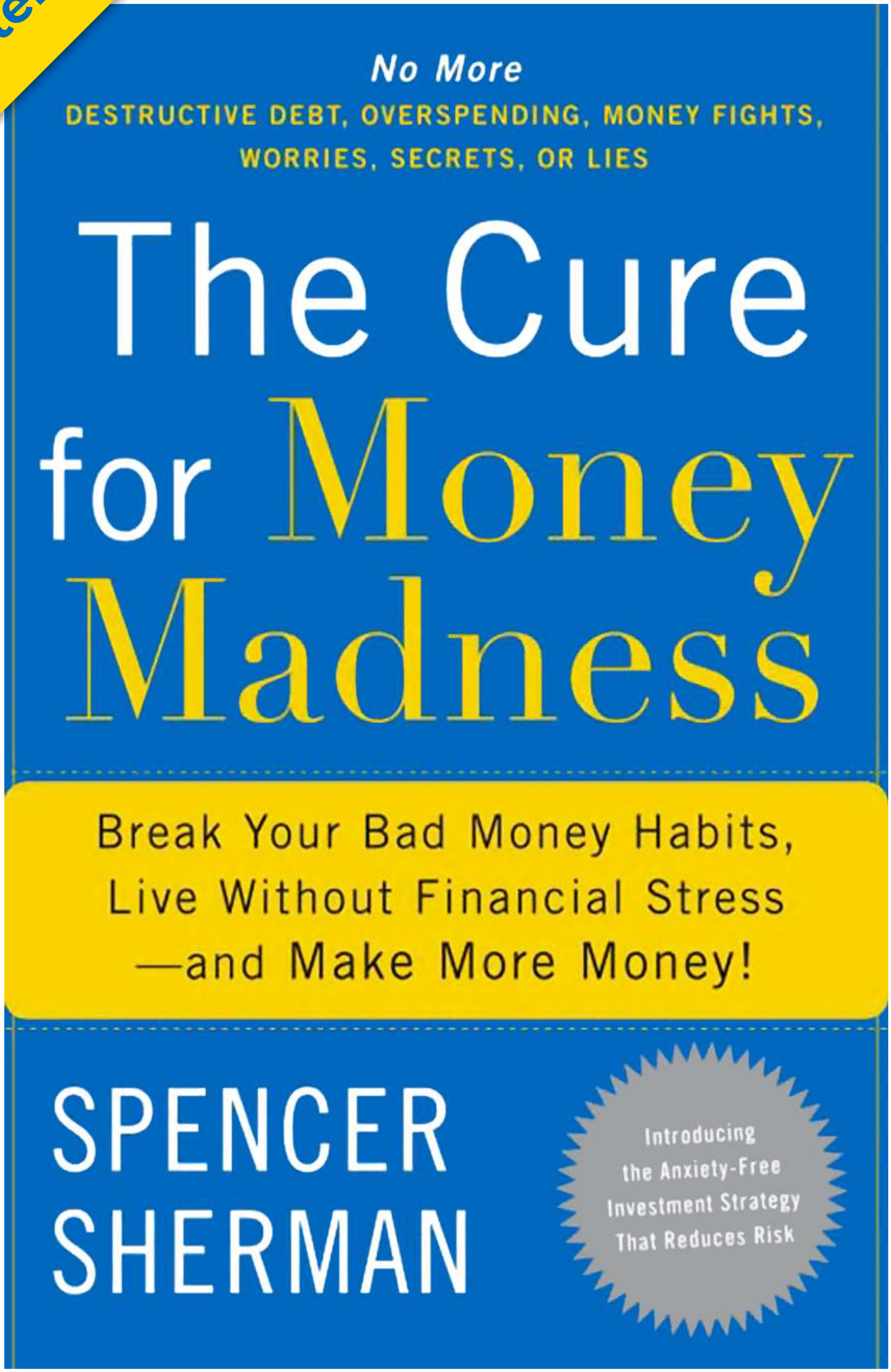
Free Chapter!



spencer sherman

spencer-sherman.com

spencer sherman

CHAPTER 1

Money Madness

What It Does and How It Works

When my wife, Janine, and I first went to see the house in which we now live, the thing that most excited her was the backyard. “Plenty of space for a garden,” she said breathlessly. I could see her pleasure as she scanned the sizable expanse of the yard, no doubt already planning vegetables here and perennials there.

The prospect filled me with dread. Where she saw tomatoes on the vine and beds of peonies, I saw bills, expenses, maintenance costs. *If I even acknowledge her pleasure,* I thought to myself, *she’ll start planning this garden; and if she does that, I’ll have to pay for it.* And if that happened, a lot of money would flow away from me.

“What do you think, Spencer?” she asked me excitedly. “Isn’t it just perfect?”

I barely grunted, then looked away. The truth is that I was terrified of spending money on a garden. I was even more terrified of sharing my fear with Janine. It was not something I had ever talked to her about—even though she was and remains the person to whom I feel closest in all the world. So as I always and invariably did, I kept mum, and I simply let my fear simmer.

Irrational? This was sheer folly.

For one thing, we could well afford a garden. Of course, with a packet of seeds you can buy for pennies and a willingness to do a little manual labor, just about anyone can afford a garden. But in fact, our finances at the time would have enabled a professional garden design and help with the heavy-duty work of garden maintenance, so my fear certainly wasn't due to a lack of ready cash.

Nor would it have been rational to reject the garden for the sake of our long-term financial welfare. Quite the contrary. If this became our home and we one day decided to sell it, a garden in the backyard would significantly enhance its resale value.

In fact, by any measure I could possibly come up with, had I been thinking rationally, the garden was a plus. It would give pleasure to my wife—something any husband normally seeks to do. It might provide us with the fresh vegetables I love. If I had allowed myself to think about it, I might have realized that a garden can be a place of relaxation, a place that can refresh the spirit—in short, a "commodity" that might enrich my life.

I yield to few people when it comes to knowing about money. Trained in economics, with an advanced degree in business, certified as a financial planner, I advise some of the wealthiest and most astute investors in the United States. I make a lot of money for them. You don't have to take my word for it. *Worth* magazine has repeatedly named me to its list of the top 100 wealth advisers in the nation.

But standing in the backyard that day, tensing with resistance against the projected outflow of my cash, and seething with resentment at the person I loved most in the world, I was not behaving like a money expert. Rather, my behavior was being driven by money madness.

Fear of money going away from me was one part of the madness, and it was powerful enough to give the boot to all common sense, including financial judgment. Equally telling was my fear of sharing my feelings with my wife. Instead, as Janine and the Realtor strolled the yard, talking about spring bulbs, summer herbs, and late-fall ornamental grasses, I allowed money madness to create a gulf across which my wife and I were simply not communicating—across which, if truth be told, we never had communicated.

The High Price of Money Madness

Money madness is alive and well at home, in the office, on the factory floor, at play, in the bedroom.

And it has consequences.

I see money madness, and its consequences, in my friend Jack. Jack is not just a captain of industry, he is a brigadier-general. He's the second in command at a prestigious corporation, reporting directly to the supreme commander, the CEO, while an impressive staff of officers and hundreds of worker-troops are Jack's to direct. And so he does, issuing orders and deploying resources with all the confidence of a man in no doubt of his testosterone level or intellectual ability— like Patton on the front lines of the battlefield. Yet when it comes to asking for a raise, money madness takes over, and General Jack crumbles.

Every year, when Jack meets with the CEO for his annual performance review, his personal money monster goes with him. The money monster makes Jack's palms sweaty, dials up his blood pressure, and lowers his normally stentorian speaking voice to a croaking whisper. Instead of asserting his value and declaring what he thinks he's worth, Jack waits for the CEO to tell him he's been a good boy and offer him the reward of a small raise, and Jack's money monster directs him to gush with gratitude for the gift and get out of there as fast as he can.

I see money madness in my neighbors—I'll call them the Smiths—who refuse ever to go into debt. The Smiths' money monster lets them spend only what they have and insists they never borrow, never be beholden to anyone. They're a strictly cash operation.

But they'll also never quite be able to buy a house in which all three kids could have separate bedrooms, and from which the Smiths might someday realize retirement income—simply because saving up that kind of cash could take a lifetime. Instead, they will limit their lifestyle, remaining in their somewhat cramped rental home, where the kids take turns sleeping in the living room, and they will miss out on the opportunity to make an important investment and build financial equity in a house. All for the sake of a belief in the virtue of being debt-free.

The Joneses, by contrast, have made it their life's purpose to do everything for their kids, mortgaging their own present security for their children's future. Despite a consistently rising income, their money monster keeps them overspending endlessly. Result? While the Joneses sweat blood to give their children every advantage, what they're really giving the kids is a model of stress, self-neglect, and poor money management—a legacy that could haunt the younger Joneses for years to come.

I see money madness in my friend Sandy, who bought her house, and overpaid for it, for the fireplace in the living room. She dutifully looked at the other rooms in the house, but the decision had already been made—a function of emotion, not of objective decision making. Had Sandy really analyzed what the house would cost for repair and maintenance, or assessed whether it might make more financial sense to rent than to buy, she would have seen that it would be a financial struggle for her to own the house, as indeed it has proven to be.

But she didn't do such an analysis. Instead, she saw herself on a cold winter's night, the snow piled high outside, soft music playing, her glass of wine catching the reflection of the fire's flames as she savored the warmth within. Her own personal money monster had drawn the vision for her and kept her focused on it. It was irrational, but it was irresistible—madness at a high price.

Money Madness Comes between People

Money madness isn't just in us, it's between us. There's a famous story about two women—call them Susan and Sarah—who had been the closest of friends for 20 years.[1] For 20 years, they confided in one another, complained to one another about their husbands, worried about their children, shared secrets. Then one day Susan finally "confessed" to Sarah that she didn't exactly *work* at the art museum, she was on its board of directors and was one of its major contributors, donating to it some of the vast wealth from her trust fund.

It left Sarah not just curious about what else she didn't know about Susan but also wondering who this woman was she'd been telling her innermost secrets to for 20 years. She felt not just distanced but betrayed, and a friendship of 20 years' duration soured irrevocably.

Families can be torn apart by money madness. Mine was. My father's partner in the shoe store he owned was his sister's husband, whom he came to suspect of pilfering from the store cash register. Because my father's money madness was that he couldn't talk about money—a trait I would learn at his knee—he allowed himself to become estranged from his sister rather than solve the issue. Soon, the two families did not speak at all. It wasn't until 37 years later, when all the principals were dead and after I had cured my own money madness, that I was able to hire a private detective and reunite with first cousins.

I've seen money madness sunder business relationships and ruin business deals. I've seen it undermine sales and anger customers. When I first started out as a financial adviser, I was so reluctant to discuss money that I put off stating my fee till the very end of my sales pitch, then low-balled it so I could get the job. Sometimes it backfired, with a prospective client figuring that if I was promising to deliver all those services for that low fee, I probably didn't know what I was doing.

Money madness is a notorious barrier to intimacy between lovers, spouses, partners. Husbands like me don't let on about the family finances—we just stew over what the garden might cost. Wives tell husbands their new dress cost half its real price. Couples conceal bank accounts or credit cards from one another, thus living separate and secret lives and fostering a kind of lie—while living together. Trust is eroded, communication deteriorates. If you don't know your partner's sense of values, style of dealing with money, definition of abundance, vision of the financial future, can you honestly say you know your partner?

It's Not Irrational When We Do It

Here's the real lunacy about Sandy, who bought the house because she fell in love with the fireplace: She's a mortgage banker. She knew her behavior was irrational even as she was doing it.

That is perhaps the single most distinctive characteristic of money madness: It is *behavior we know is totally irrational, except when* we *do it.*

I knew my behavior was irrational that day in the backyard as I listened to my wife grow increasingly excited over plans for her garden. If clients had been looking at the property and had asked me to offer a financial assessment, I would have extolled the idea of the garden both for its potential enjoyment and for the dollar value it would add. But this wasn't happening to clients or friends; it was happening to me, and the rational me wasn't there to tell the irrational me to cool it.

I also knew I was behaving irrationally by not talking openly to Janine about money. I talked to her about absolutely everything else. I had told her everything there was to know about me—except our assets, my income, our debts, or the money in the family coffers. Three years into our marriage, and I still couldn't discuss those financial basics with my wife.

Yet I always tell my clients that it's essential they talk to their spouses about all financial matters. I've seen what happens when couples don't discuss an investment, or a projected major purchase, or a decision to sell a stock or a property. It isn't just the relationship that suffers; so does the portfolio.

And I knew this. Knew it all implicitly—except when it was happening to me. That was the irrationality. I could be absolutely objective on the subject of the value of gardens and on the need for financial intimacy between spouses, except where my own garden and my own marriage were concerned. That's when objectivity went out the window, rationality didn't stand a chance, and my money madness moved right in and took over.

If I could have seen myself objectively, I probably would have been appalled at my behavior: a grown man, a conscientious breadwinner, a responsible member of the community keeping secrets like a Cold War conspirator. If someone I cared about behaved as I did, I would have done everything in my power to stop him or her. It was only when *I* was behaving that way that I was unable to see how irrational, unwise, and downright unprofitable the behavior was.

What the Money Monster Whispers . . .

Back in the days of the high-tech bubble, my client Bill calmly put 90 percent of his portfolio into a single Internet stock. Certainly Bill knew—everyone knows—that it is foolish to invest all your wealth in a single stock. That's proverbial wisdom—*Don't put all your eggs in one basket*—even though the value of that one basket had quintupled in a single year and was expected to keep on rising. In fact, had Bill been advising a friend, he would have offered the eggs-and-basket wisdom along with his congratulations.

But as his concentrated portfolio grew in value from $1 million to $2 million to $15 million and more, passing through levels of wealth that once would have seemed to Bill stratospheric but that now seemed sort of normal, he could not say to himself what he would have said to a friend: “Diversify. Allocate your holdings among various assets and distribute your risk.” That inability to hear for himself the advice he would have given to another was his money madness. And when the tech bubble burst and the market tanked, Bill’s stock went belly-up, and 90 percent of his original wealth was gone.

For most of us, the numbers are smaller, but the principle is the same: The behavior you’d warn a friend to stop, you can’t even see in yourself. Someone you care about who is strapped for cash to begin with wants to spend a weekend in Las Vegas, and you sit them down and remind her there are other ways to take a mini-vacation. But *you’ll* dip into savings to invest in a get-rich-quick scheme a friend says is a “sure thing.”

A pal with a two-star salary starts to pick up the tab at a five-star restaurant. You know that will mean a sacrifice in another arena of the pal’s life, so you stop him before he can complete the gesture. But you stand at the store counter determined to take home that overpriced high-def television because *you* want it and it’s your due.

That’s the money monster at work. In the case of the friend’s surething investment, the money monster is the fantasy of having your life change overnight, of being catapulted effortlessly into a realm that is light-years away from your current humdrum existence. You feel it as a sheer physical rush—blood coursing through your veins, heartbeat speeding up.

In the case of the TV, the money monster is that almost indignant sense of merit—the affirming feeling that you’re worthy, that your virtuous actions and difficult life experience have given you a right to the TV, that you’re *entitled* to it.

In both cases, an infinitesimal grain of truth injects a note of cruelty into the equation. Yes, it is possible that an investment can so increase in value that your money might double, triple, even quintuple, although probably not overnight. That is indeed possible—in the abstract sense that anything is possible. And certainly you deserve a 42-inch screen—in that same abstract sense that everyone deserves a 42-inch screen. If the universe were pure and rational, both those things would be true.

But that anything is possible and that everybody is deserving, though fine notions, don't really come into play here. The reality of stock market investing is that even a successful investment won't change your life overnight, and an investment tip that promises to do so is very likely an unsound proposition. And everybody knows it.

The reality of consumer spending is that it is a matter of what you can afford, not of inherent or constitutional rights. Everybody knows that, too.

Yet perfectly rational people manage to dismiss these profound and pervasive realities to cling instead to the cruel, infinitesimal grains of truth their private and personal money monsters keep whispering in their ears—"overnight wealth, overnight wealth!" or "you deserve it, you deserve it!" The fact that these same perfectly rational people cannot afford either the stock purchase or the TV is rendered meaningless. It isn't that they don't know they're putting themselves at a disadvantage by spending money they can't afford to spend. Rather, it's that money isn't the issue. The fantasy of life-changing wealth is the issue. The sense of their right to the TV is the issue. The money monster is in charge, and the money monster will not be denied.

It's madness. And if these people saw anybody else buying stocks or TVs they couldn't afford for dumb reasons like these, they would shake their heads and feel sorry for the poor knucklehead.

Common Sense Is There for the Asking

By the way, after the stock market debacle, I asked Bill how his wife was responding to the loss. His reply astonished me. He had never told his wife about the stock or his investment in it.

"Why not?" I sputtered.

"Because she would have made me sell it," he said.

Of course. Although thoroughly unsophisticated about financial matters, Bill's wife had the kind of common sense he was deliberately and assiduously blocking out. In her simple wisdom, she would have asked if it really made sense to "tie up so much of our money in that one investment." From past experience, she may even have known that Bill had a money monster that made him lose his objectivity—and she would have been prepared to stop him from letting it rule his actions. That's precisely why he didn't tell her. The money monster driving Bill to stick with that stock through yields beyond his wildest dreams was not about to be sidelined by a third party speaking rationally.

It's the reason why today when I meet with clients, I insist on meeting with both spouses; the objectivity of the second spouse—the commonsense wisdom of the financially "unsophisticated"—is absolutely essential. I simply won't do business with them otherwise.

Left to my own devices, I'm not sure my money monster would have let me buy the house we live in today. Fortunately, however, my grumpy disdain for my wife's imagined garden did not prevail. I was able to confront my money monster, saw that my struggle was not with my wife but with my automatic fear of spending money, and overcame the monster's lifelong grip. Today, the garden has become a precious and integral part of our family's life; in fact, I value it more than the house.

By contrast, Bill made sure there would be no chance for his madness to be overturned. He kept it all to himself and allowed his money monster to lead him headlong to disaster without permitting a single rational voice to intervene.

Money Madness Behaviors:

The Top Ten

Here are 10 common, irrational money madness behaviors. Do you recognize yourself in one or more of these descriptions? Keep track; these are the behaviors this book will help you cure.

1. **Money Muteness.** You can't talk about money with your spouse. What you spend, how much you earn, what you have in that secret bank account you keep are subjects that are off-limits. When a friend suggests a vacation or restaurant that are way out of your price range, you're tongue-tied. Talking about fees or salary with a client or with the boss is not just uncomfortable, it's downright stressful. You find it far easier—and you're far readier—to talk about sex than about money.

2. **The Prisoner of Spending.** You spend more than you earn even as your salary keeps on going up. You buy things you really don't use and wish you hadn't bought in the first place. You often buy expensive things on impulse. Your credit card is like another bodily appendage; it reacts like a nerve ending. You tend to buy things in bulk, then throw away most of it.

3. **Craving More.** You always think you need more money. Then you get more, and guess what: You need still more. Your “number”—the amount that will be enough, that will finally let you stop craving—turns out to be a moving target that just keeps changing. You become a workaholic to make more money. You hoard and save and buy only the bare necessities. You spend a lot of time fantasizing about how you’ll get more money and how your problems will be solved and you’ll be free as a bird—just as soon as that amount of money is achieved.

4. **Home Run Hitter.** You’re out to make a killing. Now. Making money slowly strikes you as tedious and boring. What you want is the big payoff, the overnight *zap!,* the speculation that keeps you checking the market, biting your nails, feeling the rush. You’re not going to miss this ship. Not you. And when you’re not checking the market, you’re buying the lottery ticket or heading for Atlantic City or Vegas and the potential jackpots there. It isn’t money you’re really after; it’s adrenaline.

5. **Following the Herd.** Just about anyone knows more about money than you do. But there’s safety in numbers, as any sheep can tell you. So you watch the talk shows to get financial advice, read the paper, follow the gurus. No need to check out something; if it sounds good on CNBC, or if your friends are doing it, or if your spouse says it’s a good idea, you’ll do it too. Tech stocks are going up? You’re in. It’s a recession and everyone else is selling? You too. Hey! If everyone else on the block has a high-def television, then obviously you need to get one too; it would be uncomfortable not to.

6. **Money as Metric.** You measure yourself on the basis of money alone and feel not quite equal to someone who has or earns a lot more or a lot less than you do. It isolates you from friends who aren't doing as well, and it makes you uncomfortable around friends who are doing much better. You're a woman who knows you'll never be able to crack the glass ceiling and make as much as a man. You're a teacher who knows he's stuck at the meager annual salary the state pays. Money means rank, and that's just the way it is.

7. **Money Lying.** Wow! Did you make a killing in the market! Actually, you didn't make quite as big a killing as you say you did, but then, you always exaggerate the truth where money is concerned—whether it's how much you earn, what you spent on your house, how much you save, how much you owe. Sometimes, you exaggerate low, and sometimes, you exaggerate high. But you always exaggerate.

8. **Taking a Siesta.** Who needs numbers? You've got instinct. After all, money isn't the most important thing in the world, so for any major financial decision—buying a car, buying a house, getting a loan, investing—the numbers really don't count all that much, and you don't need to look too closely. It's a part of your life you don't care about, so you can let others handle it for you. Fortunately, you're certain that some divine entity is taking care of things so you can just kick back and watch the money grow on the trees. Whatever.

9. **Money as Weapon.** You're happy to pay for lunch, but you expect something in return—maybe dinner next month? You give your kids money, then tell them how you want it spent: You'll pay for business school but not for social work school. Money is a tool you use to manipulate people.

10. **Money Hatred.** You think money is the root of all evil, and you want it to stay far away from you. Wall Street? The devil's playground—and you won't invest. Rich people? Worthless. Material possessions? Childish toys. If everyone viewed money as you do, the world would be a better place.

The Science Behind Money Madness

What's it all about? Why does money seem to send rational behavior packing? After all, money is numbers—cool, objective, impartial, utterly dispassionate. We *count* money. Money is a matter for calculation. So why does emotion, which is what money madness is really about, trump cool, dispassionate calculation every time?

It trumped counting up the numbers when Sandy bought her house, determined to live her fireplace fantasy, no matter the cost. It trumped rational behavior when Bill kept playing that one stock over and over, like a gambler hooked on a roulette number seen in a dream. Objective thinking and dispassionate calculation weren't anywhere in sight when Jack went to talk to the CEO about money, or when it took Susan 20 years to admit to having a lot of it, or when I stood in the backyard of my prospective new home and thought about all the money that would flow away from me if we turned the yard into a garden.

Instead, in each case, what ruled was deep-seated, unarticulated emotion. Feelings that invariably and inevitably attach themselves to the whole issue of money. For Sandy, a desire for a comfort and safety she felt were missing in her life. For Bill, virtually the opposite: a sense of control, of power, while taking a great risk. For Susan, shame. For me, fear. Money itself is just the conduit for these emotions, the mechanism through which they are galvanized into action. *Whatever the emotions may be, engaging in a financial transaction stirs them up—and the emotions rule.* Rational, impartial, dispassionate financial calculation doesn't stand a chance. That's money madness.

To be sure, it's hardly news of the man-bites-dog variety that emotion can overrule reason. Where money is concerned, there's even a whole new science to explain exactly how. It's called *neuroeconomics*—the study of the brain activity that takes place when we make economic choices. Neuroeconomists are today imaging the brain and mapping brain waves to monitor what happens physiologically when emotional responses overpower rational thinking in financial decision making.

This is a very new science, but many of the findings thus far are instructive. For instance, some neuroeconomists studying purchase decisions have found that the desire for instant gratification almost always wins out. Most people would rather have the high-definition television now than sock away the money for retirement in some vague future years from now.

Researchers studying investment decisions found that most people were more averse to loss than they were eager for gain. Presented with a gamble that offers exactly the same odds of winning $150 as of losing $100, people won't bet; they'd rather not risk the loss than take a chance on winning, even though statistically it would be to their advantage to take the chance. They're shown the evidence of that advantage: the cold, hard calculations. But they still fear loss more than they are willing to take even a good chance on gain. Here's neuroeconomic proof that money madness steals your money. It's why learning how to take off the money madness blinders is so essential—so you can confound the neuroeconomists when you confront decisions like these and keep what your money madness would steal.

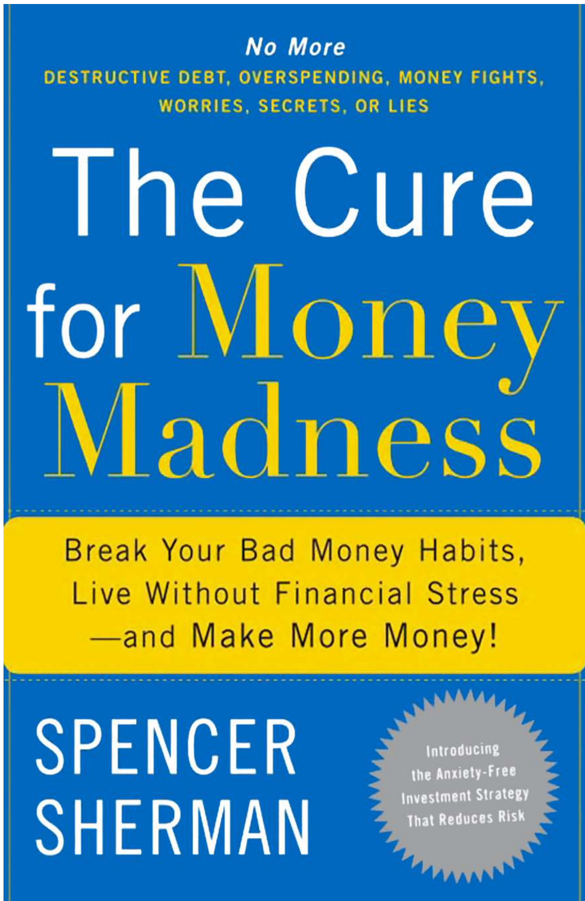
The Money Monster in My Throat

It steals more than money. Energy, intimacy, joy, peace of mind, even physical health are all adversely affected when the money monster is governing your behavior and driving you to acts of money madness.

I felt my money monster as I stood in the garden that day, distancing myself from my wife and her garden dreams. It didn't feel good. I experienced all the physical manifestations of fear. I was a little shaky, my throat felt tight, my forehead was tensed, I didn't think my voice would work right, my breathing was shallow, and my heart was pounding. What was I so afraid of?

The answer is simple: To me, money was security. Money was safety. Money was really nothing less than survival. Therefore, there could never be enough money, what there was must be tightly gripped, and no one else must ever, ever know how much or how little of it I had. That is why what looked like a garden to my wife looked to me like a threat to my safety and security and in a very real sense, to my survival. No wonder my heart was pounding.

Where did the fear come from? How did it get there? How did it turn into a money monster driving me to such money madness? Turns out it all started long ago. In the next chapter, you'll see the evolution of your money madness too.



Available at

amazon.com

Find more tools and resources for achieving money wisdom and financial health at

---

spencer-sherman.com

---

spencer sherman