By Jonathan Davis

Prescription for peace of mind

Sort out your finances and experience how much better you sleep and lighter you feel

Money doesn't buy you happiness is the often repeated axiom. What a load of nonsense is what I say! OK, it can create new and different problems. However, those are the kind of problems most would prefer to have—if they are going to have any—given the harsh reality of having little financial security. I don't mind saying I would be quite prepared to take on the problems of having 10 million pounds!

Let me share with you what the official stance is about money. According to an academic research [May 2009] published by *The UK Financial Services Authority* [the regulator of all things financial in the UK] there was "evidence of strong association between both financial capability and psychological wellbeing, and between *changes in* financial capability and *changes* in psychological wellbeing. **Higher financial incapability is associated with higher mental stress**, lower life satisfaction, and health problems associated with anxiety or depression. Moving an individual from relatively low levels of financial capability to an average level of capability improves their psychological wellbeing by about 6%. This compares with an 8% deterioration in wellbeing associated with being divorced, and a 10% deterioration from being unemployed."

There you have it. The authorities say, in effect, 'Sort out your finances and you'll feel better.' I would argue that if you feel better, then you are better placed to create a virtuous spiral of self improvement leading to further financial capability and further feeling of wellbeing. On the other hand, if you feel worse, you may create a downward spiral that detrimentally affects not only your financial position but also your state of physical and mental health.

In improving one's financial position, most people only think of opportunities when it comes to money. For instance, they think of saving for retirement [Opportunity = living a long life] or they think of investing in stock markets and commodities like gold [Opportunity = prices will generally rise] or they take out a big loan and 'buy' a house in the expectation that property can only rise. We have seen this in the West for many years. Yet, stock markets are down at the turn of the century. House prices are crashing since 2006 in the US and since the 2007 in the UK. Only commodities have consistently risen for around a decade and they have the potential to continue to do so for this new decade [though definitely not in a straight line!].

The notable point is that most people do not make money in the long term by investing. They generally think of opportunities when, in fact, they should think of risks first. What if the economy slows down and the stock market goes into reverse? What if lending stalls and house prices fall? What if they invent a new way of powering vehicles and oil prices plummet? [Oh, they have. It's called electricity!]. What if I die before I get old? What if I have a terrible accident at work or while I'm crossing the street and I can no longer work and therefore earn to keep my family housed and fed? If you let financial planning drift, then you may find, years later, that you missed opportunities or—more likely—missed risks.

When markets are rising and we're invested, we feel great. We are more hopeful for the future, for our retirement. We take on life's problems more easily. We have more energy. We are more generous. We have more friends. We have fewer people issues. We find we have more time to do energetic things like play sport or just go out to the park with our family.

The problem is most people buy high and sell low—whether it's the stock market or gold or houses. In fact, what they should do is sell high [or at least reduce

Make yourself financially happy

1. Manage risks.

   a. Buy life assurance for those in your family who bring in income. Without them the income stops.

   b. Buy income protection insurance in case of inability to work and therefore earn.

   c. When investing ask yourself, how high has the market already risen? Stock markets around the world have soared since early 2009. How far can they go? Perhaps you should lock in gains of these two years or wait for a significant dip before committing more.

   d. If borrowing to buy property, ask yourself what are the chances of a big rise [not in one step] of interest rates? If high, should you buy or wait to see what happens to house prices in that circumstance?

2. Use available tax savings investment vehicles.

3. At least annually, review the interest rate on your deposit funds to ensure your interest rate remains competitive. Maybe even do it twice yearly. More than this is probably an overkill for most people.

4. Manage opportunities.

   a. Buy stocks [or indices] or other assets when prices have fallen significantly.

   b. Don't be shy about making low offers. They can only say no.

   c. Buy when you don't really need it. That way you're more likely to bag a bargain as you can more easily psychologically walk away if they don't like your price.

   d. Give to charity— it'll make you feel great. If you have enough, establish a family foundation and feel really great in gifting to underprivileged formally.

   e. Use good financial advisers and make sure that they are not just salespeople [Read 'Who handles your finances?', *Complete Wellbing* January 2011 issue].

exposure after a good gain] and buy low [or increase exposure to an asset class that has fallen somewhat]. In other words, **people should not just focus on price when considering investing**, they should consider wider issues such as where are interest rates going [up or down], unemployment, wages, international trade, inward investment, currency [down leads to inflation, up points to economic strength], and how far have prices already moved since the bottom or the top. Most importantly, is there overwhelming depression in the investment [probably time to buy more] or overwhelming mania [time to sell?].

My point is that by carefully managing your investments and major purchases, with a long term view, and not being taken in by managed hype or depression, you can secure your financial position. It will make you feel better and bring many associated benefits. Many businesspeople will tell you they don't make money when they sell. They make it when they buy—at great value prices.

Also, if you protect your family with life assurance and yourself by income protection insurance, you will sleep easier, knowing you have managed risks effectively. Do you believe George Soros [famed American billionaire investor] only looks for opportunities when putting his money where his mouth is? I would suggest he pays far more attention to how much money he could lose if his position goes against him. That way he sleeps better and feels better. He will always aim to limit his losses and expand his gains. **Most people do not even consider the potential for losses.** If they do, they put no plan in place to limit them.

When you eat a chocolate, you give yourself a chemical high. Similarly, when you buy something for yourself or someone else, you feel good…for a short while. These are ultra short term feelings of wellbeing you can buy for yourself. Long term, you can really put yourself at ease with the world by sorting out your finances and managing your risks first then looking for opportunities.

Stay Well

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