

Book Review

Loaded: Money, Psychology, and How to Get Ahead Without Leaving Your Values Behind

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Newcomb, S. (2016). *Loaded: Money, psychology, and how to get ahead without leaving your values behind*. New Jersey: John Wiley & Sons. 208 pp., \$19.00, ISBN 9781119258322

This 196-page book by Dr. Sarah Newcomb, a behavioral economist at Morningstar, Inc., is a must-read for researchers and practitioners interested in the psychology of personal finance. Readers will gain valuable insights into their personal financial practices and perspectives that may change the way they teach or counsel others about their finances.

The title, *Loaded*, recognizes that money is a loaded topic; i.e., “it is the world’s most impolite subject” (p. 9). The book is organized into four chapters plus an introduction and two appendices: *Self-Assessments* (Appendix A) and *Exercises* (Appendix B). Practitioners will especially find the appendices useful with over a dozen exercises that can be used with clients. Examples include *Write Your Personal Financial Narrative*, *Define Your Core Beliefs*, *Financial Management Behavior Scale*, *Brief Self-Control Scale*, *Big Five Financial Literacy Questions*, and *Future Visualization Exercises*.

In the *Introduction*, Newcomb describes her financial backstory, warts and all, and insights gained through her study of financial psychology. She notes that *Loaded* was written to set readers “on a path of discovery and understanding that leads to more peace and satisfaction in your financial life” (p. 5). The first three chapters provide an overview of the place of money in people’s lives and Chapter 4 describes an alternative budgeting framework- the LOADED budget- that incorporates financial psychology principles missing from traditional budgeting methods. Sprinkled throughout the book are case examples of real people that illustrate key concepts.

Chapter 1, *When It Comes to Money, We've All Got Issues*, is only three pages and further introduces the book's content and the meaning of its title. Newcomb notes "for most of us, money management is less about numbers and more about the stories we tell ourselves because of those numbers" (p.8). Chapter 2, *Money Messages*, begins by noting "people rank money as the single most uncomfortable topic of conversation" (p.11). Other topics covered are financial literacy, family money discussions and money messages, heuristics (mental decision-making shortcuts), and core beliefs.

Chapter 3, *Poverty, Privilege, and Prejudice: A Crash Course in the Science of Money Psychology* (65 pages), describes, in layman's terms, findings of 60 referenced research studies about how money affects people's lives. Specific topics covered include: health effects of financial distress, relationship strain and money stress, stereotype threat (being afraid that others might judge you), defense mechanisms such as code-switching (a shift in language depending on your environment), retail therapy, psychological distance (how far away something feels), finances and emotions, financial knowledge, and useful financial rules of thumb (e.g., "don't borrow [with student loans] more than you expect to earn in your first year after college," p. 90).

The LOADED Budget, Creating a Human-Centered Money Management Plan, Chapter 4, is 66 pages and describes a money management technique that "blends psychology with economics to foster a healthy and empowered relationship with your money," p. 93). Newcomb encourages readers to replace old patterns of thinking (e.g., cash flow budgeting and a narrow definition of needs as something necessary for survival) with a broader view that incorporates various sources of income and needs beyond survival such as security, belonging, fun, respect, and self-expression.

The chapter also discusses three income sources (labor, land, and capital), assets and resources, types of needs (basic, psychological, and self-fulfillment), needs and money, needs mapping (tracing expenses back to the needs being served), good and bad credit, and more financial rules of thumb such as "don't let your [credit card] balance exceed 30% of your available credit" (p.148).

Below are five take-away insights from *Loaded*:

- ◆ People who leave low-income neighborhoods to pursue higher education or better job opportunities often pay a high social cost and feel isolated and alone. "When they go home, they can find themselves ostracized for forgetting their roots" (p.19). There is heavy peer pressure to stay low-income and, when someone does manage to move up the socio-economic ladder, "the culture shock can be tremendous" (p. 59).
- ◆ Financial insecurity harms the body and the mind. More than one in four people report feeling stressed about money most or all of the time. There is a negative feedback loop of financial problems leading to health problems (e.g., anxiety, depression, sleep issues), which lead to

additional financial problems. Money and finances are the top causes of stress, regardless of economic climate, according to annual American Psychological Association surveys.

- ◆ In low-income communities, there is a culture of *interdependence* that puts heavy emphasis on family, loyalty, cooperation, and friendship. People raised to value *independence* put a heavy value on leadership, self-reliance, and achievement. Independent people may view those with interdependent beliefs as lacking ambition or a work ethic while interdependent people might view self-reliant people as greedy or lacking in empathy and helpfulness.
- ◆ Time orientation is a key factor in financial success. “When we discount the future, it leads to less patient behavior, which hurts us financially” (p. 82). Conversely, when people think about their future self, they make more patient financial choices (e.g., retirement savings). Another key factor is having a sense of control. People who believe that they create their own destiny have much more positive emotions about money than those who attribute life events to chance or fate.
- ◆ Traditional cash flow budgeting methods do not consider where money is flowing from or various types of needs that are met by spending decisions. Newcomb notes that every stream of income can be traced back to an underlying asset and that assets are derived from resources. In addition, “finding peace in financial life comes from creating better strategies, not from depriving ourselves of what we need” (p.120). The latter includes “intangibles” such as beauty and social connection.

Loaded will prompt readers to examine their personal financial beliefs. For example, I was raised with a *very* strong independence social expectation and have personally practiced code-switching (in language and dress) as the first and only person in my immediate family to earn a bachelor’s degree. Readers will better appreciate the mindset of their clients or research subjects after reading this book.