J.P.Morgan

Mind Over Money

Our financial thoughts and behaviors are often at odds with our goals. Here's how to bring them into better alignment.

Have you ever spent money you should have saved? Sold an investment you should have kept? Or made other decisions not in your best financial interests?

You aren't alone.

Key takeaways

- How we think and feel about money has a big impact on how we save, spend and invest.
- We can't always change who we are, but we can change financial plans to better align with our behaviors and goals.
- Become more intentional with your financial life; re-evaluate old habits to be sure they're consistent with your values.
- Start slowly and simply—set small, achievable goals, and don't try to do too much at once.

The human brain simply isn't hardwired for money matters, says Michael Liersch, PhD, Global Head of Wealth Planning & Advice at J.P. Morgan. It can be difficult to envision goals far off in the future or how small investments can compound into large amounts over time (see chart on the next page). And so we often invest too late, too little or not at all.

"Past experiences can also shape our current saving, spending and investing patterns," says Liersch. A millennial who watched her parents struggle through two bear markets might grow up distrusting stocks. Some people raised in poverty may compensate by overspending, while others live too far below their means.

> "... take a step back and think about your values when it comes to money."
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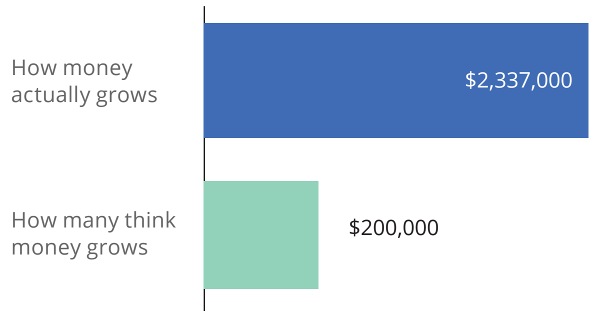
> **MICHAEL LIERSCH, PHD**
> GLOBAL GLOBAL HEAD OF WEALTH PLANNING & ADVICE, J.P. MORGAN

We can't always change our most deep-rooted behaviors, but we can understand them, manage them and build our financial plans around them. "First, take a step back and think about your values when it comes to money," suggests Liersch. "What matters most to you? Are your behaviors consistent with those values? Are they moving you closer to your goals? If not, even small changes can make a big difference."

Compounding is confounding: we don't grasp how money grows

When asked how much $400 monthly investments would grow over 40 years at 10% annual returns, the average person estimated more than $2 million less than actual growth.



Source: *Misunderstanding Savings Growth: Implications for Retirement Savings Behavior,* Craig R. M. McKenzie and Michael J. Liersch, March 2011

Five strategies for managing your financial behaviors

1. Be the architect of your financial life

"Many of us follow old financial habits without ever thinking about whether they're good for us," says Liersch. As a simple first step, roughly estimate how much of your total income is going toward spending, giving, saving and investing. Then ask yourself if that's really how you want your money allocated and adjust accordingly.

2. Reframe your financial decisions

Reframing is simply the process of looking at the same situation from a different perspective—a glass half full versus half empty. For example, instead of agonizing over what you'll do without the latest electronic gadget, you can contemplate what to do with the money saved. Or, you could reframe a stock market decline as an opportunity to buy low and not as a reason for panic selling.

3. Align your behaviors—and investments—with your goals

How would you react to a 20% investment loss? If the money was intended for retirement in 30 years, you could calmly and patiently wait for the market to recover. Now imagine how differently—and emotionally—you might react if you needed the same investment for a house down payment in three months. Just remember to stay the course.

Stay the course—6%

The lowest average annual return for U.S. stocks over 20-year periods since 1950[1]

[1] Source: J.P. Morgan Asset Management, *Guide to the Markets*, 2Q 2019

4. Find a trusted person to collaborate with

It could be a spouse, parent, child, financial advisor—anyone with a different mindset who's willing to challenge your views and help you stay focused through good times and bad.

5. Start with very small, achievable goals

"Large goals are demotivating," says Liersch. "It's more empowering to accomplish easy goals and make steady progress toward the harder ones." Instead of focusing on the total cost of a home, college or retirement, commit to paying down a credit card or putting a few extra dollars in an IRA. If you're a reluctant saver, consider doing it automatically by contributing part of each paycheck to a company retirement plan or arranging monthly transfers from checking to savings.

The coin flip decision: Which would you choose?

Heads you win, tails you lose. Would you take the risk or avoid it?

Heads: ***Receive $100***

Tails: ***Receive $0***

Sure thing: ***Receive $20***

Many people take the sure $20 even though they have a 50/50 chance of getting five times more—that's risk aversion.

Source: *Risk Tolerance and Decision Making*, Michael J. Liersch, PhD, and Riley O. Etheridge, CFA®, CFP®, March/April 2015

You're only human: Do you recognize any of these common behaviors?

(Check all that apply to your financial habits)

☐ **Loss aversion.** People feel the pain of losing money much more deeply than the pleasure of making it. To avoid that pain, you might invest too conservatively or sell too hastily when markets decline, robbing you of the long-term return potential needed to grow accounts and achieve life goals.

☐ **Risk aversion.** Simply put, we don't like uncertainty. When given a choice, we'll often go with the known, even if the unknown might be more financially rewarding. It's why many workers stay at familiar but unfulfilling jobs instead of changing careers or starting their own businesses.

☐ **Inertia.** As humans, we cling to the status quo because trying something different can feel like a painful loss or a frightening uncertainty. Example: passing up free money in employer 401(k) matches because we don't want to see the reduction in our paychecks.

☐ **Overconfidence.** People who feel more financially secure than they actually are may spend too much or not save enough. Or, they may be overactive traders who believe they can time their investment decisions to "beat the market"—and end up doing just the opposite.

☐ **Underconfidence.** Only one in 10 retirees feels comfortable spending their retirement savings, often because they lack confidence that their money will last.[2] We call this "lifestyle risk," the risk of not enjoying the quality of life you want, can afford and worked hard to achieve.

☐ **Herd mentality.** Ever wonder why some people buy stocks when others are feeling euphoric or buy stuff to keep up with the Joneses? We tend to do what everyone else is doing, even when their circumstances are completely different.

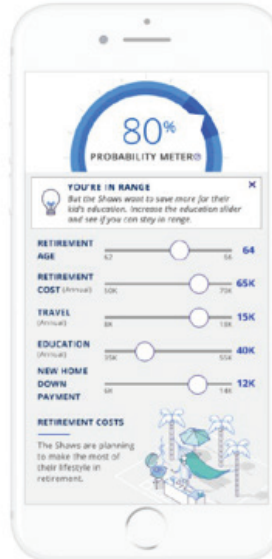
[2] Source: 2017 Retirement Confidence Survey

Get a GLIMPSE into our planning process

Now you can test-drive the process your J.P. Morgan Advisors use to put you on the path toward reaching your goals. **GLIMPSE** is a fun, interactive digital experience that takes you through a variety of scenarios, allowing you to start to see how small changes to your plan can affect the probability of reaching your goals.

By adjusting different variables, you can see how your behaviors affect the probability of successfully achieving your goals.

Check it out for yourself at chase.com/glimpse.



Next steps: put these ideas into action

- **Follow three simple steps to get started:**
  1. Identify your #1 goal and put it in writing. In particular, ask yourself: What is the job I want my money to do for me?
  2. Discuss your goal with someone else and ask them to write theirs down. Identify ways you could help each other achieve those goals.
  3. Take one small action that would move you closer to your goal!
- **Access our expertise.** Talk with a J.P. Morgan Advisor about creating a Customized Financial Analysis* that reflects your unique needs and behaviors.
- **Learn more.** Download *Start Early, Save Less: The Power of Compounding* for practical tips on getting—and staying—invested for the long term.

*The Customized Financial Analysis referenced is a tool that provides an additional resource in the evaluation of the potential risks and returns of investment choices. The projections or other information generated by the Customized Financial Analysis regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results and are not guarantees of future results.