LIVE THE LIFE YOU WANT WITH THE MONEY YOU HAVE

THE MONEY HANDBOOK FOR A NEW GENERATION

VINCE SCULLY

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First published in 2022 by Major Street Publishing Pty Ltd
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A catalogue record for this book is available
from the National Library of Australia

Printed book ISBN: 978-1-922611-34-5
Ebook ISBN: 978-1-922611-35-2

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Cover design by Typography Studio
Internal design by Production Works
Printed in Australia by IVE Group, an Accredited ISO AS/NZS 14001:2004
Environmental Management System Printer.

10 9 8 7 6 5 4 3 2 1

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Preface

‘There is no dignity quite so impressive, and no one
independence quite so important, as living within your means.’
– Calvin Coolidge, former US President (1923–1929)

Whenever I tell people what I do for a living – I’m a financial planner at Life Sherpa® (trademark owned by Moneysherpa Pty Ltd), Australia’s first online financial planner – the conversation inevitably turns to money. I may be at a barbeque or even out for a run or a cycle when people ask me what they should do with their money: what should they invest in? What should they do about tax?

My first response is always, ‘It depends’, because unfortunately, there is no one right answer. But I can give you a process to lead you to your right answer simply, without needing a degree in finance or a bunch of spreadsheets. Luckily, most of it is about behaviour and attitude, not complex mathematics and technical finance stuff.

Let me explain. Over the many years I’ve worked in finance, I have discovered that successfully navigating the world of money is not about having the best plan, or choosing the best investment, or even earning the most money. Nor is it about scrimping and saving – the money equivalent of the crash diet. I realised that the less time we spend planning how to get the most from our money, the more time we spend worrying about it.

I have worked with clients just starting out who have very little money and lots of debt. I have also worked with clients who have millions of dollars in retirement savings. And what made them comfortable with their money, and allowed them to get the most life out of their money, was not how much they earned or saved or where they invested it. What made the difference was truly understanding what they wanted and spending their money in a way that got them closer to achieving that objective. These weren't money goals like 'I need to pay off so much debt' or 'I need to save so much for retirement'. They were true life goals and values.

Over time, I developed a system that helped my clients understand their core values – what truly mattered to them – and use this information to develop a life plan – or at least one for the next few years! We then worked together to develop a spending plan, and to build the money skills needed to get there.

Like a lot of people, I learned a lot about money from my father. But I also know the world has changed since he started out. What got him to a fulfilling life and a comfortable retirement isn't the same thing that will get me there, and it certainly isn't going to work for you if you are just starting out.

This insight, informed by years of practice as a financial planner, led me to launch Life Sherpa. And by writing this book, I can provide you with some simple, practical tools to get the most out of the money you have. This book will help you develop an understanding of what really matters to you and give you an easy-to-follow, eight-step plan to help you achieve it. I'm not going to harangue you about the things you spend your money on. I'm certainly not going to tell you to cut out your morning coffee. But I will give you the skills to live a fulfilling life free of money stress, no matter how much you earn, own or owe.

The eight-step roadmap to financial freedom is a program I developed and is now used by my team at Life Sherpa. Thousands of our members have used it over the years, so we know it is a system

that anyone can use to stop getting by and start getting ahead. Each step will bring you closer to financial freedom.

There are three foundation steps, setting you right on the road to success: spend less than you earn, build an emergency stash, and pay off your debts. Then there are three protective steps, keeping the unexpected from throwing you off: prepare for the unexpected, get the superannuation (super) basics right, and get your paperwork straight. And finally, there are two growth steps, the bits that give you that powerful sense of getting ahead: buy and pay off your home, and invest your surplus.

Have you ever thought:

- ‘I make a good living; how come I don’t have anything to show for it?’
- ‘If one more person tells me that if I just cut out my morning coffee or took my lunch to work, I could afford a house or to retire rich…’?
- ‘I struggle from payday to payday, but there never seems to be anything left over’?
- ‘I’ll never be able to afford a house of my own’?
- ‘Retirement seems so far away; I just can’t think about my super’?
- ‘Money is just too complicated; I can’t make a decision’?
- ‘Why does this money stuff all have to be such hard work?’
- ‘I’m only 30; do I really need to think about all this stuff right now?’
- ‘Who can I really trust to help me with my money?’

Then this book is for you.

Introduction
The latte fallacy

There is a commonly held but incorrect view that giving up your morning coffee can make you rich. At just $3.80, your daily latte will cost you $83,023 over 30 years, and that's why millennials can't afford a house. Sounds plausible, right?

The maths seems straightforward enough at first blush: $3.80 a day times 365 days a year is $1387 in the first year and $41,610 over 30 years. Of course, inflation will increase the cost of your daily latte each year, so the actual cost over 30 years would be $65,987 (at 3% annual inflation). If instead you invested this at 5% after tax you would end up with $134,681 at the end of 30 years.

The notion that how much you spend on coffee is the difference between success in life and a retirement spent in penury has strong currency in the media and among personal finance bloggers. So how could it be so wrong on so many levels?

The maths is flawed. It ignores the fact that the $134,681 is only worth $57,151 in today's money after 30 years when you adjust for inflation. And it's the same maths that says your daily latte, which contains 176 calories, will result in you putting on eight kilograms a year, or 240 kilograms over 30 years.

This is a game economists love to play – it's called keeping everything else constant. And this is simply not realistic when it comes to human behaviour, and especially when it comes to money behaviour. The truth is that most people spend most of their money most of the time. This explains why couples without children do not accumulate more assets than couples with children, despite the obvious cost of raising children.

It's simply not true that millennials are actually squandering their hard-earned. We may spend 50% more on eating out than we did 40 years ago, but the total amount we spend on food adjusted for inflation has not materially changed since the mid-1980s. And why pick on coffee? We spend nine times as much on alcohol as we do on coffee, so why isn't alcohol blamed for millennials not being able to afford a home?

Why is this message such a problem? Isn't this just a harmless metaphor – a modern take on your grandmother's advice that you should look after the pennies and the pounds will take care of themselves? Perhaps the metaphor is not intended to be taken literally, but this money meme is not just harmless fun – it is leading to bad money management for most Australians. It focuses the mind on cutting small, highly visible expenses, rather than the big ones that actually make a real difference. This makes managing your spending harder work than it needs to be.

The truth is that success with money is not the result of thousands of small decisions made well – it's a function of half a dozen decisions made with intention and consideration: where you live, what you drive, how you prepare for the unexpected, how you prepare for retirement, how you make a living, and who you marry.

For example, the difference between spending $735,000 and $700,000 on your home will pay for a lifetime of lattes – invested in a balanced fund, that $35,000 should generate an income of $1400 (indexed to inflation) with a high degree of certainty. Yet when we go

to inspect real estate, the agent is likely to say something like, 'This will sell in the low seven hundreds'. This is agent code for $700,000 to $750,000 – as if these were so close that it made no real difference.

I don't mean to say you shouldn't control your spending; far from it. Spending less than you earn is the foundation of financial success. In this book I'll show you lots of ways to do that and still feel free to enjoy life. I call this the art of living the life you want with the money you have.

The world has changed

The world has changed massively since your parents' and grandparents' time, so many of the money rules need to change too. Old rules – such as 'Buy the biggest house you can afford, even if you have to stretch yourself a bit at the beginning', or 'If only you spent less on coffee/going out/clothes/[insert other pleasure here], you would be fine' – simply don't work in today's world.

This is not to say that your parents or grandparents are wrong or misguided. It's just that the game has changed, and so the way we play it needs to change, too. This means that much of what passes for common sense doesn't actually make sense anymore, so I want to share the new rules and how you can make them work for you.

What has changed to make life today so different to your parents' world?

Banking has changed, for one thing. When your parents or grandparents were young, you could be pretty sure that if you had a good steady job and lived a normal life, you could afford a nice house and a car, and money sort of took care of itself. This is not because your parents were any better at managing money. It's just that the system wouldn't let them spend more than they earned. When their pay packet was spent, they had to stop spending until the next one

arrived. The government regulated the activities of the banks so you could only borrow what you could really afford to pay back, and credit cards were rare. This made it pretty hard to overcommit on debt repayments and let your finances get out of balance.

Now, Australians owe a collective $17.9 billion on 13.2 million cards. I'm certainly not advocating a return to such government regulation, but it is important to understand what has changed to create the need for a new set of rules.

Also, inflation has been tamed. Back when inflation was high, it didn't really matter too much if you were a bit stretched when you bought your home, or you paid a little too much for it, or you borrowed a little more than you could really afford. Inflation came along and delivered pay rises and home price increases, and soothing relief for the previously overstretched borrower.

To see what I mean, let's go back to 1979, when the median house price in Sydney was $50,700, average (male) earnings were $12,896, inflation was running at 10.2% and home loan rates were at 9.13%. Our first homebuyer who borrowed $40,000 to buy this $50,700 median house would face payments of $4,475 per year or 35% of their pay. (As you will learn in Step 1, this is an uncomfortably large percentage.) Within a year, their pay rise (to $14,456) would reduce it to 31%, and by December 1981, it would be down to a comfortable 28%. Meanwhile, the value of the house has increased to $68,850 in a year and to $78,900 by December 1981. So even if they paid a few thousand more than the house was really worth, it has now become almost academic.

Roll forward to 2021: inflation is down to less than 3%, home loan rates are around 2% and wages growth is barely keeping up with inflation. The impact on your lifestyle of stretching your budget to buy that first home will now last for much longer.

Despite the apparent huge increase in the cost of housing in Australia, the proportion of the average household budget spent on

housing costs has changed little in the past few decades. How is this possible? For starters, the typical household now has two earners, and women are earning more than before. So, as household income has risen, we have typically spent the same portion of it on housing. (This is a recurring theme we will come back to – I call it lifestyle inflation, and it can be damaging.)

Also, interest rates have fallen. When interest rates fell from 10% to 5%, the amount you could borrow for any given monthly payment rose by 63%, and the fall of interest rates to 2% increased it by a further 45%. And lending terms have eased, with the term of a home loan increasing from 20 years to 30 or more. Increasing the term from 20 years to 30 years allows you to borrow 35% more with the same monthly payment. These factors explain much of the rise in house prices over the past few decades.

Another way the world has changed is that we have to do more for ourselves. When our parents or grandparents started work, it was common to have a job for life, and a company provided a pension based on how much they earned. For others, there was always the age pension. However, when compulsory super was introduced in 1992, we were all effectively turned into mini pension fund managers, a task for which we were (and still are) generally ill-equipped. We now make a number of financial decisions every week that, cumulatively, have huge impacts on the overall outcome, but we haven't really been given the tools or education to cope with this. Nor has affordable financial advice been available for the vast majority of Australians.

The good news is that anyone who entered the workforce after 2002 should be capable of retiring on about 60% of their pre-retirement income from their super contributions, given a bit of focus and the right advice.

Society today is also more socially mobile than in our parents' or grandparents' days. This means we are exposed to people with vastly different levels of income and wealth than our own. We see people

with much less than we have, and we see people with much more. Because money is the last taboo – we are happier to talk about sex than money – it can be difficult to assess from the outside how others really compare to us. Comparisons can be dangerous. Just because your neighbour has a fancy German car doesn't mean you can afford it, too. You never know how much debt they have built up or whether they have other sources of income.

Our parents generally only saw such lifestyles on television or at the movies, where it was easier to tell fantasy and reality apart. Your neighbour might be living a debt-fuelled fantasy. Facebook and Instagram are a particularly pernicious influence here. We portray our lives on Facebook as we wish them to be seen. These carefully curated lives can provide a warped sense of reality that makes comparisons especially dangerous. As Steve Jobs said, 'Your time is limited, so don't waste it living someone else's life'.

We are also now spending longer in education and deferring life events like marriage, starting a family and buying a home. In 1990, the median age for first marriages was 26.5 years for men and 24.3 years for women; by 2019 this had increased to 30.7 years and 29.3 years, respectively. Between 1990 and 2020, the proportion of Australians aged 24 to 65 with a bachelor's degree rose from 10% to 39%. The average age of first homebuyers has risen from 25 in the 1970s to 35 in 2020. Almost a quarter of first-time mums are now over 35.

In contrast, we don't seem to be prepared to accept that 75 should be the new 65, so we should work until we are older to offset the later start. There has been only a small change in the age at which we retire. Of those who have already retired, 75% did so by age 65. Retirement intentions show that 34% intend to retire by 65, with 83% intending to retire by 69. But we are also living longer. As a result, we are working for a smaller proportion of our lives and expecting to live a longer, more active retirement. One of our biggest challenges is to make 40 years of income pay for 70 years of adult life. Something has to give!

As we have become more prosperous, our options have multiplied. Some choice is always beneficial; too much can become a burden. Faced with a complex decision, many of us simply give up and do nothing. In many parts of our lives, this is harmless, but when it comes to our finances it can be disastrous.

A study by psychologists Mark Lepper and Sheena Iyengar demonstrated this reluctance to make a decision when overwhelmed with choice. In the study, researchers set up displays featuring a range of jams, where customers could taste samples and receive a coupon for a dollar off if they bought a jar. One test had six varieties of the jam. Another had 24 varieties. The larger range of jams attracted more people to the table than the smaller range. In both tests, people tasted about the same number of jams. But when it came to buying, there was a huge difference: 30% of the people exposed to the small range of jams bought a jar, while only 3% of those exposed to the large range of jams made a purchase.

When I read this research, I thought it was nonsense. But when faced with the need to buy a new toaster, I found myself turning tail from a department store when faced with a choice of more than 30 toasters. I returned a few days later to buy the cheapest one!

All these changes mean we need new rules to live by. The human brain evolved to deal with clear and immediate threats, such as hunting lunch or escaping a rampaging woolly mammoth. But it doesn't do so well when faced with great complexity coupled with uncertainty – which describes many of the decisions we need to make in our financial lives. Fortunately, we also have the ability to develop and use shortcuts to create a practical way that may not be guaranteed to be optimal or perfect, but is sufficient for the immediate goals. Psychologists call these heuristics.

In this book, I include a number of rules of thumb that can help cut through the noise and allow you to quickly answer questions such as: how much house can I afford? What car should I drive? Can I afford

to take time off when I have a child? What school should I send my child to? How much should I save for retirement? And how much is enough?

The important conclusion to take from this is that you can't win today's money game playing by yesterday's money rules. In this book, I share with you these new rules.

Why should I care in my 20s and 30s?

It is tempting to treat our 20s as a period of extended downtime between university and life: a period of travel and experimentation, punctuated by the occasional low-engagement job, and a time to defer life's responsibilities. I'm not suggesting that this is not a good time to enjoy new-found freedoms and to sample as many experiences as possible. But just as a building is only as good as its foundations, the rest of your life is critically dependent on the experiences, discoveries and activities of your 20s. Build them wisely!

As a society we may be settling down, marrying, buying a home and having children later than our parents and grandparents, but that doesn't mean that our brains and bodies have adapted accordingly. While our bodies might be maturing earlier now, our new lifestyles may be delaying the development of the very mental skills needed to survive and thrive in the 21st century. With the rise of the 'kidult', the extended adolescence supported by living with our parents longer has been shown to delay the development of the critical thought processes we need to make our way in the world.

Also, our brains develop a little later. In fact, the frontal lobe – the bit that deals with rational decision making in emotional or uncertain situations – is the last part to develop. It doesn't really come into play until we are well into our 20s. This development explains much of the reckless behaviour exhibited by young men in particular. When faced

with emotional decisions or extreme uncertainty, teenagers and young adults are simply not yet equipped to think things through using rational processes.

Researchers now believe that, like muscle development, our brain functions benefit from use. Practice does in fact make perfect. These skills don't come just with age; they come with practice and experience. In other words, what we do in our 20s lays the foundations for how we deal with the rest of our lives.

When we look back over our lives, much of what shapes us as people and the way we live happens in our early adult life. Psychologists call these events and memories 'autobiographically consequential experiences'. These are the events we remember as having affected the unfolding of our life stories in personally significant ways, not merely events that affected the location we ended up, the jobs we took or the people with whom we connected. Simply put, our lives are largely defined by the experiences of our university and early adult years.

This is also true in our work lives. As much as the defining attribute of work in the 21st century is the portfolio career and the growth of the 'slashie' – as in actor/barista or accountant/novelist – some things haven't really changed. Our earning power still peaks in our early 40s and is hugely affected by experience gained in our 20s. In general, wages rise strongly through our 20s as each year of experience adds more value to an employer. As we grow into our 30s, we seem willing to give more to prospective employers. In our 40s, we are seen as more expensive and less open to change, as well as more focused on family and less on work. And by our 50s, many are starting to use their greater financial resilience to experience more fulfilling but perhaps less remunerative work. By building our skills, experience and networks in our 20s, we build the foundation of success through our 30s and 40s.

As for our social lives, most of our closest friends are made in our school and university days. Moving jobs and cities brings us into contact with many more people and widens our social circles.

Where we choose to live is determined in part by where our social circle lives, but it in turn changes or reinforces who joins or remains in our social circle.

Where we live and the people we socialise with have a huge impact on our cost of living. What's more, we tend not to move very far once we choose a city. In Sydney, for example, it is highly unusual for someone to move from the north shore to the eastern suburbs, or vice versa. We also tend to unconsciously conform to the lifestyles of our friends and neighbours. We live in similar houses, we drive similar cars, our kids socialise together, and they go to the same schools. These are the big four when it comes to spending. In other words, our budget is strongly influenced by the home we choose and the friends we keep. I'm not suggesting it is simply preordained; rather, I am saying that it takes more mental effort to be different.

In his 1955 article in *The Economist*, Cyril Northcote Parkinson, a British naval historian and author, wrote about how 'work expands so as to fill the time available for its completion'. This law can be expressed more generally as follows: the demand for a resource tends to expand to match the supply of the resource. So it is with money. Left unchecked, our spending grows to just exceed our income.

You would think that for something as basic as food, we would all spend roughly the same amount. After all, we all need to consume roughly the same number of calories to survive and, generally, rich people don't seem to be fatter than poor people. In fact, the opposite seems to be true: poorer people tend to suffer from greater levels of obesity. In practice, however, households across the income spectrum in Australia (and elsewhere) tend to spend the same proportion of their income on food – about 10%. As we get wealthier, there is a quality substitution effect: we stop eating cheap, processed foods and eat more fresh and organic foods.

We see the same effect with housing. Australian households spend roughly the same proportion of their budget on housing regardless of

income. So as our income increases, we develop spending habits to match. We buy a bigger house, we drive a more expensive car, we take more expensive holidays, send our kids to more expensive schools, drink better wine and eat better food. The great difficulty occurs when our income later falls – it is so much more difficult to change a spending habit than to have never had it in the first place.

So, our 20s are the perfect time to head off the effects of lifestyle inflation. It is easy to get carried away with the flush feeling that comes from our first pay packet from our first real job. Freed from the deprivations of a student budget, we now have a sense of wealth and a feeling that we need to reward ourselves for the years of hard work. Go ahead, celebrate the wins, but be careful of building in structural spending that becomes hard to shift later.

It can also be tempting, particularly for people in creative or professional positions, to seek to look the part of the successful young employee. This means the right clothes, restaurants, bars, car and apartment. In many cases, living the perception of the right lifestyle costs a lot more than the reality of the pay packet.

Careers with a defined growth path – accounting and law in particular – can often deliver a steady stream of pay rises as you progress from graduate trainee to senior, to manager and, eventually, to partner. This can lead to a dangerous feeling of complacency – spending next year's pay rise this year. If you continue down the career path smoothly and happily, time will fix the problem (eventually). But you need to be very sure it is the career for you. Over the years, I have seen many clients who have built the lifestyle to match the 'successful lawyer' career only to find they are trapped in a job they hate because they can't afford to leave. I have lost track of the number of people I've met with seemingly successful careers and lavish lifestyles who wake up on their 25th birthday (or their 30th, 40th or 50th) and wonder if that's really all there is to it.

Building a balanced budget in line with your career stage, values and ambitions is the key to staving off the worst effects of lifestyle inflation.

Change after 30 is harder. There is a phrase often associated with the Jesuits, an order of Catholic priests, that emphasises the importance of early education in our future development: 'Give me the child for his first seven years, and I'll give you the man'. Whether seven is the right number is open to debate, but it is certainly true that we become who we are at an early age. The older we get, the less likely we are to change, as it is much harder to unlearn old habits and form new ones.

Recent analysis of Spotify listener data showed that as users grow out of their teens and enter their 20s, they listen to less popular music and more music with fewer listeners. This decline in the proportion of popular music continues until their early 30s when, for the average listener, their tastes have matured and the decline slows or stops – they are who they're going to be.

Thirty seems to be an important breakpoint. This is not to suggest that the morning of our 30th birthday is somehow different to the evening before, although many do wake up feeling that life is beginning to leave them behind. The Germans have a word for this – *torschlusspanik* – which literally means the fear that the gate is about to close. It is more commonly applied to a 40-something midlife crisis, but it can be experienced at any age.

At 20, your life lies ahead of you. Your biggest asset is time. Time is capable of curing many problems, and this is most true when it comes to money.

There is an old saying (often dubiously attributed to Einstein) that, 'Compound interest is the eighth wonder of the world. He who understands it, earns it … he who doesn't … pays it'. If you invest at 10% for five years, your money will grow to be worth 1.6 times

its original value. If you invest at that rate for 50 years – ten times as long – your money will not grow by 16 times but will be worth more than 117 times its original value. This is a concept that many struggle to understand, but which is vital to understanding how to win with money.

What's that got to do with 20-something you? In practice, it means that the earlier you start saving, the more interest you earn, and the less you have to give up today to achieve the same future goal. Compare three savers: the first starts saving $2500 a year at 21 years of age and stops at 30, putting a total of $25,000 into savings; the second saver starts at 31 and contributes $2500 a year until the age of 70, for a total of $100,000; and the third starts at birth, when her parents put $2500 aside for two years, for a total of $5000. Each of these savers would end up with roughly $550,000 at age 70.

It's not just about saving for retirement. The effect extends to all forms of spending and saving. A dollar saved early is worth more than one saved late, and a dollar borrowed early ends up costing more. The earlier you start with balanced spending habits, the greater the beneficial effect. Each extra dollar saved for your new car, or your deposit on your flat, or paid off your home loan, or saved by better allocating your spending, has a similar effect. Harnessing this is the key to success.

Understanding yourself

The first step to achieving peace with your money is to get a firm grip on what is really important to you. The concept of understanding your deep inner values may seem a little out of place in a book about money; it may seem a little new age, but stay with me.

In his 2009 book *Start With Why*, Simon Sinek wrote, 'It doesn't matter what you do, it matters why you do it'. Similarly, Roy

Disney – Walt's nephew, who is famous for making some tough decisions at Disney, including ousting two CEOs – said, 'It's not hard to make decisions when you know what your values are'. And Stephen Covey, author of *The 7 Habits of Highly Effective People*, said, 'It's easy to say "no!" when there's a deeper "yes!" burning inside'.

What these guys are all saying is that when you understand the things that really matter to you (your core values), it's easier to conceive the right plan and to stick to it. Kate Moss, the famous model who was a poster girl for the heroin chic look, put it even more simply: 'You've got to want to be skinny more than you want chocolate cake'.

Midlife crises are often a result of living a life out of step with core values. It's hard to imagine that someone could turn 50 and suddenly say, 'I've lived true to my values, but now I don't like those values anymore, so I think I'll get divorced and start over'.

So, what is it about these values that make them so intrinsic to a fulfilling life? We all have a handful of values that define how we view the world and our place in it. Values are not New Year's resolutions, goals or to-do lists. Goals are about doing and having. Values are about being. You probably know what your values are, or what you value most in this life, even if you can't quite name them. They aren't necessarily constants; they evolve over time. You're not likely to see radical changes, but the relative importance of each will grow and change with you.

I'd like you to set aside some quality time to identify your core values and bring them to your conscious mind. Don't rush it. Find a quiet space with no interruptions. Depending on your personality type, you might find it more effective to do this with a friend.

Start by listing the values that seem important to you. Don't obsess too much. Go with your gut and write them down. There are no silly answers. Be frank and, most importantly, don't judge yourself, your answers or your partner's answers. Everyone is different, so don't

feel the need to have the same values as your partner or neighbour. Here is a list of common values compiled by the Centre for Ethical Leadership, plus a few others, to help get you started. Don't worry if yours aren't here. This list is just to inspire you and get the ball rolling on your values:

peace	love	fame
truth	status	integrity
success	wealth	influence
recognition	authenticity	justice
joy	friendship	wisdom
happiness	family	power
security	health	creativity
excitement	freedom	making a difference
adventure	growth	spirituality
peace of mind	fulfilment	balance
fun	independence	confidence

Now look for some common themes in your list of values. Group or eliminate these. For example, you may have identified adventure and excitement. Are these different to you? If so, keep both. If they both express the same core value for you, keep the one that best resonates, or find a word that expresses both. Refine your list to leave only five or six values that really resonate.

Think of some life experiences and how you felt or reacted. This will help you distil your list. Here are some examples:

- Think of a day or time that you consider the best of your life.
- What do you remember about your childhood?
- What would you like people to say about you at your funeral? What would you say about yourself if you could give a farewell speech?

- Why do you get out of bed in the morning? Why do you go to work? Why do you want to make money? Keep following this train of thought until you hit on something with deep intrinsic meaning.
- How do you fill the space around you? How do you spend your money, your time and your energy? What stands out as the most valuable to you emotionally?
- Think of times when you are most focused, energised, organised and ready for anything.
- What do you talk to yourself about? What themes, events, desires and concerns occupy your mind each day? What themes come up often when you talk to others? These are clues as to what you value.

Once you have completed this task, you should have a list of five values that are core to what makes you tick. Rank them in order of importance. This provides a valuable insight into who you really are and should therefore form the basis of your major decision making (and minor decision making as well if you want true happiness). Refer back to your list of personal core values each time you set new goals. Be amazed at how much more driven you are to achieve goals when they are underpinned by your own personal values. This will help you focus on what matters and to avoid decisions that go against your core values.

For example, I often see clients who are struggling with their budget because they have bought a big family home that is stretching them a little too much. When I dig a little, I find out family is important to them, and so is providing an appropriate roof over their heads. For them, this meant a room for each child and plenty of room to play and live. Unfortunately, they find they have to spend more time at work than they really want to so they can pay for it. Mum needed to rush back to work and missed out on more time at home when the kids

were little. Dad is tied to his high-pressure job so the bills can be paid. And they both miss spending time with their kids.

This situation can arise because the true meaning of the 'family' value wasn't clear to them. If they dug a little deeper and discovered that family, for them, meant spending time together as a family, they might not have committed so much to the house. Could they have chosen a slightly cheaper area? Did the kids really need their own bedrooms? Did they need all that space to spread into separate rooms if the goal was to be together?

This is what Stephen Covey meant by the deeper 'yes'. By aligning our spending with our values, we can effortlessly develop and stick to our plan and it will feel like we are achieving what is important.

This is ancient wisdom that seems to have been lost in our modern society. At the core of Taoism is the concept of *wu wei*, or non-doing. This doesn't mean literally doing nothing; it is more concerned with doing what is required but nothing more. The theory of *wu wei* is that if we follow the laws of nature, things get done. If we go against nature, nothing gets done, no matter how hard we try.

If we try to lose weight by cutting out all the things we like, we don't succeed. If we try to balance our budget by working longer so that we earn more money, this leaves us with less time to enjoy life. Saving by cutting out things we love won't last long. But if we align our finances with our personal values, everything is possible; we can effortlessly develop and stick to our plan, and it will feel like we are achieving what is important.

I once worked with a client, Craig, a well-paid actuary with an apparent spending problem. His mother, who was concerned about his spending, urged me to see him. When I first met Craig, he complained to me about not seeming to be able to get ahead despite his good salary. Examining his spending, I noticed he was spending over $1000 every weekend going out clubbing. This included cocktails, club entry and, of course, an Uber and a kebab on the way home. There was also

a fair bit of cash spending, which Craig admitted reluctantly was spent on drugs.

The obvious answer was 'Craig, you simply need to go out less', but as we talked the real need emerged: Craig hated his job, and the weekend was his escape. He needed the job to pay for his weekend. He loved the atmosphere of the clubs and the people he hung out with there. The drugs and alcohol were about seeking to fit in.

Craig also happened to be a talented DJ. Together we developed a strategy for Craig to start doing some sessions as DJ, which meant he could hang out at the clubs without feeling the need to spend up on alcohol. Over time, he cut back his day job to three days a week and worked two nights in the clubs. Today he is a full-time DJ. So, by looking at the deeper need, we were able to develop a strategy to fulfil the underlying need and allow him to escape the job he hated.

One bed, one money system

No matter how well you understand yourself, when you share your finances with a partner, things get a little trickier. Now there are two sets of values to consider. What is the best way to manage this?

Conflicts around money are a major contributor to divorce. Although around only 5% of recent divorcees say that financial problems were the major cause of their divorce, most would agree that money conflicts were a significant contributor. Money is such a taboo subject in our society, so this shouldn't come as much of a surprise. So, what is the key to opening up the line of communication and reaching a conflict-free resolution? Two words: values and personality.

Start by sharing your values. Neither set is right or wrong, but it is important that you both understand what is important to each of you. Many values will be common; often that is what attracted

you to each other in the first place. But be prepared for differences. Values are deeply entrenched, so don't think your partner can simply change theirs. You need to accommodate both. Also, being aware of differences can help open your eyes to any habits that could be destructive.

Try working through the earlier values exercise together. Understand what your values really mean to each other. Don't make assumptions. On the other hand, don't expect to understand what's really important to your partner overnight. It will reveal itself slowly over time, as you seek to make each decision through calm and frank discussion.

Just as you have a set of unique core values that define you, you also have a set of intrinsic attitudes when it comes to money, influenced by your life experiences, your parents and your childhood. We use a psychometric tool at Life Sherpa that analyses these attitudes and assigns our clients to one of nine personalities. Knowing your money personality can help inform your money plans and allow you to reach a better understanding with your partner. It also provides a useful framework for a blame-free, judgement-free discussion about what matters to you when it comes to money.

The odds of two people agreeing on everything when it comes to money are just about zero. Being aware of differences can help you understand what makes for great money management and open your eyes to your own destructive habits. And when it comes to making most decisions, applying differing points of view can help you to challenge the assumptions you make.

Of all of the personality traits areas, there are three that seem to cause the most money issues in relationships: attitude to spending or saving, attitude to risk, and attitude to giving. These are among the toughest to change – I suggest you don't try to force it. We can all learn strategies to help us adjust and cope. Each of these areas has the

potential to generate friction when trying to work out a plan for your combined finances.

To be successful, a plan has to have buy-in from both parties. You need to get to a position where both of you can honestly say, 'Our goals are more important than your goals or my goals'. This is the way to make them achievable. This is not to suggest that you should subordinate your goals to those of your partner. You need to develop shared goals that are aligned.

When a couple sees things differently, there are three possible outcomes. The first is that they eventually agree. After talking it through, the couple may realise that one person is right, or that their disagreement was superficial, or they may find a whole new way of thinking that both of them can agree on. This is great when it happens, but in my experience, it is rare (and not always a positive thing) for a couple to agree on all things.

The second is that they compromise. Each gives a little. In the long term, compromise takes a toll. Money can be so emotional that compromising can be tough. Neither ends up wholly satisfied and it is rarely sustainable.

The third is that they achieve alignment. With this approach, a couple works out a way to meet the needs of both people. They may be doing the same thing for different reasons, but both people's needs are met, and they are in agreement about what to do.

Let me give you some examples of where conflict can arise. The couple in my first example has a classic conflict: Steve likes to save for what he wants, whereas Liz sees no issue with using a credit card, knowing that she will pay it off. He never buys anything until he actually has the cash. She knows she isn't drowning in debt, but it often feels that way to him. These sorts of attitudes are really quite innate, and it is unlikely that either of them will fundamentally change. They may compromise by cutting back on credit card use, but it's likely to constantly bug her, and it will never quite feel comfortable to him.

But what could alignment look like? By getting a better handle on their budget and current position, Liz and Steve gain a clear understanding of what they need to be saving for and how much they need to put away. They can now both breathe more freely and can talk about spending more comfortably because they know what they can afford to buy. Based on this plan, they are aligned on how and when they will use credit and have an overall map for their total spending. Cash or credit is now much less of an issue. They both feel much more in control of what is important to them. They are working as a team toward their goals. Steve generally pays the bills, but Liz agrees to pay the credit card bill because it just bugs Steve to do it.

Jane and Rob have quite different views on risk. Often this is the toughest one to deal with. They have two kids at school, and Jane stays home with the kids while Rob works full time. Jane worries about money and is keen for Rob to have a steady job with a big company. Rob is itching to start up a tech company. Underlying Jane's fear is not really knowing what the future might bring and how she will be able to continue being a stay-at-home mum. Feelings around security are often an important driver in how we feel about our finances.

Again, a plan forms a sustainable basis for alignment. What are their real financial needs over the next few years? With some work on their budget and a solid business plan that Jane understands, Rob and Jane find ways to reduce spending and increase saving. Jane is now more comfortable, and Rob has the financial security to get on with his startup. With this approach, Rob and Jane don't have to choose between security and opportunity but get the chance for both.

The balance between giving to charitable causes and meeting the family's financial needs is the third area that often leads to conflicts. Often this is based on religious views. With a clear plan of what steps they need to take, the needs of the couple can align, balancing the needs of their family with a desire to help others. They start to see

what and when they can afford to give. And with a clear sense of what matters to both of them, they can find areas of giving that are motivating to each of them.

In these three cases, exploring their different attitudes helped the couples think more deeply about money and develop a plan that put them in control, allowing them to work as partners to achieve what matters most to each of them.

The first step to all of this is to talk about it. But when it comes to money, talking can often lead to arguments and accusations – so much so that many couples give up on the subject and one person assumes control. This approach is not a win for anybody. Comments like 'If only you spent less on clothes', or 'You always spend more than me', or 'I earn more, therefore it's up to me', are never helpful.

Over the years, I have seen the effects of unresolved conflict in this area, but I have also seen many couples navigate huge differences and lead successful, harmonious lives. I've designed a seven-step process to help you come closer on your money differences:

1. **Accept your differences.** All of us have money habits that can help or hinder us on our road to financial freedom. It is very rare for a couple to have the same attitudes and habits around money. If they did, that could be just as much a problem if those attitudes and habits are destructive. Just as you each have different personalities, which is likely what attracted you to one another in the first place, you also have different money personalities. So, stop trying to change each other; instead, focus on making your differences work for you rather than against you.
2. **Aim to align but be prepared to compromise.** Now that you know how and why you approach money differently, you can find a way forward that works for both of you. Never agree to disagree or reach a compromise that leaves no one is happy.

A sustainable solution requires buy-in from both of you. Work at it until you get there. Whatever you do, keep talking. Watch out for the two most dangerous money phrases: 'Whatever you think, sweetheart', and, 'Don't worry, I've got it under control'. If you don't understand, keep talking until you do. If it's too complicated to explain, don't do it.

3. **Set money goals together.** Shared money goals are essential. Make sure your goals address the needs and wants of both of you, because your shared goals are only sustainable if you both feel that 'our goals are more important than my goals'. Create shared goals for spending, saving and debts.
4. **Schedule regular 'money moments'.** Think about your last money fight. Were you tired or pre-occupied? Maybe you just got home from work, or were watching TV. These are the worst times to talk about money. Schedule a regular time – I call it a 'money moment' – when both of you are relaxed and free of distractions. Have a glass of wine if that's something you enjoy. But never mix a date night with your money moment. Enjoy them separately! Use your money moment to review where you're at financially, identify issues and set some goals. Agree on a set of rules; or you can try my '10 golden rules for talking money with your honey' at www.lifesherpa.com.au/livethelife.
5. **Allow for guilt-free spending.** I usually counsel against keeping secrets in a relationship, but there is one secret all couples should keep from each other. I encourage clients to set up a separate fund in their budgets for personal spending. This is designed to be their own personal secret stash, to be spent as they see fit. No questions, no guilt and no recriminations. When you are tracking your spending, you only need to count the transfer into this account. Where it goes is nobody's business – as long as it is legal! It doesn't have to be big; it's totally up to you. For me,

there is nothing less romantic than a surprise gift that was paid for from the joint account.

6. **Agree on all expenses over a certain threshold.** Forgiveness may seem easier to get than permission, but harmonious couple finances just don't work well that way. Agree on a threshold where both parties must agree on spending above this amount (for things not already in the budget). The limit will vary depending on how tight your budget is. The upshot of this is not to sweat the small stuff. If you can do it within your budget without pushing anything else out, just do it.
7. **Bring in a third party.** A financial coach can really get your finances soaring. A good coach has seen it all when it comes to couples' finances. A good coach is part psychologist, part accountant, but most of all, someone with the perspective of an outsider to help you discuss and mitigate issues.

Setting goals

Once you've identified your core values and are on the same page as your partner, it's time to set goals that help you live a life that is consistent with those values. When you set goals this way, you are better positioned to get the most from the money you have, and to keep to a budget that supports rather than restricts you.

Your goals should embrace your entire life. It is useful to sort them into four categories: personal, health, financial and career. Then look at three time periods: one, five and ten years. This creates twelve categories (four areas times three time periods), so don't get too carried away – limit yourself to one or two goals in each category. But you don't need to set a goal in every category. Keep in mind that some short-term goals may support long-term ones.

Financial goals are usually a consequence of, or a precursor to, other goals. For example, you might set a career goal to be the owner of your own yoga studio in five years. This may require you to pay for some training courses in the short term, and pay for the fit-out and launch of the studio in the five-year period. It will likely create health goals as well, such as fitness and flexibility.

On their own, financial goals may not have much meaning. For example, in 1983, as a 20-year-old final-year student at Trinity College Dublin preparing to emigrate to the UK, I set a goal with a small group of friends of earning £25,000 by the time we turned 25. It was a fairly audacious goal back then. My first job paid £6900, and £25,000 could get you a small flat in certain parts of London. It ticked all the boxes when it came to goals: it was specific, measurable, time-bound and a bit of a stretch. Helped along by a bit of inflation, a good proportion of us achieved it; in my case, it helped that I completed an MBA.

So, why did I wake up on my 25th birthday with a hangover and a deep sense of, 'Is that it?' The missing ingredient was the significance. There was no emotional hook. There was no sense of 'If I achieve this goal, I will feel [insert emotion here] or be able to do [insert life goal here]'. The goal was achieved, but the success was empty. Be guided by your values so you don't get too carried away.

Eleven ways to achieve your goals every time

1. **Break it down.** Break big goals down into a few smaller goals. For example, if your goal is to complete a marathon in a year's time, set a goal you can achieve sooner that will help you get there, such as completing a five-kilometre run in three months' time. This is the secret to the success of programs such as Couch to 5k, now available as an app: C25K breaks down the effort of going from a sedentary life to being able to run five kilometres without stopping into a step-by-step, 12-week plan.

2. **Identify the first step.** You don't need a detailed action plan for each goal – or even each step – but you do need to identify the next action so you can get started and build up some momentum.
3. **Write it down.** An unwritten goal is just a dream. Writing it down creates clarity and helps build commitment. Write your goal in the present tense, as if it has already been achieved. This helps your brain accept that the goal is not just a dream – it can be reality.
4. **Make it specific and measurable.** The only way to be sure you have achieved a goal is with metrics. How will you measure success? How will you know your goal has been reached? A goal to lose weight is meaningless because it lacks a metric. A goal to lose five kilograms by March sets a clear path to achievement.
5. **Use positive language.** A goal should look and feel positive. Articulate what you will do, not what you won't. This helps focus your energy on the outcome, rather than on the actions or behaviours you want to stop. Replace 'I will eat less junk food' with 'I eat fruit in the morning', as if it's already happening.
6. **Give your goal a deadline.** A goal without a deadline is just wishful thinking. A deadline creates a sense of urgency, forcing you to pay attention. Write down the month as well as the year. Don't overthink it; just pick a date.
7. **Stretch yourself.** But don't go crazy. Be realistic: a goal just outside your comfort zone is more compelling than a 'walk in the park'. If you have to stretch yourself, you're more likely to achieve your goal and feel extra special when you do.
8. **Keep your goals visible.** The more often you can see them, the better. Stick your goals on a noticeboard, on the fridge or even on the bathroom mirror – wherever works best for you. Goals that are front of mind are more likely to be achieved. Don't forget to review them regularly.

9. **Tell someone.** You are much more likely to achieve your goals if you commit to them by telling someone. It doesn't matter who you tell: your partner, your BFF or a colleague. Pick someone who will call you out on it if you slack off.
10. **Make your goal compelling.** The most effective goals are emotionally compelling. What personal reason do you have for doing this, or wanting this outcome? How will you feel when you have achieved it? The reason becomes your incentive. For example, a bride-to-be is more likely to succeed at losing weight for her big day than for a random Sunday in June. You are also much more likely to feel great when you have achieved a compelling goal.
11. **Start on a meaningful day.** Research shows that resolutions that commence on emotionally meaningful days, such as New Year's Day, birthdays (especially milestone birthdays), graduations or on your engagement day are much more likely to be achieved.

Summary

- The world has changed since your parents' and grandparents' time. You can't win today's money game playing by yesterday's money rules.
- The rest of your life is built upon the foundations you lay in your 20s and 30s, so build them wisely!
- To achieve peace with your money, you need to truly understand yourself. Your money plan should reflect your core values.
- If you share your finances with a partner, you need to agree upon shared money goals. These shared goals are more important than your goals as individuals.
- Your goals should embrace your entire life and should cover the categories of personal, health, financial and career.