsettled, criticizing our decisions, creating doubt, and stifling our creativity. Our Monkey Money Mind's incessant chattering affects even the most brilliant financial giants, challenging their ability to discern the rational from the emotional when it comes to investment decisions, demanding our attention and distracting us from the path to success.

The Monkey Money Mind is a hybrid of two concepts; it's the psychological influences on our financial decisions blended with the Buddhist concept of the monkey mind, the presence within us that remains restless and unsettled, criticizing our decisions, creating doubt, and stifling our creativity.

For instance, while the rational mind may focus on the future—gauging how much to save now so that we can live comfortably later on—the Monkey Money

Mind is squarely focused on the present. All it sees is the next tree branch, the next piece of fruit. It seeks instant gratification, and that is our biggest challenge. We have to look beyond the desires of the immediate moment, and make room for the rational decisions, planting the seeds today for the trees that will provide food, shelter, and comfort for us later on.

The fact is that none of us are deaf to the chattering of our Monkey Money Mind, but we can learn how to quiet it.

This book will explore:

- how we can evolve our Monkey Money Mind so that we can achieve the financial futures we've always dreamed of,
- the phenomena of the disparity between logic and irrationality through a psychological lens, and
- how to make sense of why we do what we do with our *cents*.

Each chapter shares the story of a common Monkey Money Mind decision, from poor spending habits, to putting trust in predatory "experts," to why we think so differently when it comes to money won versus money lost. We'll look to science to explain these decisions, and then discover how to both recognize and prevent these financial mistakes. We'll also dive into phenomena such as *confirmation bias*, *loss aversion,* and *disposition effect,* equipping ourselves chapter by chapter with the behavioral and technological tools necessary to build and strengthen our financial futures. Along the way, we'll also look into the psychological research behind these very human behaviors from both a financial and an evolutionary standpoint, learning with each step how to evolve our thinking.

It's our hope that after reading this book, you will feel that the following is true:

- You are inspired by the personal examples shared by the authors and celebrity experts.
- You have gained insights that trigger better decision-making when it comes to your personal finances.
- You are more conscious when planning your household budget, vacation expenses, investments, and pocket money, and more informed about the technological tools available to assist you with this planning.
- You are ready to begin the journey to becoming a millionaire.

No one can guarantee that knowledge will make you a millionaire, but knowledge *does* have a proven impact on financial status. Just look at the results of a study conducted by the Dutch central bank (De Nederlandsche Bank), which determined that the difference in personal capital between people who don't understand basic financial matters and those who do is an average of €80,000 ($90,878, as of 2019)—a number we believe could be even higher if knowledge about the psychology of financial decisions was taken into account.[1]

Who knows, once you understand how your emotions play a part in your financial decisions, you may become a millionaire! At the very least, you'll have far more sense when it comes to managing your *cents*.

YOU'RE ALREADY MAKING A DIFFERENCE

You may not have known it, but when you purchased this book, you also helped a very worthy cause. The Gorilla Organization (registered in England and Wales, charity number 11177131), which exists to protect the few remaining Silverback gorillas in the wild, receives 100 percent of the net profit from the sale of *Monkey Money Mind*.

Only a few shreds of DNA separate humans from apes. In fact, we share more than 96 percent of our genetic composition—a percentage ten times *smaller* than the genetic difference between rats and mice.[2]

Our Monkey Money Mind is as much a part of us as our long arms and furry legs. In learning to work with this primal, emotionally driven side of ourselves, we learn how to both benefit from and balance our burgeoning human intellect with our innate animal drive.

In writing this book, we found that our passion for understanding our closest animal cousin and how our primal minds can influence even the most intelligent minds only grew, and, with both of us being fervent nature supporters, we wanted to make a contribution.

Thank you for supporting this worthy cause.

Go to www.monkeymoneymind.com if you would like to know more about this registered charity and how you can help.


Advanced Cog

Irrational behavior is part of who we are. Just look at how irrationally we behave in general: we smoke, we drink, we jaywalk, we speed, we text and drive; some people even drink and drive. We do all these irrational things that are emotionally driven, so why would we think that we can try to be rational with our money?

—**ANGELIQUE SCHOUTEN**

CHAPTER ONE

MEET YOUR MENTAL ACCOUNTANT

Imagine the following scenario:

The busy sidewalks of downtown had thinned out quite a bit by the time Tobin arrived, trotting down the evening streets toward the city's concert hall. It was only two blocks away, but a quick glance at his watch made him pick up the pace; the show had started almost ten minutes ago, and, at this rate, he was going to miss the first act.

Stopping to catch his breath at the main entrance, Tobin pulled out his wallet to grab his ticket … and froze. The ticket was not there. He took out everything and flipped through his few bills and receipts, hoping it was buried somewhere in the folds, but came up empty. It was gone.

Several paces in front of him, the ticket attendant eyed him curiously.

"Are you here for the show?" the attendant asked. "If so, you'd better hurry. I'm about to close the ticket booth."

Tobin hesitated. Tickets to the show were $20 each, and while he had $20 on him, he'd already paid $20 for the one he'd lost.

What would *you* do?

As you consider your answer, take a moment to imagine Tobin once again, but in a slightly different situation.

Tobin is still running late to the concert. He heaves to a stop in front of the brightly lit concert hall and, once again, reaches into his wallet … except this time, he is not looking for his ticket. Instead, he is pulling out a $20 bill to buy one, and, as he does so, he notices that he lost another $20 bill at some point between his home and the concert hall.

Should he use his remaining $20 to buy a ticket?

In both situations, Tobin has lost $20. In the first, he is out a $20 concert ticket. In the second, he is down a $20 bill. Since the monetary value did not change, one would think that our answers would be similar, but that is not the case.

When a research team at the University of British Columbia explored this question, they found that respondents' answers were surprisingly—and drastically—different depending on the scenario.[3]

Of the participants, 46 percent said that, in the first scenario, they would spend $20 to replace the lost ticket. Nearly 90 percent said that, in the second scenario, they would spend their remaining $20 on a ticket. There were almost twice as many people spending money in the second scenario as there were in the first, and yet the monetary loss was the same in each.

Why the disparity? Why do people experience the loss of a $20 ticket differently than the loss of a $20 bill?

The answer lies in the very human process of mental accounting.

THE UNRELIABILITY OF OUR MENTAL ACCOUNTANT

Tobin's two ticket scenarios are excellent examples of our mental accountant at work. While the monetary value was the same in each situation, the context—and our emotional justification for each expenditure—was not.

In the first case, we mentally budgeted $20 for a concert ticket. Then, when we perceived that the price had suddenly "doubled," we balked. However, in the second case, the $20 bill was lost, but we had not spent any money on the concert ticket yet. It was still just $20.

It may not be rational (and it goes completely against the established economic belief that humans—*Homo economicus*[4]—are rational decision-makers) but this is how our Monkey Money Mind interferes with our decision-making when it comes to money. Instead of taking the traditional economic view that money is exchangeable and replaceable—that $20 lost on the street is the same as $20 lost on a concert ticket—we assign greater value to one loss over the other because we perceive them differently. This process of arbitrarily assigning value to money based on context and emotion is known as *mental accounting*.

In Tobin's story, we mentally accounted $20 for his concert ticket. When he lost it, that was it; to essentially spend $40 on a $20 ticket made our mental accountant cringe. However, after losing $20, spending $20 on a ticket was much easier for our mental accountant to write off.

Despite the irrationality, context clearly has an enormous influence on our spending habits.

THE COST OF A FREE DRINK

Suppose you bought a case of excellent Bordeaux for $20 a bottle. A few years later, that same wine sells at auction for $75 a bottle, so you decide to drink one from your stock to celebrate. How much does that cost you?

A. Nothing

B. $20

C. $20 + interest

D. $75

E. -$55 (what you saved by buying the bottle at $20 instead of $75)

When the readers of the wine newsletter *Liquid Assets* were asked this question, only 20 percent gave the economically correct answer: D. $75, which is the cost to replace the bottle.[5] More than half of the remaining readers felt that they were either getting a free bottle of wine, or that they actually made money by drinking it!

Here's our Monkey Money Mind at play again, tricking our mental accountant into believing that the *cost* of something is separated from the *consumption* of that product. Because we paid for the bottle we drank years ago, the cost is seen as "closed" by the time we consume it, making it feel as though it's free.

But what if we didn't drink the bottle? What if we accidentally dropped it instead?

In a follow-up question, *Liquid Assets*' readers were asked to imagine that they accidentally dropped a bottle shortly after finding out about the new $75 price tag. How much money did they lose?

In this case, more than half of the respondents answered D. $75. Only 8 percent said A. Nothing, and 2 percent answered E. -$55.

When the context changes, our mental accountant's perception of the cost changes as well.

In their conclusion to this study, authors Richard Thaler and Eldar Shafir discussed the importance of putting rational choices into perspective, adding that, "Rational is not necessarily happy, and irrational gives you the rare opportunity to enjoy 'free' drinks."[6]

When the context changes, our mental accountant's perception of the cost changes as well.

A GOOD DEAL … OR IS IT? TO OUR MENTAL ACCOUNTANT, IT IS ALL RELATIVE

There are many examples of our mental accountant making irrational decisions. Spending tax refunds more easily than our savings, for instance, or saving money while we take out loans at the same time. Or consider the choices our mental accountant makes when we think we are getting a good deal.

Let us go back to Tobin for a moment.

While out shopping, Tobin looks up the price of a portable speaker he is about to purchase for $15, and sees that it's on sale for $10 at another shop just twenty minutes away. Should he buy the $15 speaker or go to the other store and get the one on sale?

Again, as you consider your answer, let us take a look at a second scenario.

What if Tobin did the same price check on a fall jacket and found that he could buy it for $125 at one store, or drive twenty minutes to another store and get it for $120. What should he do?

In both instances, Tobin is saving $5. But when the same researchers from our earlier example asked a group of participants what they would do, 68 percent said they would drive to the other store for the speaker while only 29 percent would make the same journey for the jacket.[7]

Why, then, when both instances represent the same amount of savings for traveling the same distance?

It is because our mental accountant is not thinking about the absolute value of $5; it is thinking about the relative savings that each scenario represents.

In the case of the portable speaker, the $5 represents a 33 percent discount, which is a pretty good deal. However, the $5 savings with the jacket is a mere 4 percent difference—not really enough to justify traveling across town.

GOOD DEAL: GOING THE EXTRA MILE FOR $5

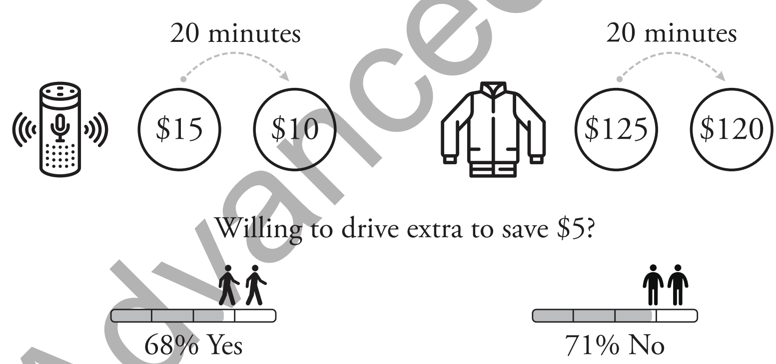


Figure 1.1

Unfortunately, it is this focus on big *relative* savings that leads our mental accountant to lose sight of savings in *absolute* terms.

Now let's take this mental misperception a step further and apply it to a much bigger purchase: buying a new car.

Tobin, our token spender, has placed $15,000 in his mental accountant's "new car" folder for this purchase, and walks onto the car lot focused on vehicles with this price tag or lower. As he looks around, however, he suddenly spots the perfect car: the latest model with all the bells and whistles. It's everything he's ever wanted, but the price tag is $25,000.

Tobin shakes his head. As much as he likes the car, exceeding his budget by 67 percent is not going to happen. The relative difference in cost is too much.

A little disheartened but undeterred in his mission, Tobin continues walking around the lot until he finally decides on a perfectly acceptable model for exactly $15,000. The salesperson congratulates him on his decision and as they sit down to sign the paperwork, the salesperson casually remarks, "You know, it wouldn't be that much more to update the navigation system for you. In fact, we have this same model with a leather-wrapped steering wheel and a new navigation system for only $500 more! What do you say?"

Why not? Tobin thinks. *$15,000 or $15,500—it's not that much of a difference when you're spending such a large amount, right?*

WEBER'S LAW OF JUST-NOTICEABLE DIFFERENCE

Named for psychologist Ernst Weber, this principle of psychophysics states that the smallest ratio of change necessary for most of us to notice the difference between two very similar stimuli—also referred to as the point of just-noticeable difference—is 2 percent. Remarkably, when the majority of us are given two identical bags of pennies—one with fifty pennies in it and the other with fifty-one—we can tell which one is heavier (fifty pennies = 125 g, while fifty-one pennies = 127.5 g: exactly a 2.5 g—2 percent—difference).

When it comes to pricing, this law can be applied to show how we are more sensitive to just-noticeable change with lower-priced items.

That is, if we are used to paying $2.50 for a cup of coffee and the price increases by twenty-five cents, we notice, and we may go somewhere else to buy coffee because of it. However, if a car seller increases the cost of a vehicle from $20,000 to $20,200, it's not as noticeable and likely falls within our range of acceptable price change.

This line of thinking—when our mental accountant's relative, Monkey Money Mind-driven thinking, is hard at work—is often referred to as *flawed perception*.[8] If Tobin were asked to spend $500 on a leather-wrapped steering wheel and navigation system for his current car, he would probably think twice before spending such a large sum. But because it is grouped with the car, the relative increase in cost—a mere 3 percent—is acceptable.

THE LATTE FACTOR®

This relative thinking can be dangerous, particularly when it comes to small expenditures. Buying a pack of gum for $2 at the register may seem like nothing, but these small costs add up quickly.

In his book *Start Late, Finish Rich*, author and financial advisor David Bach calls this the Latte Factor® based on a discussion with one of his students during a personal finance class.

As he was explaining the importance of setting aside a portion of one's income every month, one of his students raised her hand.

"David, everything you've told us sounds great in theory, but it doesn't work in practice," she said. "I don't know about anyone else in this class, but I really don't have anything left after deducting my fixed expenses and groceries."

Other students in the class nodded in agreement.

"OK," said Bach. "Let's take a look at what you spend each day, starting with that coffee you're drinking."

The student looked down at the double nonfat latte in her hand.

"Well, this was $3.50, and I bought a breakfast muffin for $1.50," she began.

She then went on to say that, during morning break, she bought a smoothie ($3.95) with a protein "juice boost" (+$0.50) and an energy bar ($1.75).

Bach asked her to pause as he added everything up.

"So we haven't made it to lunch and you've already spent $11.20," he concluded.

She nodded.

Bach turned back to the board and wrote out a quick graph:

SAVE ON COFFEE, BECOME A MILLIONAIRE

PER DAY	PER MONTH	AFTER 10 YEARS	20 YEARS	30 YEARS	40 YEARS	50 YEARS
$5	$150	$30,727	$113,905	$339,073	$948,612	$2,598,659
$10	$300	$61,453	$227,811	$678,146	$1,897,224	$5,197,317

Based on an ambitious return of 10% per year.

Figure 1.2

"If you took less than half of that, just $5 a day, and put it in a pension fund," he explained, "after a month you would have saved $150. After ten years, you'd have more than $30,000 and in fifty years, you would have over $2.5 million."

Of course, Bach added, that would be with an optimistic 10 percent return each year, but the example makes its point: money can easily "leak away" in small purchases, such as coffee, magazines, cigarettes, sandwiches, bottled water, and snacks.

Bach's Latte Factor® illustration is not an admonition for buying coffee and sandwiches. Rather, his point is to bring awareness to how much we spend on incidentals. If we're looking to save a bit of our salary every month, there are probably a few things we could cut out from our everyday spending habits. If we are to believe Bach, everyone can become a millionaire with just a few small changes!

AVOIDING OUR MENTAL ACCOUNTANT

It's a quiet Saturday afternoon in Tobin's neighborhood. From the kitchen he can hear the hum of his next-door neighbor cutting the grass, and the jangling chimes of bicycle bells as a handful of children ride circles in a nearby cul-de-sac. He's just about to head outside to do some yard work of his own when he spots a large, colorful van drive by his window. It parks in a driveway two houses up from his and the doors instantly slide open. A three-person camera crew hops out of the back while a well-dressed gentleman steps out of the passenger side. Another person wearing a headset with a microphone runs up to him and hands him a gigantic rectangle of white cardboard. The camera crew surrounds him as he walks up to the door.

Tobin presses his nose to the window glass, straining to get a better view. *What in the world is going on?* he wonders.

After a moment, a young woman in an apron answers the door, a child of maybe three or four tightly grasping her leg. Then the gentleman with the rectangle says something and a smile blossoms across her face. He hands her the cardboard and as she turns it around, Tobin sees that it's a check for $30,000. She grins, thanking the man and nodding her thanks to the surrounding cameras.

The well-dressed man gives a slight bow and heads back down the sidewalk, the film crew circling him as he walks four houses to the right and once again knocks on the door.

This time, a neighbor whom Tobin only knows as "Mr. Gus" answers the door. He's still in his gardening clothes, smudged with dirt and cut grass, his canvas gloves tucked in the bib of his coveralls. Tobin sees him mouth the word, "Yes?"

The gentleman says a few words and then reaches into his pocket, pulling out a set of keys.

This time, Tobin hears Mr. Gus loud and clear.

"Oh my God! A new car!"

He slaps his hand over his mouth and stumbles forward into the host, who quickly grabs his arm to keep him from falling. They both laugh and Tobin can see tears streaming down Gus's face.

Reactions to receiving prizes vary across cultures, but researchers have observed that receiving a luxury item as a prize is almost always celebrated more than the receipt of money.[9] Even in the Netherlands, where reactions to cash prizes are usually sober, winners of the Dutch Postcode Lottery have been known to react with shouts of joy upon learning that they have won a car, even when the value of the car is less than a stoically accepted cash prize.[10] In fact, various scientific studies have discovered that when people who win a lottery are given the option of a prize, they prefer luxury items, such as massages or restaurant vouchers, over more "useful" things, such as supermarket gift cards or schoolbooks.[11]

This is a special form of mental accounting: the avoidance of it.

In general, our mental accountant is doing its best to control expenses and avoid the guilt that comes with spending money on luxury items. It may be nice to have a $2,000 handbag, but for most of us, it's difficult to justify spending that kind of money when we can get a perfectly good bag that will do the same job for a fraction of the price.

Cash prizes, while exciting, also come with this choice: Do we make a practical choice and either invest, save, or spend that money on something sensible, or do we indulge ourselves with a luxury, like a fine dinner or a vacation? For many of us, choosing the indulgence comes with a hearty helping of guilt over the wasted funds.

If the prize *is* a luxury item, however, the risk of guilt is avoided; we have no choice but to accept and enjoy it.

Consider the National Football League's Pro Bowl, for instance. For years, the NFL had a hard time convincing top players to participate in this friendly match between all-stars, even though the bonuses were quite impressive. Then, in 1980, the NFL began holding the Pro Bowl in Hawaii and offered players two first-class tickets and accommodations instead of cash. From that moment on, top players became a regular feature of this post-season game.

THE WEIRD WAY WE SPEND WINDFALLS

When it comes to the choice of a luxury or cash prize, our Monkey Money Mind is once again hard at work, tricking us into believing that choosing a luxury item is better because it means that we are not the ones spending money on it. It's already spent, and the guilt trip from our mental accountant is avoided. Yet this decision doesn't make a lot of economic sense.

If we choose a cash prize over a cruise trip, for instance, can't we use that money to buy the vacation of our dreams instead of settling for whatever cruise comes with the reward? Instead, we often opt for the cruise, as we are more likely to feel guilt over spending prize money on a holiday.

Just for the fun of it, my brother-in-law occasionally bets on soccer matches. He doesn't just flip a coin and pick a team, however; he does his research. He studies every player and every competitor, and then researches their injuries, their records, the field they're going to play on, the weather conditions predicted that day—everything. Then, and only then, does he place a bet. Yet, when he wins, he often says, "What the hell?" and places a last-minute bet, acting as though it's free money. He worked hard for that money and the value is no different than the amount he would have made through any other sound investment. It's strange the way circumstances so strongly influence our perception of money. — **Angelique**

Curious about the way in which people choose to spend cash winnings, a number of economists from the University of Amsterdam and Tilburg University, among others, conducted a wonderful experiment involving the Dutch Postcode Lottery.[12] In speaking with 223 winners, the researchers found that winning money did not have much effect on spending patterns. Winners spent a little here and there on things like home improvement and durable goods, but daily expenses, such as grocery shopping and eating out, stayed the same.

At first glance, these findings correspond with an economic model called the Life-Cycle Hypothesis, which posits that all of us will spend about the same amount of money every year for the rest of our lives.[13] That is, our annual expenses equal our total expected capital over our lifetime (our total number of expected years of life).

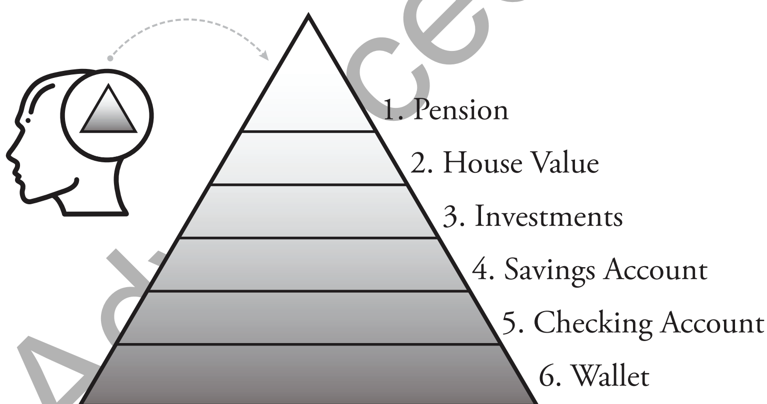
Yet this model does not always hold true, especially when it comes to smaller winnings.

Say Tobin, at age thirty, wins $300. According to the Life-Cycle Hypothesis, if he expects to live another fifty years, the only impact these winnings would have would be to increase his annual spending by $6 ($300 ÷ 50 = $6).

As most of us know, however, this is almost never the case.

The problem with the Life-Cycle Hypothesis is that it does not take behavioral science into account, a shortcoming that economists Richard Thaler and Hersh Shefrin attempt to explain in their addition to the hypothesis, the Behavioral Life-Cycle Hypothesis.[14]

MENTAL RANKING: THE CLOSER TO THE PINNACLE, THE LESS YOU SPEND



If we were to place the likelihood of spending on a scale of zero to one, with one indicating that all of the money in that category will be 100 percent spent, then consumers are more likely to spend the money in the first category: the checking account. Economists call this the marginal propensity to consume.

Figure 1.3

In this hypothesis, the money in our checking accounts is at the bottom, and therefore, most likely to be spent. Next up, and less likely to be spent, is the money we have in savings and investments. The money invested in a house and/or a home's equity is even less likely to be spent, and, finally, "future income"—the money we earn in the future or that is included in a pension fund or savings plan—is sacred and the least likely to be spent.

Where do windfalls fall in that structure?

Let's go back to Tobin again for a moment.

He's on his way to run some errands and stops to check the mail on his way out. Flipping through the envelopes, he notices one from the tax office. It's his tax refund! He tears it open to find a check for $500.

Tobin now has a choice: he could deposit his return in his savings account and forget about it, or he could put it in his checking account and spend it. If he's like many of us, however, he'll put it in checking and use the extra money for a small indulgence. Nothing fancy, of course, but he had been thinking about how nice it would be to have a new pair of work boots …

Wait just a minute, you may be asking. *We just finished talking about the guilt of buying luxury items. Why are we suddenly willing to spend money on shoes when, before, we hesitated to buy a dream vacation?*

The difference, according to our mental accountant, is relative.

When it comes to windfalls, our Monkey Money Mind tends to go, well, bananas.

Research indicates that when it comes to large windfalls—more than 60 percent of our yearly income—most of us will spend about a quarter of it and save

When it comes to windfalls, our Monkey Money Mind tends to go, well, bananas.

the rest. Smaller windfalls, however, are often used as an excuse to spend. And very small windfalls—less than 10 percent of our yearly income—are spent twice as fast![15]

Even though Tobin worked for every bit of money in the tax refund he received, his mental accountant still registered it as "extra money," making it much easier for Tobin to spend it on new shoes, or maybe a nice dinner, guilt-free.

THE PROBLEM WITH BORROWING MONEY WHEN YOU HAVE PERFECTLY GOOD SAVINGS

But what if Tobin didn't spend his tax refund? What if he saved it?

Let's go back for a moment to Tobin's visit to the car dealership; because while we've already talked about the problem with Weber's Law and our willingness to spend more when it's only a small percentage of a greater cost (e.g., adding $500 worth of extras onto a $15,000 car purchase), what we didn't bring up was how Tobin ultimately paid for it.

First, let me ask you this: How did you buy your current car? Did you take out a loan or did you purchase it outright?

As of 2017, close to half of American adults were paying for their car with a car loan.[16] This is perfectly fine, of course, if you are doing so to build credit, but it may not make the most economic sense.

My mother did this when she bought a car. Like Tobin, she took out a personal loan instead of buying it with the money in her savings account. She had enough to purchase the car outright, but she was afraid to do so. After the divorce, money was always tight. I worked from a young age to help her, but she never shook the fear of becoming penniless. Despite the fact that she had to pay interest—and despite the fact that she could have taken out a personal loan if she suddenly needed some quick cash—she went with the car loan. Because of fear, she lost more in interest over the three years it took to pay back her loan than she would have lost in savings interest by not having that money in her savings account. Her Monkey Money Mind would not allow her to see the long-term benefits, only the short-term fear. — **Chris**

Even though Tobin had a little trouble hanging on to $20 at the beginning of this chapter, he was actually pretty good about saving money. In fact, he had almost exactly $15,000 in his savings account when he walked into the car dealership that day. Yet when he sat down with the salesperson to talk payment, he ended up opting for a $15,000 loan with an 8 percent interest rate, which meant he could pay off the car in three years with a $450 monthly payment.

But why didn't Tobin decide to pay for the car with his savings? He had enough to do so. In fact, if he'd paid for the car up front, and, instead, put $450 a month into his savings, he not only would have saved himself the 8 percent interest (which added $1,200 to his total, bringing the actual cost of the car up to $16,200), he also would have saved the interest, plus earned the 2 percent interest rate!

$450 x 36 monthly payments = $16,200

+ 2% interest ($324)

= $16,524

After three years, Tobin would have added $1,524 to his savings, rather than paying $1,200 in interest.

The problem was that Tobin was afraid. His mental accountant saw his savings as an emergency fund only. If he withdrew most of it, he worried that he might not have enough money if he suddenly needed it (even though he could have taken out a personal loan, if necessary).

We'll go into this fear—what many researchers refer to as *the pain of paying*—in the next chapter. First, we need to address the problem with our *perception* of loans. Just as with the tax refunds and small windfalls, our Monkey Money Mind likes to trick our mental accountant into seeing loans as "extra money" instead of the added costs that they are.

EXPERT SPOTLIGHT

ANNEMARIE VAN GAAL

Annemarie van Gaal, investor, publisher, and presenter known for her keen financial mind as well as her appearances on television programs, such as *Dragon's Den*, *Ten End Council*, *Een Dubbeltje op Zijn Kant*, and *Divorce Hotel*, speaks to the value of long-term investments.

> "A financially carefree life is only possible when you understand your income and expenses."

BLUNDER

In business, as the saying goes, "You win some; you lose some." You cannot call the lost ones blunders; they are part of being an entrepreneur. Privately, I sometimes spend a lot of money on a pair of boots, a bag, or clothing I really like. Ultimately, these very expensive things always end up unused in the closet because they no longer fit, cannot be easily combined, or are not comfortable enough. In terms of money spent, I can categorize these as blunders.

SUCCESS

Between 2000 and 2003, I bought a number of houses in a residential area (P.C. Hooftstraat) in Amsterdam. Back then, there were no brands like Louis Vuitton, Chanel, and Hermès there, but, in my mind, it was only a matter of time before these brands moved in. That turned out to be the case, because not long after, all the major brands were looking for retail space, and I got weekly offers to sell my properties. I was thrilled, but I did not sell until one day when I got an offer from an Irish investment fund. It was so high that I decided to sell the properties after considering it for a week. Thus, in a few years' time, without having worked for it, I earned almost as much as I made in Russia for a decade, working twenty-four hours a day. My real estate portfolio is without a doubt my biggest success because I earned a lot with very little work. However, my most gratifying financial successes are projects in which I have created something myself.

LESSONS

- Write down everything you spend.
- The best tip I can give someone is to keep a ledger. If you want to lose weight, the best diet is writing down everything you eat.

> Getting insight into your income and expenses is the only way to lead a financially carefree life and make a great plan for the future.

The families I met through my TV show, *Een Dubbeltje Op Zijn Kant*, and my book *SUCCES* (*Success*), were usually heavily in debt. I was surprised that in some cases women had not thought about working full time. Their debt was sometimes incalculable. On several occasions, the family closed its accounts and burned all correspondence. They despaired and moved out of their home, hoping to avoid creditors. But when women were asked why they did not work, they would sometimes react dismissively. It seems to be that to get out of debt, you have to generate more income.

EXPERT SPOTLIGHT

PAT WILLIAMS

Pat Williams, founder of the NBA's Orlando Magic, sports executive, and author of one hundred books, speaks to the importance of learning the value of saving at a young age, getting rid of credit cards, and the crazy things that we do for love.

> "Be careful and don't spend unless you have to. Don't get in trouble financially. But if it happens, don't panic, stick with it, and, above all, be careful about how you use credit cards."

BLUNDER

Years ago, my wife and I were having a very difficult time in our marriage. She was on the verge of quitting, but I was determined to woo her back. I did everything I could think of: I bought her all kinds of luxury items and jewelry, even booked us a trip or two. I did it all!

Then, a month or so later, she came to me and said, "We are in serious financial trouble."

"What do you mean?" I asked.

"Our credit cards are all maxed out. We're under it."

I was shocked. I didn't realize until that moment, in trying to woo her back, I had spent us into oblivion.

That was the first experience I had in being financially behind the eight ball. Years later, my wife really did leave me, and I was presented with another financial crisis. In our state, Florida, there is a fifty-fifty rule: in divorces, everything is split fifty-fifty. Long story short, I got the house and she got the cash. Fortunately, I was still working, and eventually got out of that hole and learned my lesson: love should never be an excuse to break the bank. And I've kept going, but those two experiences will always stick with me. Today, I hardly spend anything. I've since remarried, and my wife, Ruth, handles the spending. She's much more disciplined than I am, and I have complete trust in her skills and integrity.

SUCCESS

Instead of my own success, let me tell you one about my son, Jimmy. He was in the eighth grade here in Orlando when a businessman came to speak to his class about money.

"Don't spend any money until you're thirty," he told the students. "Put it all away and let the miracle of compound interest start working for you."

Shortly thereafter, Jimmy made contact with his granny—my mother—and they formed a little partnership. I got the sense that Granny provided the money and Jimmy provided the advice, but they carried on together and Jimmy became a great believer in the miracle of compound interest.

Jimmy is now in his forties. We never talk about his net worth, but he lives a different life than the rest of us. He would tell you that his hour with the businessman was a turning point for him, and a big event in his life.

LESSONS

- The younger we can teach kids about saving and investing, the better! If you do it long enough, you'll wake up one day a full-fledged adult and a multimillionaire.
- Financial advisor Dave Ramsey has a great saying: "Cut your credit cards in half! Pay cash whenever you can." That's what I do. I keep the credit card in my pocket, and I hardly spend cash on anything.
- We don't need five different cars, three homes, or five trips around the world each year. Be conservative. Like my mother always said, "Don't waste your money!"
- Be careful and don't spend unless you have to. Don't get in trouble financially; it's a horrible feeling.

FINANCIAL MEDITATION

Take a few minutes to check in with your Monkey Money Mind. At this time, we are not concerned with fixing it. Instead, we are simply becoming aware of it. We do not calm our Monkey Money Mind by force; rather, we learn to work with it by recognizing our irrational behavior toward money. Chris and Angelique have put together some practical tips that can help you find your balance and tame your Monkey Money Mind.

1. **Treat your money as though you worked for every last bit of it.** Even the money you won, inherited, saved, or received back in a tax refund. Consider how long you would have to work to earn the same amount. Angelique likes to think of it in terms of goals and putting them into buckets, quantifying the cost of an item by how much she had to work to afford it, just as she did when, as a child, she gauged purchases by how many rows of leeks she had to plant in order to earn them. For example, if you earn $16 per hour and you want to spend $8 every day on a super-special coffee, then that's half an hour of work and your life. Is that $8 coffee worth it?

2. **Calculate your own "Latte Factor®."** Marketers often take advantage of the human weakness for small amounts, creating offers like "only $4.99 a month," or, "$0.50 a day." But how much does $0.50 work out to per week or per month? In a year, that "negligible" $0.50 per day comes to just over $180. Where can you save a little, and save a lot in the long term?

3. **Use loyalty programs and cards, but don't charge them with money.** There are many stores/vendors that allow you to sign up for loyalty programs. Cashing in on your accumulated loyalty points can get you a long way in terms of getting free products, services, discounts, or upgrades at supermarkets, gas stations, airline companies, coffeehouses, etc. The short amount of time it takes to register for a loyalty program is nothing when compared to the benefits you receive. Nowadays, you no longer need a wallet full of loyalty cards because there are many online portals and mobile wallets, which also make it a lot easier when you shop online.

4. **Put your mental accountant to work.** As soon as you receive your paycheck, put the amount left after deducting your fixed costs and some "pocket money" into a savings account. This is a great way to make your mental accountant work in your favor. Most people do this the other way around, and save what is left at the end of the month (often little or nothing). You will be forcing yourself to live more economically by setting money aside in a savings account. If you do this, you will be less likely to take money from your savings to buy an expensive pair of shoes, for instance.

5. **Set up automatic savings.** Even if you reduce your spending on daily incidentals, you still aren't technically saving that money

until you put it away in a savings or investment account. The safest option is to designate a certain amount of your paycheck to be automatically deposited in savings, saving you the trouble of remembering to do it … and possibly spending it instead.