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Eustress to Relieve Money Stress

Every year, in multiple surveys, American households repeatedly identify money as a leading source of stress. An example: in the American Psychological Association's 2017 report "Stress in America," 62 percent of respondents listed money as a persistent source of stress. And financial stress isn't just a problem for lower-income households: A Brookings Institution study found that nearly one quarter of households earning $100,000 to $150,000 were living paycheck to paycheck; they couldn't pull together $2,000 in a month to meet unexpected expenses.

Financial stress might seem like a given of modern life. But it doesn't have to be.

Eustress and Distress

The term "stress" as it is currently used was defined by Canadian endocrinologist Hans Selye in 1936 as "the non-specific response of the body to any demand for change." A stressor is something that forces us to change our state of being, perhaps for a moment, maybe forever.

Selye also noted that while many of the physiological responses to stress were the same (like a faster heartbeat or heightened awareness) some stressors were found to be physically and emotionally beneficial, while others could be debilitating.

To differentiate between these types of stress, Selye coined the word **"Eustress"** by adding the Greek prefix "eu-" *(meaning "good," as in "euphoria")* for healthy stressors in our lives, challenges which produce positive changes, like improved skills or better habits. In contrast, "distress" occurs when stressors lead to exhaustion, or provoke negative responses.

Getting married, starting a family, or receiving a promotion could be considered very stressful events in that they might require significant changes in our attitudes, routines and commitments. But we typically see these stresses as opportunities, and we deem ourselves better off for having taken them on. These stresses bring out the best in us.

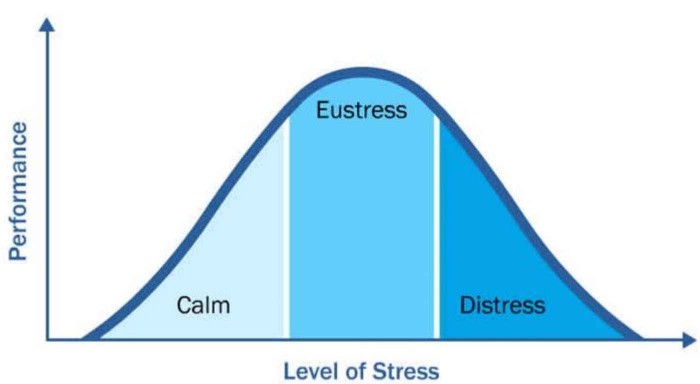

Chart from The American Institute of Stress (www.stress.org/daily life)

In This Issue…

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From this bio-social-physical perspective, one of the keys to a healthy life is developing attitudes and habits that maximize eustress and minimize distress.

How might this approach be used to reduce financial distress? Start by establishing an appropriate eustressful objective, then identify the source of your financial distress.

Jarred Dillian is a former Wall Street trader who writes a weekly column on personal finance. In an October 2019 commentary, Dillian offers a counterpoint to the accumulation-driven narratives promoted by many institutions and media experts. Instead of finding your "number," such as the amount you need to accumulate in order to retire, Dillian articulates a different objective:

"The goal is not to be a millionaire, but to lead a stress-free financial life."

In other words, to be in a state of eustress about your personal finances.

In Dillian's experience, there are two primary sources of financial distress: debt and risk. If you can reach a state of eustress about those two issues, worries about money will subside. To that end, you might consider the following strategies:

Measure to Manage

Peter Drucker, a prominent 20th-century management consultant who wrote extensively on the best practices in business, was fond of saying ***"What gets measured, gets managed."*** This maxim is easy to understand; measuring something defines its current condition, and gives you benchmarks to determine progress and make adjustments.

Ruth Henderson, the founder of a Toronto-based business consulting firm, goes a bit further. She says the decision to measure something can often be a eustressful catalyst:

> (F)or many people, the simple act of measurement increases motivation to perform. Research shows that the desire to win is heightened when rivalry and time pressure coincide, and the simple act of measuring something sparks that sense of rivalry in many people. Of course, that rivalry doesn't need to be with others, it can be with one's own self as a sort of "competition" to see whether you can beat a goal. Without a measure, there is no way to determine whether you have won, and therefore, less motivation to get something done.

If there is something that needs to change in your financial life, measuring it may provide the focus and motivation to manage it and move you toward a state of eustress; you can handle the stress because you know you're winning the battle.

Get the Big Decisions Right

But you can't measure everything; you don't have the time or energy. So Dillian recommends a selective approach: Get the big decisions right – especially when it comes to debt – and you won't have to stress about the little ones. For Dillian, the three debt issues that cause the most financial distress are mortgages, auto loans, and student loans.

His corrective: live in a less-expensive home, drive older vehicles, and go slow on a college education; start at a community college, then attend in-state public universities, maybe as a part-time student. These recommendations might sound drastic, but Dillian says that for most people, there is actually less stress in forgoing big-ticket financial items. "People can easily give up big luxuries – they can drive a cheaper car – but they cannot give up small luxuries. It is asking too much." Choosing a smaller mortgage means you can still enjoy a specialty coffee – every day.

Get Real About Risk

Many households are in denial about their financial risks; they think if they ignore them, they will go away. That's why some people avoid discussions about life insurance or disability income insurance; in the moment, it's easier to take the chance you won't die early or experience a disability instead of paying a premium for real risk protection.

There's a different kind of ignorance when it comes to investment risk: Retail customers (i.e., non-professional investors) often don't know what it takes to succeed, or the potential losses they must be willing to endure.

Most people understand that investing comes with no guarantees; it is possible, even likely, that investments will fluctuate in value, and occasionally lose money. The argument for accepting this volatility is that, over long periods, the total returns will be greater than "safer" alternatives.

But historically, this investment approach only works if investors stay invested – ***for the entire time.***

In an October 2019 commentary, *Wall Street Journal* columnist Spencer Jakab cites an institutional study which found that a $10,000 investment in the S&P 500 index on January 1, 2004, would have grown to $30,711 by the end of 2018. This is an average annual return of over 8 percent – but only if the money remained invested for ***every single day*** during the 15-year period. If a hypothetical investor occasionally liquidated their position, even for just a few days, the results could be dramatically different.

An investor who was not invested for the index's 10 best days from 2004-2018 would have reduced their ending balance by almost 50 percent, to $15,481. Conversely, if the same investor had avoided the 10 worst days, the account balance could have been even more than $30,000. But good days and bad days are random; even for investment professionals, it is impossible to time the market to maximize gains or minimize losses. The only way to capture all the big days is to be fully invested during the bad stretches. And for Jakab, that's the point:

"The price of admission to those heady long-run returns is making peace with temporarily losing half of your money."

But how could anyone temporarily lose half of their money *and not be stressed?* Sure, the long-term numbers say "hang in there, it will work out." But there are no guarantees.

One way to possibly inject some eustress into this scenario: Address other financial risks with a blend of income insurance and guaranteed accounts. Minimizing these risks may generate enough eustress about your overall financial condition that you can withstand the distress of investment losses and stay the course, hopefully to capture those outsized long-term gains. ❖

What needs to change in 2020 to bring your personal finances into a state of eustress? Which strategies might help you alleviate your financial distress?

New Year's resolutions can be clichés, but that doesn't mean your life wouldn't be better if you decided to take a eustressful approach to your finances this year. Financial stressors may be constant, but there may be options to remove or alleviate the distress.

The Twin Tower terrorist attacks of September 11, 2001 were the impetus for a series of security protocols implemented in the past two decades. One of the last regulations to become effective is the REAL ID.

Some details:

- REAL ID is a state-issued driver's license or personal identification card that meets verification standards required by the federal government.
- To receive a REAL ID, you must provide documents that verify your: identity, social security number, current address, and all legal name changes. These must be original documents or government-certified copies.
- REAL IDs will typically be marked with a gold or black star in the top right corner, making it easy for federal security employees to recognize them. (A few states have issued REAL IDs without a star.)
- On October 1, 2020, every U.S. air traveler will be required to present a REAL ID-compliant license to board a domestic flight. (Some other forms of identification, such as a U.S. Passport, military ID, or Global Entry travel card, will continue to be accepted.)
- It is not mandatory that all US citizens have a REAL ID. Not having a REAL ID does not affect your ability to drive, vote, or purchase items that require identification. However, if you plan to board a commercial flight, enter a nuclear power plant, access federal facilities, or visit military bases, you must present a REAL ID.

Original Documents May Not Be Good Enough for REAL IDs

In an ironic twist, many states have updated their recordkeeping standards to the point that original documents once considered official may no longer be valid.

For example, the REAL ID requirements for the State of Michigan specify that you need "a certified birth certificate with a raised seal or stamp." Many older Michigan birth certificates were issued by, and kept on file in county offices. But in recent years, a new entity, the Michigan Vital Records Office, has become the centralized repository for these records. Consequently, original documents issued by the county may not be accepted for REAL ID because they don't contain the appropriate seal or stamp to be considered "certified."

Essential Documents – a Short List

The documentation required for the issue of a REAL ID leads to a broader discussion of what pieces of identification are essential for US citizens to hold, which versions are acceptable, and how these documents should be stored.

Besides personal identification, many of the same essential documents are often necessary to verify eligibility for important financial items, like adding a spouse to employer-sponsored health insurance or receiving survivor benefits from Social Security or employer pensions.

Here is a short list of essential documents:

- Birth certificates, adoption papers, legal name changes
- Social Security cards
- ID cards and naturalization papers
- Marriage and/or divorce papers
- Living wills, Medical and Financial DPOAs
- Wills and Trusts
- Employer benefit statements
- Disability documentation from employers, US military or the Social Security Administration.
- Record of military service, including discharge papers
- US Passports

To protect against theft or physical damage, these original and certified documents should be kept in a secure receptacle, like a fireproof safe or a bank deposit box. As a back-up, digital copies should also be stored in an encrypted online vault.

The October Deadline Is a Prompt

Already, the TSA and state DMVs are urging citizens to get their REAL IDs now, instead of waiting until the last minute. And yet, come October 1, 2020, there is sure to be one passenger just ahead of you at a TSA checkpoint who won't have a REAL ID, and will be prevented from boarding their plane – but not until they have created a delay for those with REAL IDs.

Even more important than beating the REAL ID deadline: Making sure these essential documents are safe and accessible before your "final deadline." If these essential documents are not readily available, it may unnecessarily increase stress on a surviving spouse or adult children by creating more paperwork and delaying benefits. ❖

Are your essential records up-to-date and securely stored?

Gradually, Then Suddenly – in Cars.

Every now and then life gets sideways. There's an unexpected event, a change of plans. All of sudden, you're wondering "How did I get in this mess? And how am I going to get out of it?"

If you get sideways with your personal finances, a frequent fix is to borrow money. You might ask for help from family or friends, take a cash advance on a credit card, get an unsecured note from the bank, open a home equity line of credit, or tap your 401(k).

This stabilizes your situation. You figure out how to pay the loan. Life goes on. Except…

Even if your budget can afford it, the amount you pay a lender each month decreases what could be saved. Which means if you have another sideways moment – a medical bill, a car repair, a leaking roof – you will borrow again. Monthly payments will increase, and saving will once more decline.

You know this is not ideal. But eventually, you adjust. The extra debt is your "new normal."

"How did you go bankrupt?"
"Two ways. Gradually, then suddenly."

This two-sentence exchange from Ernest Hemingway's 1926 novel, *The Sun Also Rises*, might be the most concise explanation for the trajectory of events that lead to financial ruin: "Manageable" debt gradually accumulates until, quite suddenly, it is overwhelming.

Going broke in this manner isn't caused by a character flaw, like overspending or a gambling addiction. It's just the inevitable result of reflexively using debt to resolve life's sideways financial moments. Here's what John Mauldin, in a November 2019 *Thoughts from the Frontline* commentary, had to say about the normalization of this behavior:

"One of Western civilization's biggest problems is we've convinced ourselves that debt can be permanent. We don't use that specific word, of course, but it's what we do and why government debt keeps rising. We borrow faster than we repay previous borrowing."

In sober moments, everyone understands that borrowing faster than you repay previous borrowing is a recipe for trouble. Yet this is how a lot of American households buy automobiles.

The Normalization of Negative Equity Loans

It starts with a sideways event: an urgent need to buy a new car, but still owing money on an existing vehicle. For a dealer to accept the old car in trade, the loan against it must be paid in full. The easiest solution: Roll the old debt into the new car loan; a portion of the new loan pays off the old debt. But since many dealers will offer no-money-down financing on the new purchase, the loan often exceeds the value of the new vehicle. This is referred to as a negative equity position.

Edmunds.com, an online resource for automotive info, reports that "33% of people who traded in cars to buy new ones in the first nine months of 2019 had negative equity," with an average rollover amount of $5,000.

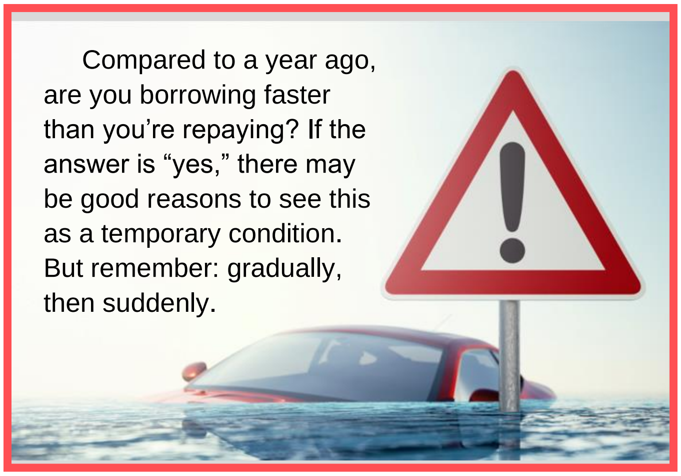
Do this once, and you might eventually get right-side-up again. But according to Edmunds, consumers with negative equity not only owe more, but they tend to get longer loan terms, with higher interest rates and higher monthly payments. This tends to create a cycle in which each trade-in leaves them deeper in debt.

A November 2019 *Wall Street Journal* article highlighted an extreme case: Over two years, a 40-year-old electrician took out four car loans, each time rolling unpaid balances from the previous car into the next. His last transaction: a $45,000 loan to buy a $27,000 vehicle. That's "gradually, then suddenly" in a very short period.

Why does this happen?

From a consumer perspective, rising car prices have made automobile ownership more expensive. Because personal transportation is often a financial necessity, many households have no choice but to take on debt to meet the need. (The electrician's story included a divorce, an accident, and an aging vehicle that had become unreliable.)

It seems counterintuitive that lenders would allow borrowers to get into a negative equity position, because the risk of default is higher. But the *WSJ* article notes that "The transactions are often encouraged by dealerships, which now make more money on arranging financing than on selling cars."



On occasion, it can be instructive to take a big-picture look at personal finance. Instead of discussing the pros and cons of different accumulation strategies, or the tax implications of new legislation, let's consider how individual prosperity makes the world a better place.

First, a definition: Prosperity is a state of financial well-being characterized by consistent income, manageable obligations, and accumulating assets. It is also the expectation that this current state of economic well-being is sustainable – there will be more income, proportionally fewer obligations, and growing accumulations.

The magnitude of one's prosperity is conditional on a combination of factors, from natural abilities and interests to geographical location, as well as dozens of other variables. But a common component in all individual prosperity is sound financial management. When you are a good steward of what you have, you create opportunities for greater abundance.

Your Prosperity Can "Spread Goodness"

The loudest marketing messages about personal finance primarily appeal to your well-being – it's about ***your*** security, ***your*** retirement, ***your*** dreams. While self-interest may be a compelling reason to get on top of your personal finances, this narrow focus often overlooks the positive impact your prosperity can have on others.

Ratanjit Sondhe is a chemist who, according to his LinkedIn profile, "emigrated from India in 1968 with two Masters' degrees and $8 in his pocket" to earn a Ph.D. in polymer chemistry. Five years later, Sondhe started a materials science company in Ohio, which he ran as its CEO for 34 years until it was acquired by Dow Chemical. Since then, he has become an advocate, as a speaker and writer, for individual wealth creation, especially as an antidote to poverty.

In a 2013 white paper titled "Wealth Creation vs. Job Creation: Why creating jobs isn't the real answer to our problems," Sondhe extols the value of wealth creation and prosperity.

"Creating wealth is fundamental – its positive effect is far reaching. Through wealth we create resources to help others spread human prosperity. Instead of just creating jobs, we need to focus on creating wealth, because wealth empowers individuals to grow and thrive and strengthens communities – the opposite of poverty.

"When used properly…wealth fosters abundance and prosperity, improves the human condition, and liberates mankind to achieve, produce, and accomplish unimaginably wonderful things. Wealth allows us to spread goodness. Wealth doesn't exist for us to possess, it exists to be used. Its purpose is to enable improvement of the human experience."

Do you see your prosperity in this light? Do you see how your wealth allows you to "spread goodness?" This isn't the standard message you hear from the financial services industry, but it might be a better one.

Your Prosperity Can Take You Beyond Fear and Greed

There are many emotions that strongly influence human action. With money, fear and greed are often front and center. Fear may compel you to do what's necessary (buy car insurance, start saving for retirement), and greed may drive you to satisfy your own desires (a flashy new car, an extravagant vacation). But when the fear is gone, and the desire is satisfied, what comes next? A new fear? Another desire?

With or without money, one of the ways we move beyond fear and greed is by connecting with purposes and institutions that promote values and causes that are bigger than our self-interest. We raise families, join religious communities, serve on volunteer associations, give to special causes. Our commitment to these "greater things" gives us a sense of belonging and satisfaction that cannot be found in the purchase of a new car or 60-inch flat-screen TV.

When we are prosperous – when we have our financial lives in order – we can participate in these "greater things" in a bigger way. This is one way our prosperity can "spread goodness."

Your Prosperity Is a Necessary Virtue

Because some people abuse or waste their prosperity, there can be critics who are suspicious of all wealth and all prosperous individuals. Sondhe acknowledges this abuse, but insists that the problem lies with the individual, not prosperity itself.

Wealth creation is a necessary virtue. Increasing money and wealth is necessary to enable more wealth creation. The highest level of human freedom comes only when the individual is creating wealth. Without wealth, the promise of human liberty is abridged or lost. ❖

By definition, your personal finances are an individual endeavor – it's your money, and the decisions, responsibilities and consequences that follow are yours as well.

But don't lose sight of the bigger picture, and the part your prosperity can play. When you are prosperous, you can make the world a better place.

Here's to a prosperous 2020.

Here's to a better world.

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