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Financial plans must fit all sorts

Posted: Sept. 24, 2005

Twenty-five years ago, when another newspaper hired me for a job I thought was more "prestigious," I felt the need to dress the part. With utter disregard for the South Florida heat - and my own predilection for cool, comfortable clothing - I splurged on a couple of wool three-piece suits.

Emboldened by a higher salary, I also bought other expensive stuff, including an organ and a "state of the art" chess-playing computer.

But with my new hellacious hours at work, I never found time to play the organ and ended up selling it for a fraction of what I paid.

The chess-playing computer quickly became obsolete and one day stopped working. The new job? It wasn't a good fit, and I resigned after eight months. My barely worn suits, too hot for comfort, hung in the closet for years before I donated them to a charity-run thrift shop.

Altogether, I spent at least \$5,000, more than I got for switching jobs. But my loss was far greater. Had I invested the money and matched the return of the Standard & Poor's 500 Index, I would be sitting on about \$120,000 today.

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Does that mean we should never splurge? Not at all. My wife, Georgina, and I have spent far more than \$5,000 on many memorable trips, including expeditions to Antarctica and the Amazon.

I have happily spent thousands of dollars over the years to build a 7,000-song digitized music library and a computerized collection of a million-plus master chess games. The difference is that these expenditures actually give me pleasure.

I've been thinking about this topic after reading numerous books and articles on behavioral finance. (Among recent ones, check out the article "What Money Type Are You?" in the August 2005 issue of Money magazine, and the book "How Much Is Enough," by Diane McCurdy, published by Wiley in

September.)

Details differ, but the basic premise is the same: We all have distinct money personalities that shape our approach to saving and spending.

Some of us, myself included, are natural savers who value and enjoy financial security and prefer to make rational decisions about money (but, as you've seen, can succumb to irrational urges).

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Others, with more of an entrepreneurial bent, thrive on taking risks in pursuit of big riches and/or doing great things with their money.

Others want to spend every cent they make, now.

For others, their greatest pleasure is giving their money away, such as donating it to charity.

No one money personality is "better." They are just different. Many of us exhibit traits from more than one personality type. The important thing is to know what we are and compensate for it when necessary.

A saver, for example, needs to learn to loosen the purse strings. Risk takers can use a fallback plan. Spenders and givers need to make sure they don't jeopardize their financial well-being.

But all of us can be financially successful - and happier - if we recognize and acknowledge our own money personalities. Doing so is much more likely to work than following rules that may appeal to rational savers but not other types.

For example, rational savers are likely to be put out by findings that 85% of American recreational golfers can tell you the score of their last round but only 52% know the value of their portfolio (based on a just-released survey by Nationwide Financial and Golf Digest). But even though I am not a golfer, I recognize the pleasure a hobby can bring and why it can be important.

And going well beyond hobbies, major life decisions cannot be judged merely on dollars and cents.

"Many of the important decisions we make are so inexplicable or illogical or even impossible from a financial standpoint," said Mari Adam, a certified financial planner in Boca Raton, Fla., who, like me, considers herself a rational saver.

Adam is talking about couples who struggle to save money to adopt, or who debate having one parent stay home with the children knowing the financial sacrifice such a choice entails, or think about quitting a job they hate without knowing how they're going to pay the bills.

"What drives these decisions is a very personal search for happiness, not the maximization of wealth," Adam said, and I think that's how it should be.

How about you? I invite all readers to write and share what you think have been your best and worst spending decisions. I'll pick the ones I consider the most interesting and include them in a future column.

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