

6-Steps To Optimize Your Money & Life



?I think we're doing the right things with money, but we feel sub-optimized.?

Twenty-eight years guiding others through financial challenges, thousands of words, and oddly I experienced personal angst over this one - *?sub-optimized.?* It's rare the word arises, if at all. There was something about it that captured my ear and mind. I wondered about the obstacles that create what I call *?dollar drag,?* whereby the highest and best use of our money is overlooked or ignored. ***Sub-optimization is an equal opportunity offender.*** We all are afflicted, even if our track record of handling money is better than average. There can be great intentions, even respectable core money habits and yet sub-optimization thrives because we're human. As in the case of this forty-something couple: Six-figure wage earners, ambitious savers who set aside 20% of income for retirement, well-funded 529 plans for young children and saddled with dangerous credit card debt levels due to a failed real estate venture. Overall, I give them high marks when it comes to handling their money however a simple solution to reduce the high-interest debt was clearly in front of them and they couldn't see it. They couldn't wrap their minds around their financial condition in its entirety. There was a mental barrier between the personal and business debt even though *they were* the business. In other words, the burdensome interest charges affected their household net worth. As a financial professional I realize nobody can avoid some degree of sub-optimization or dollar drag. Much of it stems from a failure in our logic called mental accounting. See, we like to compartmentalize money: We create mental walls that prevent us from considering how each dollar may flow freely through and across various goals to the final and best

destinations on our household balance sheets. Dan Ariely, professor of behavioral economics at Duke University and New York Times best-selling author helped me understand how to position *highest and best use* in my mind. He said

Every financial decision has an opportunity cost. You cannot make the best money choices in a vacuum.

You must revolve around each decision and control where your money lands. **So, how can you make better financial choices and think full circle?**

6-Steps To Optimization

1) Break it down and look around. Don't perceive every financial challenge as a straight edge with a beginning and conclusion. It leads to narrow thinking and sub-optimization at the point of action. Round out your thought process. Go where you never been before. When presented with a financial decision, break down the walls, goals, compartments and picture how all your dollars can flow free from their different types of accounts and work together to achieve the greatest impact to your bottom line. When performing this exercise with my fiscally responsible couple, we concluded that utilizing an existing home equity line of credit at less than 4% interest, to pay off the credit card with 21% interest rate, was an optimum conclusion. It was a major improvement never considered because the mental barriers were thick between business and personal accounts. Once those barriers were removed, a solution was obvious. **2) Grab every opportunity to assess the opportunity (cost).** I've gone overboard with this one. I take lessons seriously from influences like Dan Ariely and share them with anyone who will listen. I now examine the *full circle* of every money choice. I'm obsessed with dollar drag. During a recent evening out, before ordering at an iconic Texas barbecue place, I stepped back and thought of what else I could do with the money. Was this the *highest and best use* for my \$28 bucks? I took away the walls and permitted the money to flow through other options including eating at home. I had to weigh the opportunity cost until I either returned full circle to the current choice, or stopped on a better solution. Better doesn't always mean cheaper, either. When it comes to opportunity cost you need to input much into the calculation including what your time is worth and qualitative factors. If anything, this type of exercise will allow you to pause before making a purchase and create awareness about other options that may bring greater satisfaction and value. And yes, I went for the pork ribs and fixings. **3) Think rooftop, not basement.** When you bust down the walls between dollars, you begin to think bigger (and smarter). You're up on the roof looking out and over the landscape of your finances. You begin to see how fungible money is. Most of the time, we rummage in the basement where it's dark and narrow because of the laser-focus on the problem. Unfortunately, the longer we concentrate, the less we observe lucrative options hiding in plain sight. That's why financial decisions should begin from a holistic perspective (roof) and then narrowed down to the basement or specific issues at hand. For example, when gasoline prices were shy of 4 dollars a gallon, I was inundated with inquiries about trading in paid-off automobiles for new gas-efficient options. In other words, I was being asked whether spending \$32,000 was worth the saving of \$600 a year at the gas pump. The numbers didn't work out advantageously. Once you consider the opportunity cost of spending five figures, well, you're on the roof and seeing things from a clearer perspective. From there, dollars may flow to higher uses or in these cases, not flow inefficiently to paying additional debt from automobile loans. **4) Hire a navigator.** The navigators are out there. The best financial advisers are sensitive to their own emotional biases and can help others navigate through theirs. There's a synergy and greater satisfaction when a financial partner can help reduce barriers and encourage breakthrough or *a-ha* moments. You always appreciate the highest and best use of a navigator. Ostensibly, your net worth should be affected positively, too. **5) Live your retirement plan optimization.** Most people I encounter have a retirement strategy. Unfortunately, it exists in their heads, but not in writing. Those who have a formal, written plan tend to weigh

opportunity costs or are at the least, sensitive to the implications of their financial choices. Since plans take into account your entire financial picture they re-direct focus on the big picture. Hey, the portfolio is important, but it isn't everything. Eventually, emotional walls crumble; you can easily think full circle and assess how every decision made today affects your retirement start date. **6)**

How sub-optimized are your relationships? As you grow as an individual, a force, you must consistently optimize your relationships to determine who is worthy of your inner circle. All the others must be cast away. They're weights tied to your spirit and they will hold you down.

Surround yourself with those who are smarter than you (not just book smart, but also will expose you to learning experiences outside your comfort zones). Also, people who make you laugh inspire optimization. Oh... Now that you're in the mood to bust boundaries around money, keep in mind that any account can be a retirement account. Just because it's not held with your employer or doesn't have "IRA" in the title, doesn't mean the dollars you save aren't applicable to retirement. Society, to a degree, has encouraged mental accounting by sanctioning retirement vs. non-retirement accounts. As part of your change in thinking, consider all money in one pool. You decide how it flows to its most honorable (and hopefully lucrative) conclusion. Sub-optimization optimized my thinking; I hope it's sparked a new perspective for you.