

## Don't Go Crazy Making New Year's Resolutions... Or how to be successful at making changes that stick

Habits control our lives, often without us realizing it. My marketing students at Eckerd College were shocked to discover how many of our purchasing decisions are made by habit. Marketers most effectively sell products when their sales campaign is based upon those habits<sup>1</sup>.

In order to make an effective change in our lives, we have to make a change in our habits, or form new ones. **Cue, Routine, Reward** is the process by which our brains make a new habit. Charles Duhigg, Pulitzer Prize winning author of "The Power of Habit," shows us that the successful New Year's resolution maker writes down which new habit they want to achieve. (You can print out the great chart on his blog at <http://charlesduhigg.com/got-a-new-years-resolution-heres-how-to-make-it-stick/>).

Here are some examples of how Cue, Routine, Reward might work with your Financial Resolutions such as:

### ■ Saving more and spending less

A good guideline is to save 10% of your pay each month. If your pay is \$4,000 per month, that would be a \$400 monthly savings goal.

- **Cue:** Receipt of, or automatic deposit of, your weekly paycheck.
- **Routine:** Transferring \$100 each week to your savings account immediately upon deposit of paycheck.
- **Reward:** Guilt-free Chocolate (or Martini) at the end of the month!

You can make this even easier by having the bank automatically transfer the \$100 on the day after payday to your savings account. (If you get paid every two weeks, just transfer \$200 each payday).

### ■ Reducing credit card debt

I use the "snowball method" here. You realize that you have \$40 extra per month to put towards debt reduction. You have 3 credit card accounts with an average minimum payment of \$100 each. Start with the card with the lowest outstanding balance which we'll call credit card #1.

- **Cue:** Arrival of Credit Card Statement
- **Routine:** Pay the \$100 minimum payment + the extra \$40 on Credit card #1. Repeat each month until paid off. (You still have to pay the minimum payment on the other cards.)
- **Reward:** Guilt-Free Chocolate each month when you make the additional payment.

Once Credit card #1 is paid off, take the \$140 payment which is now longer needed for credit card #1 and put it towards credit card #2, payment = \$100 + \$140 = \$240 Wow, you are now able to pay that one off twice as fast!

See what they mean by snowball? Repeat until paid off. Reward yourself with.... (insert your favorite reward here)! So now you have \$240 you no longer need to pay Credit card 2. Start putting that to work with Credit card #3, = \$240+\$100 = \$340 and you are snowballing to the finish line, paying off that card three times as fast as you would ordinarily. Don't forget that reward!

Now, start saving that \$340 each month in your new savings account: save 3-6 months' worth of expenses as a safety net and then you can start investing.

The government invented Individual Retirement Accounts, or IRAs to incentivize us to save for our retirement. The carrot they use is you reduce your taxes by investing in an IRA.

Not sure you'll be able to follow Charles Duhigg's Cue Response Reward process?

Check out the terrific book by Gretchen Rubin, *Better Than Before*, (Crown 2015) about how to make our habit response work for us. As Ms. Rubin states "What's the secret to making or breaking a habit? To change our habits, we first have to figure out ourselves. When we try to form a new habit, we're setting an expectation for ourselves. Therefore, to change our habits, it's crucial to understand how we respond to expectations."<sup>2</sup>

Go to Gretchen's site and take her quiz to find out which of her four "types" you are. Find it at [http://gretchenrubin.com/happiness\\_project/2015/01/ta-da-the-launch-of-my-quiz-on-the-four-tendencies-learn-about-yourself/](http://gretchenrubin.com/happiness_project/2015/01/ta-da-the-launch-of-my-quiz-on-the-four-tendencies-learn-about-yourself/)

If you are like me, an "obliger", the best technique to make a successful change in habits is to create external accountability. I rush to fulfill others expectations of me, but I cannot get up early to go running with the dogs. So, for me to change a habit successfully, I must find and go with a buddy.

Below are some great general resolutions about personal finance that depending on which new financial goal you are pursuing, make it easy to achieve.

Want to save more money each month? Have it transferred automatically to your savings account.

Want to reduce credit card debt? Close your credit card accounts except for two general cards. One to use, and one for emergencies only. Skip having store credit cards since keeping track of the total amount you owe can get away from you. You'll pay much more in interest expense than the 10% reduction in price they are offering you to open an account on the spot.

Want to cut down on impulse spending? Use only cash when shopping. My favorite!

### ■ General Financial Resolutions:

To kick off your new Financial Wellness campaign, take stock. Let's list what you own, and what you owe. To us financial geeks this is called a balance sheet: start with what you own, then what you owe, and the difference is your net worth.

Take a look at what your year ahead will bring. Make a plan for what you will make in 2016 and set some spending goals (ok I was trying to make "budget" sound less painful).

Plan and pay off your credit card debt. Plan to save 10-15% each month. After you have saved a 3-6 month safety net of expenses, you can start investing by contributing to your IRA.

### ■ Final Tip:

See me to discuss how you can best invest for your stage in life — starting out, mid-career, closing in on retirement or already in retirement. You can find lots of great information on my website: Access Advice.net.



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<sup>1</sup> See Duhigg, Charles: The Power of Habit, Random House 2012.

<sup>2</sup> Rubin, Gretchen; Better Than Before, Crown 2015

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