MORTGAGE advisor™

ISSUE 17

Ken Pederson
Certified Mortgage Planner
CMPS
717-431-9299
kenp@fairwaymc.com
www.FairwayLancaster.com

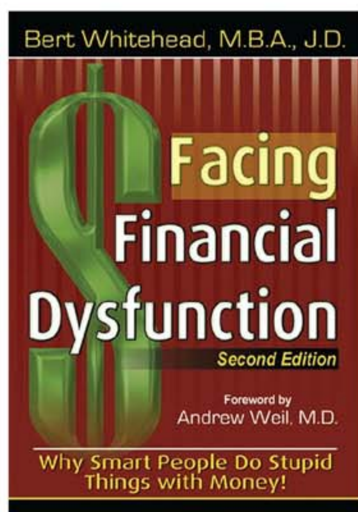
Facing Financial Dysfunction

The key to financial freedom isn't merely finding the right investments. According to veteran financial advisor and "Facing Financial Dysfunction" author Bert Whitehead, there are various ways that people can lose their financial freedom. By identifying and correcting these financial dysfunctions, Whitehead contends that people of any income level can move forward and build a strong foundation that leads to financial independence.

Part one in a three-part series

Whether or not they realize it, most people are suffering from some form of financial dysfunction. We're talking about the financial choices and strategies that people believe are effective but which actually impede their financial decisions. These dysfunctions can lead to intense financial stress, which surfaces in a multitude of problems, including anger and quarreling, insomnia and depression. In most cases, financial problems are caused by factors that are under the control of the individual. By facing your financial dysfunctions, you can free yourself from financial burden and move toward financial freedom.

If you have any financial dysfunctions – and chances are you do – you must acknowledge and address them before you can successfully handle your finances. The cornerstones of recovery are knowledge and education, starting with understanding the top financial dysfunctions that plague most individuals.



Know Your Financial Personality

One of the top financial dysfunctions is being unaware of your financial personality. Knowing who you are and how your financial personality can aggravate your financial situation is key to developing a strong financial foundation. There are two main emotions that motivate people financially: fear and greed. The degree to which each person responds to these two emotions determines his or her financial personality.

The list below describes four extreme financial personalities, along with their solutions:

- The "Scrooge" is motivated by a strong desire to create great wealth and also has a strong propensity for saving. They generally hate to pay taxes, are typically very controlling, and tend to avoid too much diversification when investing. The Scrooge can definitely improve his/her attitude with some strong effort on his or her behalf.
- The "Gambler" has a propensity both to accumulate great wealth and to spend it. When things go bad for the Gambler, he or she is particularly vulnerable to get-rich-quick schemes and white collar crime. Gamblers on the extreme end don't usually seek the advice of a financial advisor, and should treat their addictive compulsions as part of their financial recovery.
- The "Miser" is strongly motivated by fear and has a natural inclination to save. Misers are typically fearful about investments and have very little to show for their strong saving abilities. They need to overcome their fear of investing before they can prosper. Usually, with a healthy dose of education, misers can shed their investment fears in a relatively short period of time.
- The "Shopaholic" is motivated by fear and has a strong propensity to spend. Shopaholics on the extreme end are usually beyond the ability to accept help from a financial advisor and should seek outside therapeutic help. Less extreme Shopaholics can often be helped by understanding the basics of their dysfunction.

The Most Common Personality Types

Most people don't fit into the extreme models just discussed. More than likely, they are a blend of two or more of these personalities, like those listed below.

- Entrepreneurs are motivated by a strong desire to make money. Their biggest financial challenge is often inadequate liquidity, and many only want to invest in their businesses. Entrepreneurs should establish lines of credit before they need them, and create a diversified base that can sustain them through the slower times.
- Nesters are very good at saving but tend to put everything into their homes. They tend to over-

Copyright © 2007 Strategic Equity. All Rights Reserved.

improve their homes, placing great emphasis on paying off their mortgages. They often invest in time-shares and vacation homes.

- Bon Vivants are the workaholics of the group. Concerned about status, Bon Vivants love brand names and tend to have a very ad hoc investment program. They often succumb to high pressure salespeople and tend to confuse hobbies with investments, purchasing boats, photography equipment and other hobby items as investments.
- Travelers prefer to spend money on experiences, rather than things. Non-materialistic and simple, they avoid anything that's going to cause a lot of stress or worry.

Each of these personality types has its advantages and disadvantages. Before you can take the steps to becoming financially fit, you must understand who you are and know your personality propensities. Take the time to learn about your natural inclinations. The more you know about yourself, the easier it will be to tackle the difficulties that have held you back to this point.

The Roots of Financial Dysfunction

Financial dysfunction is rooted in three different levels. Cognitive level dysfunctions, which are the easiest to deal with, are based on incorrect information or a lack of understanding. With just a little education, it's relatively easy to change this level of dysfunction. To overcome dysfunctions that stem from the unconscious belief systems rooted in values learned in childhood, individuals must reprogram their thinking by using a different paradigm.

Dysfunctional behaviors stemming from psychological associations are the most difficult issues to deal with. Deeply rooted, these behaviors are generally beyond the scope and competence of most financial advisors. In some cases, gradual behavior modification can be effective. Whitehead advises these individuals to seek the assistance of a qualified outside professional for psychotherapy, especially if the issue is threatening their financial stability.

Seven Symptoms of Financial Dysfunction

Although there are numerous symptoms that indicate financial dysfunction, seven symptoms present themselves most often. By identifying these symptoms in your own financial life, you can be positioned to move toward a solution and start achieving financial health and freedom.

- Mortgage aversion: Mortgage aversion is common among nesters and entrepreneurs. This symptom surfaces among those who earn significantly yet keep low mortgages, often at above-market rates. The best prescription is education. By seeing the benefits of repositioning their equity, and understanding how positive leverage and tax benefits relate to holding a mortgage, these individuals can begin to move toward a financially healthier model. Individuals can always take incremental steps to desensitize themselves to mortgage shock. Start with an additional $50,000 and invest it in a separate brokerage account. If you panic, you can sell your investments and pay off the mortgage.
- Risk aversion: Risk aversion is revealed through reluctance to invest and diversify, as well as excessive risk exposure. At the cognitive level, these individuals need to understand the basics of investments and how they work. At the belief system level, some need to address deep-seeded fears of being punished for appearing greedy. As part of an advanced education program, Whitehead has advised some clients to begin investing with small, less risky experimental accounts that they manage on their own.
- Compulsive spending and excessive debt: Debt has nothing to do with income. While people may think their credit is the result of not making enough money to pay their bills, the truth is there are people making hundreds of thousands of dollars each year getting deeper and deeper in debt, and others who make only tens of thousands of dollars who are putting money aside on a regular basis. The first stage of solving this issue is education. Individuals must learn the costs of buying things on credit, track their spending over a period of time and devise a spending plan.
- Poverty mentality: Those who earn substantially below their capability and are always broke need to employ benchmarks to measure how they're doing. Research compensation for your profession and see where you rank according to industry standards. People will value your services based on the price you command. If you have more business than you can handle, it's a clear sign that you're underpriced. Start by raising your rates only for new clients. Once you see people acknowledge the value of your services, it will be easier to raise rates with existing clients.
- Miser mentality: Those with miser mentalities have more money than they need, yet still can't bring themselves to spend. This problem isn't how much money you have, it's how much money you spend in relation to what you have. The solution for miser mentality is education and behavioral adjustments. Understand that spending investment income doesn't deplete savings. Some misers may benefit from controlled splurging, like flying first class for just one trip or investing in a memorable trip with children or grandchildren.
- Acute financial paranoia: People who are constantly afraid that their money will be taken away or that they'll be sued may be suffering from financial paranoia. This fear usually stems from a sense of eventual punishment for success. The solution for this fear is learning the realities of financial planning. Financial planning is a process, not a one-time occurrence that solves everything. The truth is, you can never rule out the risk of unforeseen events, but ongoing financial planning can certainly keep you prepared.
- Windfall woes: When the source of the windfall is an inheritance, windfall woes often surface as feelings of guilt, fear of death, and increased sibling rivalry. For those who win large sums of money or acquire their newfound wealth through company stock options, divorce settlements or lawsuits, it's not uncommon to fear becoming the target of exploitation. The solution is a cooling off period of six months to two years after the windfall, during which time the individual focuses on financial education. Sometimes there's no cure for this ailment.

Self Examination Is Key

If you're committed to achieving better financial fitness, it's important that you conduct a certain degree of self examination. Understand your own financial personality. Learn the different symptoms of financial dysfunction and identify which symptoms have been holding you back. Armed with this knowledge, you will be positioned for action, and one step closer to achieving financial freedom.

In part two of this series, we will focus on how to achieve financial fitness by learning and practicing smart financial behaviors.

Ken Pederson
Certified Mortgage Planner, CMPS
717-431-9299
www.FairwayLancaster.com
Equal Housing Lender

To arrange a mortgage planning consultation on strategies discussed in this article, please give me a call.