

## Five tips to combat common money mistakes

Managing our personal finances isn't usually the reason we get up in the morning but it's an unavoidable reality. So here are five tips to help



Source: Shutterstock

A bat and a ball cost €1.10 in total. The bat costs €1 more than the ball. How much does each cost? If you're like most people, you'll say the bat cost €1 and the ball 10 cents. The correct answer is the bat is €1.05 and the ball is 5 cents.

This is a typical example of how easy it is to make a mistake with numbers, regardless of how experienced or confident we may feel when it comes to money. It's why retailers feel they can use multiple discount offers to confuse us into spending more than we were expecting.

There is sometimes a difference between what we plan to do with our money and what actually plays out. But there are ways to bridge the gap. Here are some tips to grow your every-day money-managing prowess:

## Consider the future

It can be easy to focus on the here and now when making everyday decisions, but choices relating to finance also require us to consider the [future](#). Consciously reminding ourselves how our spending and savings decisions affect both our current situation and our future selves can help to ensure we don't get caught up in habits that can hurt our financial situation later on. There are various ways to do this. In one study, decision-makers were given aged pictures of themselves to try to influence their current behaviour. For many people, it's difficult to look so far ahead but we can at least consider what our spending needs will be in the near-term. And that's a start.

## Pay attention

If you have a looming deadline at work, a sneezy child and the boiler breaks, it may not be the best time to make long-term financial decisions. If you try to review your pension investments or pick a new phone tariff at the same time, you are likely to be distracted by these more pressing concerns. Having a lot on your mind means you will likely end up making poorer decisions and this often tends to mean selecting the simplest option – which is not necessarily the best one. RSA's [Wired for Imprudence report](#) calls this cognitive overload. Taking the time to make one financial decision at a time can be effective – as you don't become mentally [exhausted](#) and don't act impulsively, favouring the [default](#) option.

## Picture it

Bank of England chief economist Andy Haldane has said he finds the British pension system [complicated](#), even though he considers himself "moderately financially literate." Personal finances are complex and can seem challenging or boring when the direct link to our everyday lives isn't obvious. Which is why it can be a good idea to construct a visual representation of numbers if they seem too abstract and to think about money in terms of what it means for you. Different people process data in different ways so understanding where the numbers come from and what they represent can help to make decision-making relevant and concrete.

## Connect the dots

The underlying assumption in economics is that humans are rational, even though many people don't behave rationally when dealing with their finances. [Research](#) suggests that sometimes money matters are too complex and interconnected to process properly. We often cannot hold a complete picture of our financial situation in our heads all the time and end up dealing with each aspect separately. This often leads to irrational choices. Linking activities together to realise their impact on each other can help to avoid unintentional outcomes and gives a more holistic view.

## The flip side

We like to think we fully control the way we think about a situation but, perhaps surprisingly, the way a problem is presented plays a part too. Nobel Prize-winning psychologist Daniel Kahneman called this the [framing](#) effect. Next time, when you're trying to sort out your mortgage, bills or tax issues, it might pay to consider it in a new light. For example, as a challenge rather than a hassle. Describing a task in a new way can encourage us to recognise and consider additional angles before jumping to conclusions.

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