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Trading in Your Financial Goals for Habits

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Goal-setting has been the *de facto* method used by virtually all financial professionals when trying to help clients plan their financial life. But is goal-setting the optimal approach?

Formalized "financial planning" has been in use since the 1960's and goal-setting has always been a key requirement for its practice. Yet there's scant empirical evidence that goal-setting is responsible for people becoming "financially successful" or "financially independent." That's not to say that being more formalized about one's personal finances isn't instructive or better than doing nothing. A 2013 study by the *Consumer Federation of America (CFA)* and the *Certified Financial Planner Board of Standards (CFP)* showed that a whopping 81% of households do some combination of no planning, limited planning, or just basic planning. Only 19% do comprehensive planning. If financial success was demonstrably attainable due to formalized and comprehensive goal-setting, it would have already become a constant in the fabric of virtually everyone's life. It would be taught in schools and ingrained in our collective psyche. It isn't.

With generally low adoption rates it seems a better way is needed. The act of setting and attaining goals isn't as simple and reliable as the conventional planning community makes it sound. It's rife with impediments that serve to torpedo even the most well-intentioned plan.

Goals, for personal finance, largely rely upon math. To quantify most financial goals, a formula is required. Simply put: *Goal = Money Saved x Rate of Return x Number of Years*. The problem is that money and our lives don't work as simply and cleanly as math. There are changes in circumstance, need, opinion, desire and more, over time, that make goal-setting inherently flawed from the get-go due to its lack of flexibility and inability to predict the myriad of changes that people go through.

Goals are often self-limiting. What if you set the goal too low? Without even realizing it, you would spend years following a plan to achieve less than what was possible. Goal-setting, when used as a substitute for the "most efficient use of every dollar," typically leads to unnecessary waste and missed opportunities.

Goals have a set completion date. This often causes people to abandon good habits after either achieving the goal or after realizing that the goal is so far off track that it's impossible to attain.

Goals are often too far into the future to be relevant or well-informed. In 1980, PCs were in their infancy and Mac's and laptops didn't exist. Phones were attached to the wall. There were 28 Cable TV networks. Widespread use of the internet was more than a decade away. The average tuition at a private university was $9,500. Guesses about what the future will be, let alone what things will cost, is an exercise in futility as technology and innovation progress more rapidly than ever. Case in point: students at Columbia University shelled out a little over $57,000 for tuition and fees in 2017-2018.

Goals require numerous agencies to work perfectly. Take a second to think about everything that must go right for a goal to be met. Your willpower and "sticktoitiveness" are critical to achieving the goal. You have to set an attainable and relevant goal without shooting too high or selling yourself short. The time frame you set must be correct. The amount of money you can invest cannot go down. The rates of return you need cannot underperform. There must be no unforeseen events which disrupt the formula to the goal.

Why not, instead of setting goals, just adopt a number of habits that put you in a position to have as much money as is possible for your given situation? For example, a team doesn't decide, before a game, how many points they need to win the game and then go about trying to score only that many. No. Instead, every player does the best they can and, as a team, they try to score as many as possible since they don't know how many points their opponent will score.

Habits allow you to focus on doing the best you can today, tomorrow, and the next day and that's really all you can control.

Habits reinforce success as a byproduct of good behavior. As humans, we're wired for gratification. The faster the better. A goal that is set for 10, 20, or even 30 years from now is the ultimate in deferred satisfaction and is in complete opposition to how our minds work. But habits, like saving at least 15% of one's paycheck or setting aside time each month to review expenses to cut, is attainable and repetitive.

Habits allow for boundless potential. Instead of worrying about setting arbitrary goals for various life events which occur in an unknown future, build habits that create regular, incremental, and automatic wins. You may just find that the habits and their "offspring" inspire you to achieve more. For example, you may reach the desired goal faster or have more money than you would have had otherwise. An automatic habit has a greater likelihood of helping you to continue the positive financial behavior and have far more success than the artificial, end-point target of a goal.

Habits are easy to accomplish. Because, by definition, habits are behaviors that have become automatic, your output of effort will actually decrease over time. This gives you more time to spend with family, friends, or in the pursuit of other rewards in your life. Habits seem to multiply. Habits tend to beget other habits. Improve one area of your personal finances and you'll be more motivated to look throughout your financial life to find ways to achieve even more.

Habits serve your entire life. Habits tend to be easily transferable throughout your life. Start with finances and the next thing you know, your organizational skills, personal life, communication skills and even job performance may become habit-filled. This is a wonderful payoff for spending a little upfront time and effort setting up habits. Think of it like buy one, get one free!

If you had a way to know, verifiably, that your money was working as hard as it possible can, that you were saving as much money as possible, and that you were losing as little money as possible to financial costs and waste, how could you do any better? Would it matter what your goals were? When would you want to start on this path?

Four decades ago, Leap was founded on the principle that goal-setting was less helpful to people's financial "health" than habits. That the pursuit of the most efficient and effective use of every dollar is the more noble and profitable objective. Leap does this by helping people focus on the rewards of its *Rulebook for Financial Life* - a step-by-step method for reaching your maximum financial potential.

They say, *"Rome wasn't built in a day"* and I can attest that my practice of *mindfulness* wasn't an overnight success. By forming good financial habits and avoiding the pitfalls and limitations of goal-setting, you can more easily detach from the emotional swings that life throws in front of you while ensuring your money is doing the best job for you and your family.