Business Standard

Don't get emotional about it

Kiran Telang / February 20, 2011, 0:26 IST

Avoid the trap of getting influenced by past experiences while managing your money.

Money has no emotions but it influences most of our's. Our attitude towards it is guided by our past experiences and does not change easily. Given the same resources and circumstances, different people react differently to money, leading to vastly different financial lives.

Due to factors in our sub-conscious, we have a pattern of financial behaviour. If we fail to recognise this pattern, we continue to behave in a particular manner. It make us repeat the same mistakes all the time. If we understand our money's emotional quotient, we will be able to harmonise it with the way we handle our financial affairs. That, accompanied by a bit of planning, realisation and discipline can do wonders as Gauri found out.

Her friend Rama and her husband had just purchased a two-bedroom apartment with a very small loan component. Rama told Gauri they were able to redeem their long-term investments in mutual funds (MFs) to pay a large amount as down-payment for their new house. Gauri wondered if this was possible. Her husband, Amit, who was senior to Rama's husband, and she were struggling with their savings. She decided to do some research to understand why the difference.

She looked into how they had been saving over the years. Most of their investments were in bank deposits and postal schemes. They never thought they needed anything more. That is the way their parents had invested and had done well for themselves.

But with so many years of savings, they were still not able to afford a big corpus for their needs. She further read up on MFs and realised it was possible to grow their savings at a much better rate through this instrument. However, her husband was reluctant at first. She decided to start a small systematic investment plan in an MF. Initially, her investment showed a negative return, but she persisted. When the cycle turned, she was amazed at the returns she made. She understood the power of her new investments. And convinced her husband to divert some of their other investments towards MFs, setting them off on the path of regular diversified savings.

They were content following the path their parents had taken. They did not realise that they wouldn't be able to create a corpus sufficient to meet their needs. A reflection on their past and a jolt in the present set them in the correct direction.

In a separate instance, Parikshit Sodhi jumps jobs in the hope that the next job with better money would provide relief to his stressed finances. He is stuck in a major credit card debt due to his impulsive shopping habit.

The reason: Sodhi's family had modest resources. Yet, he studied at one of the best schools in town. His friend there had the best of material things that his parents could not afford, forcing him to develop an inferiority complex. Therefore, he tried to fill in this void by recklessly using his credit card in future.

His credit card debt was so huge that he realised he needed help. He finally approached his father . He told Sodhi about how from his earnings he kept his school fees aside first and then a small portion for saving, using the rest for other expenses. Similarly, Sodhi could first keep a part of his salary aside to repay his debt, some amount towards savings and then spend. His spending portion would have to be very small. Slowly, but steadily, Sodhi managed to come out of the debt trap. He was happy to see a small amount of savings growing. He finally came to terms with his own past experience with money. And his tendency to splurge reduced considerably enabling him to manage his finances better.

The writer is a certified financial planner