

DON'T GET BLOWN AWAY BY WINDFALLS

by Rhea Wessel, Contributor, *CFA Institute Magazine*

Several years ago, a partner at a law firm in California received an unexpected bonus of about \$200,000. Within one weekend, the money was gone. The 37-year-old husband and father had bought a second car—a Ferrari.

Apparently, this Ferrari owner is not alone. Experts say that many people who receive windfalls are at high risk of making bad financial decisions because of the emotions involved. Sudden wealth has the potential to shake people's lives to their foundation by causing them to question who they were before receiving the money and what the money means for who they want to be.

"Bonuses and windfall profits have a higher emotional content than other money," says Kathleen Gurney, PhD, a psychologist specializing in money management and author of *Your Money Personality: What It Is and How You Can Profit from It*.

The key to dealing with windfall money responsibly is to draw up a plan based on a solid analysis of your relationship to money and what the money you've suddenly received means to you.

1. CONSIDER WHAT YOU WERE TAUGHT AND BREAK FREE FROM THE PAST

Reflect on how you were raised to think about money so you can determine how your long-held beliefs may be affecting your current behavior. Ted Klontz, PhD, an independent financial coach, helps people uncover the unconscious beliefs that cause them to act out the same scenes in their lives over and over again.

Mr. Klontz says he first recognized the power of unconscious beliefs about money when he tried to understand why he behaved in ways that weren't in his best interest financially. He grew up poor, and his family was suspicious of rich people, believing they took advantage of the poor. Mr. Klontz said, "I realized I was uncomfortable being called wealthy. . . . When I realized that, it made perfect sense that I would make sure not to get rich."

Translate these ideas to dealing with sudden wealth, and it's easy to imagine that someone with a similar background as Mr. Klontz would blow his windfall. "The average lottery winner is right back to the financial level where he or she started within seven years. Below a certain level, we feel uncomfortable and will work hard to

accumulate more. Above a certain point, we feel uncomfortable and will spend it or get rid of it to regain comfort," Mr. Klontz explains.

2. DON'T REPEAT MISTAKES MADE BY YOUR PARENTS OR FAMILY

Ms. Gurney counseled a financial broker who took a sizeable bonus and donated it to an association that provides support to gamblers because his father had squandered away the family money when he was growing up. He made the decision against his wife's wishes, telling her he earned the money and wanted to do something for his father with it. Meanwhile, his wife had dreamed of going back to school to earn a master's degree and saving for their children's college tuition.

The broker had come to Ms. Gurney for advice on financial questions but ended up receiving marriage counseling as well. Ms. Gurney's analysis is that he donated the money to make himself feel good. "He didn't understand that he was essentially doing to his wife what his father did to him."

3. ENDEAVOR TO UNDERSTAND WHAT THE WINDFALL MEANS

Windfall money that is earned (e.g., bonuses) may evoke different reactions than unearned windfall money (e.g., lottery winnings or an inheritance). If you understand the hidden message behind your windfall, you will be better equipped to handle the money in a beneficial way.

A writer in Cincinnati received a large lump sum when her father died, and she burned through 75 percent of the money with bad investments before seeking help from Ms. Gurney.

"What she did was just the opposite of what her father intended because of emotional feelings like anxiety and guilt. It's the combination of the guilt that you don't allow yourself to experience and the anxiety you're feeling. Why should I have this money when I lost a parent? You think it's not appropriate. If you can't deal with the guilt feelings, you're often going to use the money against yourself rather than to serve yourself," says Ms. Gurney.

In contrast, people often see bonus money as a reward for working long hours in the office and perhaps even on weekends, so they may feel entitled to spend the bonus to compensate for the sacrifice. This is not necessarily a bad plan as long as the basics are in place.

Mr. Klontz offers a compromise solution, once a recipient has understood what the windfall means. Why not spend 50 percent of the windfall on something to enrich your life and put the other half toward creating a legacy, he suggests. Mr. Klontz worked with a man who was selling his business and helped him find the best way to make this sale fit into his life plan. Mr. Klontz asked the man and his wife to consider their goals and plans as well as what they wanted their great-grandchildren to believe about them. After thinking about issues like these, it's much easier to create trusts and write wills that reflect personal values.

4. BE HONEST WITH YOUR PARTNER

"Bonuses come with temptations for financial infidelity," says Mr. Klontz. One of his clients brought home a \$20,000 bonus, thrilling his wife, but failed to mention that the original sum was \$40,000. He spent the rest on his hobbies but told his wife that each endeavor cost a little bit less than it actually did (e.g., he said the new mountain bike cost \$2,500 when it really cost \$6,000). In these circumstances, "the spouse feels betrayed and begins to wonder 'In what other ways am I being betrayed?'" observes Mr. Klontz.

The way windfall money is treated within any relationship can make or break the partnership, according to Ms. Gurney. She recommends giving your partnership "life and respect" by talking about the windfall gain and making a plan that meets everyone's needs on a conscious and subconscious level. "Bring in the whole family," she suggests.

5. ASSEMBLE A TEAM OF EXPERTS

You may want to put together a team of experts to help you work through all the issues involved in receiving a windfall. A traditional team might include a financial planner, a tax adviser, and a lawyer, but also consider adding a mental health professional, a life coach, or even a spiritual adviser to the mix in order to better examine your motivations and plans.

6. DO NOTHING

Psychologists specializing in money management suggest that people need 6 to 12 months to settle down after all the emotions that accompany a life-changing windfall. One couple in Kentucky took nearly a year to decide how to spend a bonus the husband received. The couple spoke to their financial advisers, Ms. Gurney, and a career coach before making any decisions. By giving themselves the gift of time, the couple was able to put the money to work for a life change that would have a lasting impact.

In other words, the best thing to do if you don't have a plan for your money or if the windfall catches you by surprise is, at least for a while, absolutely nothing.

Note to the reader: Certain details about clients discussed have been changed to protect their identity.

For more information, please consult <http://www.cfainstitute.org/about/investor/>

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