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# YAMAN Coach

EMPOWERING YOU

## Difficult Money Conversations – Part 2 of 3

by Coach Atty. Zigfred M. Diaz, CSS, ReB, ReA, AEPP RFP®

In Part 1, I briefly discussed how difficult it is to have money conversations with family and friends. So, what can we do to overcome such problem? The following are some simple and practical suggestions to overcome this problem.

**Sit down and talk about the problem openly, honestly and frankly** – I know that this is much easier said than done. A lot of us Filipinos do not say things directly and we assume too much. This mindset needs to change considering that this is precisely what gets all of us into trouble in the first place. When calling for a meeting on money issues, somebody should take the lead, preferably the elders in the family considering that we Filipinos have high respect for our elders, such as father, grandfather, eldest son or daughter etc. Do not wait on each other because nothing will happen.

**Learn to say "No"** – As discussed above, debt is one money issues wherein we Filipinos have a hard time discussing with family and friends. In order not to have this problem in the first place it is better to say "No" to a relative and or friend who wishes to borrow money. Saying "No" also applies to small and medium businesses such as neighborhood stores like saying "No" to neighbors who wish to avail of credit. A question arises at this point, "What if your family, relative or friend really needs the money so badly in the first place?" The next point would provide a good alternative.

**Instead of letting them borrow money, give it away** - Instead of lending the entire amount, just give away a portion. This way you will not harbor the ill feelings that may have arisen had you lent the entire amount, and the debt went unpaid. For example, if a relative is having troubles paying his electricity bill and wishes to borrow Php3,000.00, instead of letting him borrow such amount, give him an amount much lower than that, say Php500.00. You will still be able to help in some way while sticking to your principle of not lending money to avoid troubles in your relationship. Of course, you can choose to give away everything if you have the wherewithal to do so. But that would also violate your said principle, if indeed it is your guide.

**Be practical** – Who knows if the "saints" will not bring you abundant blessings for the next year if you refuse to have a grand celebration in the next fiesta. But one thing is doubly and equally sure, you will have a hard time with regard to your cash flow if you get into debt just for the sake of having a grand time feasting.

While it is true that we Filipinos care so much about feasting as this enables us to get together to foster bonding, there are ways to do this without breaking the bank or going into debt. You can hold a simple celebration or even postpone it to the next year if you are having a hard time raising funds for it.

**Be professional and encourage family members and friends to do the same** – One of the major causes of stagnation, lack of growth or even the downfall of most family owned businesses is the failure to professionalize business operations. A "tayo-tayo" or "inato" (in Visayan) approach in business will not work especially if you want your company to succeed amidst a harsh and highly competitive environment. The same can be applied to the family when it comes to money matters. The trick lies in categorizing <u>before</u> the transaction is consummated what is a business transaction and what is done out of love. By doing this, the next discussions about money matters among family and friends will be much easier.

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# Behavioral Economics

by PFA

To grow wealth, one just needs to spend less than what he earns and invest the difference.

In investing, the sure way to make money is to buy low and sell high. And the higher the potential return, the higher is the risk.

We can go on and on enumerating the rules in personal finance. The question is, “Why are so many still not financially free?”

One explanation could be that people choose to learn through experience. And by the time they would have learned enough to be on the road to financial freedom, they are too late in the game to start. They then make the conscious effort of passing all of their wisdom to the next generation. However, all of what the next generation wants is to learn for themselves and not to be dictated on by their parents. And the process repeats itself.

On the other hand, there are those who strictly adhere to lessons passed on by parents simply because these were the first lessons on money to be seared into their brain. Many of those rules are useful. Some, however, may not be all that practical. Spending windfall income to the heart’s delight or buying a house immediately through a loan with an amortization equal to would have been the monthly rent are just two of the more common misconceptions about money passed on by Filipino parents to their children. Some parents even tell their children not to save up for emergencies as doing so may just lead to those emergencies coming true.

Yet, others handle money based on survival lessons in their brain that have evolved since the time of the caveman. Loss aversion is a form of survival instinct and the brain produces physiological and psychological reaction just to protect itself and the body.

Believe it or not, a crumpled and dirty Twenty Peso bill is valued less than the same bill that is fresh off the press, even though the two bills are worth the exact same amount. The reason is that the condition of the crumpled and dirty Twenty stokes disgust in the threat system of the brain. The role of the threat system is to produce such a reaction to make the body avoid potentially harmful objects, substances and even situations.

Behavioral economists say that there is usually no need to create new mindsets as many of the proper ways of thinking are already embedded in the brain. The solution is to use the right mindset for the proper situation. This is called paradigm shifting.

The number of companies applying behavioral economics has been ever-growing. The concept is nothing new. But the application is spreading. This is the reason why coffee, sugar and creamer are stacked in supermarkets next to each other (because they go together). This is the reason why there is a prevalent use of 0% interest (even though there is) to combat the brain’s loss aversion. Similarly, this is the reason why there are buy one, take one promos. Now, occasions are even invented as opportunities to take advantage of sale promotions (e.g. 11.11 and practically all months of the year).

The important thing to remember is that rules in personal finance need to be augmented with lessons in behavioral economics to ensure the former’s implementation. These will range from basic budgeting to responsible borrowing to adequate insurance and all the way up to wise investing.

# Editor’s Note

Efren Ll. Cruz, RFP®
Editor-in-Chief

## Things Add Up

From the tender age of one up to the time we graduate from school, we are taught that 1 + 1 = 2. In other words, things add up.

Unfortunately, all throughout life, we take the "1s" or the little things for granted. Truth is, the "1s" can amount to a lot--when you add them up. Saving Php3.50 a day for 5 days in a week, 4 weeks in a month and 12 months in a year amounts to Php840, 8.4 times larger than the net interest to be had from putting Php100,000 in a savings account for one year.

Clearly, something must be done to manage the seemingly harmless "1s" that can wreak havoc in our budget. We do not have to limit ourselves to cutting costs. Sometimes, the better solution is to increase income.

Compounding is the principle of things adding up on steroids. The rule of 72 demonstrates that every so simply. The rule states that if someone says he will double your money in 5 years, that means your money will double with a net compounded return of 72 ÷ 5 or 14.4% per year. If someone says he will give you a net compounded return of 10% per year, then he will double your money in 72 ÷ 10 or 7.2 years.

So, make it a habit of reviewing the "1s" in your life. It can spell the difference between healthy and sickly personal finances.

Have you added up your "1s" lately?



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