How to Avoid Letting Emotions Control Financial Decision Making

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As a business owner or entrepreneur, your success will, to a large degree, be determined by how well you manage the financial resources you have at your disposal. And, if there's one mistake you don't want to make, it's letting your emotions control financial decision-making

Emotions and decision making

Emotions can screw up your decision-making – that's an idea that behavioral scientist Francesca Gino explores and confirms in an article published in the Harvard Business Review.

Gino touches on a number of different aspects of emotion-based decision making, but one of the most interesting takeaways is a Wharton School study she highlights. In the study, participants were asked to estimate the weight of a person based on nothing more than a picture of the person. Participants were told they'd be paid based on accuracy, which provided ample motivation

After providing estimates, they watched a short video clip. Some participants viewed a *National Geographic* special that showed beautiful fish in the Great Barrier Reef. The other group saw a movie clip about a young man who is bullied. After seeing the videos, members of both groups were given another person's weight estimate of the person and asked if they'd like to reevaluate or change their original estimate.

For participants who saw the clip of the man being bullied, their anger and frustration seemed to carry over into the next task. Approximately 74 percent failed to listen to the other participant's estimate. On the other hand, just 32 percent of participants from the *National Geographic* group ignored the advice.

"As this research shows, anger triggered by a prior, unrelated experience that, from an objective perspective, should not influence our current judgments or decisions can make us unreceptive to what others have to say," Gino explains. "In related research, Scott Wiltermuth of the University of Southern California and Larissa Tiedens of Stanford University found that anger triggered by something unrelated to the decision at hand also affects how we evaluate others' ideas."

You are human and you experience emotions – even when you're at work. In fact, a classic study conducted by Bond University professor Cynthia Fisher showed there are five common negative emotions people frequently experience in the workplace: frustration/irritation, worry/nervousness, anger/aggravation, dislike and disappointment/unhappiness.

It doesn't matter if you're a highly emotional person or fairly calm, you're going to experience these emotions in your professional career – especially when you're a business owner or an entrepreneur.

Sometimes your emotions do a good job of directing your actions, but this isn't the case when it comes to finances. If you let emotions control financial decision making, you will lose out almost every time.

How to avoid letting emotions control financial decision making

Since emotions are highly subjective, it's helpful to have

some specific and tangible advice regarding how you can get your emotions in check and avoid letting them influence your financial decision making. Let’s check out a few techniques and strategies:

1. Know when to move on

One of the biggest issues people have is quitting when they’re ahead. When things are going well, it’s easy to keep pushing. Unfortunately, this isn’t always the best strategy. The economy, the real estate market, the stock market, consumer demand – all of these things experience ebbs and flows. Just because something is going good or bad doesn’t mean it will continue to do so forever.

“One day you’re winning and making a lot of money, the next day you don’t seem to be able to put a foot right. It’s also a game of fine lines. One mishap here, one misjudgment there and you can go from what ‘should’ have been a highly profitable day to a big losing day,” explains NetPicks, a leading online trading system.

In fact, NetPicks is big on adhering to the “Power of Quitting.” It seems counterintuitive to quit while you’re ahead. You potentially missing out on more gains. However, this ultimately prevents you from taking unnecessary losses. In the long run, it’s highly profitable.

Whether you’re day trading or running your company’s finances, establish principles that tell you when to move on. This removes emotions from the process and improves decision-making even when the adrenaline is pumping.

2. Be cognizant of the “I deserve this” mindset

When things aren’t going well for your business, or you find yourself in a tough situation where the outcome looks bleak, it’s easy to feel sorry for yourself. As you might guess, this often leads to some pretty dangerous mistakes.

“Anger (and disappointment) is one of the biggest fuels of an ‘I deserve this’ mindset,” CFP Shannon Ryan points out. “When you find yourself saying (whether mentally or out loud), ‘I deserve this’, I encourage you to ask yourself if you’re really angry or upset instead. It’s okay to be angry or upset but buying yourself something is a short-term solution. Truly addressing your anger or frustration is the better answer.”

The “I deserve this” mindset is most common when it comes to personal finance, but it can also rear its ugly head in your business’ financial decisions. It’s easy to say, “We deserve this,” even when the numbers don’t actually line up.

3. Take a deep breath

You’ve heard people say you just need to take a deep breath when you’re feeling stressed. Perhaps you’ve even said it yourself. But this isn’t just a cliché saying – it actually works. Slow, conscious breathing can calm you down in highly stressful situations.

“The relaxation response is controlled by another set of nerves – the main nerve being the Vagus nerve. Think of a car throttling down the highway at 120 miles an hour. That’s the stress response, and the Vagus nerve is the brake,” physician and author Esther Sternberg explains. “When you are stressed, you have your foot on the gas, pedal to the floor. When you take slow, deep breaths, that is what is engaging the brake.”

If you find yourself sitting in front of a spreadsheet, stressing out over some important financial decision, then step away and take a deep breath. This deep breath isn’t going to give you any answers. However, it will put you in a calmer frame of mind. This will help you make disciplined, calculated choices.

4. Identify your triggers

It’s imperative that you do a little digging and attempt to

understand who you are and what sort of triggers cause you to feel different emotions – particularly negative ones. By identifying these triggers, you should be able to avoid negative situations and prevent the onset of heightened emotions.

For example, let's say your blood boils every time you review your company's P&L statement. Instead of reviewing the P&L statement alone at the beginning of the day, maybe it's best to review it alongside a couple of your trusted advisors at the end of the day (when it won't affect the rest of the workday). Small steps like this can have profoundly positive results.

5. Establish financial goals

When emotions guide financial decision making, it's almost always because there are no financial goals in place. A lack of goals means a lack of structure, which gives you free reign to listen to your emotions. If you want to avoid putting yourself in compromising situations, take the time to establish clear and concrete goals that guide decision making.

6. Surround yourself with the right people

You are the sum of the four or five people you spend the most time with. When it comes to your business, you are going to adopt the personalities of the people you work most closely with. Focus on disciplined, poised people if you want to position yourself for success.

Surrounding yourself with the right people will look different for everyone. The key is to find people who think differently and have unique personalities. Too much of one trait will prevent you from making smart, balanced decisions. If you're naturally pessimistic, optimistic people will help. Surround yourself with even-keeled people to reduce stress.

Get your emotions in check

Emotions aren’t a bad thing. The fact that you feel happiness, sadness, irritation, anger, anxiety, anticipation and other emotions is what makes you human. It’s what separates you from so many other species. But at the same time, you can’t let your emotions affect how you make financial decisions in your business.

It’s easier said than don to get your emotions in check. It takes years of practice and you’ll never get full control. Having said that, the more conscious you are of your emotions, the better you’ll get. Be proactive and take control of your company’s finances.

(By Peter Daisyme)

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