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Personal Finance

The next investment course to take: Psych 101



How you think about money has a huge influence on your financial success

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A portfolio manager recently told me that after spending 40 years in the industry, earning a Chartered Financial Analyst designation, and having managed hundreds of millions of dollars, he was convinced that investing success basically all came down to psychology. I'm slightly less draconian, as I've always said that personal financial success is 90 per cent psychology and about 10 per cent math.

Everyone has their own work-life balance that they strive for, but I'm worried about the framework from which we view that balance on average. This is best explained with an example: A few years ago, Michael Shermer wrote an op-ed piece titled **"Why people believe strange things about money,"** which cites research indicating that more people would prefer to earn \$50,000 a year while everyone else earned \$25,000, as opposed to earning \$100,000 a year while everyone else earned \$250,000. This study assumes that the prices of goods are the same in both possible scenarios, although this may be a bit of a stretch. That being said, essentially, people would rather be relatively better off as opposed to absolutely better off. The math is simple: \$100,000 is more than \$50,000. But the psychological drivers at work guide the ultimate decision.

The field of behavioural finance is not new, but it is certainly expanding at a rapid pace. We learn all the math skills we need for our personal finances by high school, but few of us ever really examine how we make financial decisions, nor the psychological influences we fall victim to. At all.

Luckily, you can start now, and it won't cost you a dime if you have an Internet connection. Click [here](#) to watch all the lectures from Introduction to Psychology courtesy of Yale University on Academic Earth. Academic Earth is an aggregator of higher education courses and seminars that are made freely available to anyone who wants to “cyber-audit” them. No cost, but no credit either.

First-year psych may be just the beginning, but it provides the foundation for understanding more about behavioural finance and neuro-economics. There are a lot of people out there who believe these fields of research may be the largest pieces of the puzzle when it comes to your financial well being.

Preet Banerjee is a new Globe Investor columnist on all things personal finance-related. He is the author of [WhereDoesAllMyMoneyGo.com](#), ranked the #1 Canadian Investing Blog by readers of the Globe and Mail. He is also the W Network Money Expert.

