What you really want from your money

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(Money Magazine) -- Yes, the stock market is down. But you can handle it, can't you? Certainly you could do without the sick feeling you get each time the Dow takes another triple-digit dive.

But - and here's a pep talk you've probably given yourself more than once in the past few months - there was a reason you took on the perils of investing in stocks: You couldn't reach your goals without the returns that a higher-risk investment offered. And your goals are worth a little discomfort, right? Right?

Of course. Your pep talk has a better chance of success, though, if the goals in question matter deeply to you. 'Goals' here doesn't mean only general concepts like retiring by 62 but something bigger and more fundamental: serious dreams that you've taken the time to think hard about and you believe will make your life richer.

Granted, pausing in the middle of a scary market to ask yourself grand-scheme- of-things questions might seem like a luxury you can't afford. Shouldn't you be rushing to buy gold or short credit-default swaps, whatever those are? In fact, the self-reflection can actually be a source of strength, helping you to do the right thing - stay calm. 'Where you run into trouble is when you focus just on your investment accounts and their losses,' says Tim Brown, a wealth manager in Eden Prairie, Minn. 'But if you look at the big picture, you'll see that to reach the goals you want, you're going to have to do some tough work, like riding through choppy markets. Having perspective can give you comfort.' The notion that for you to arrive at - and stick to - a good financial plan it has to be about more than numbers is the hottest idea to hit planning since the assetmanagement fee. Just about every planners' conference includes some discussion of 'life planning' in which advisers are encouraged to engage clients in conversations once confined to shrinks' offices or bar stools.

The number crunchers and sales types who become financial planners, it should be noted, don't always gravitate naturally to such soft issues. But those who've applied life planning (also known by alternate monikers like holistic planning) in their practices say they're convinced that it helps clients.

And the fact is, whether you use a financial pro or you're a do-it-yourselfer, life planning - or goal setting, as Pittsburgh planner Kathryn Nusbaum calls the process plainly - gets at fundamental issues that are more important than squeezing out an extra tenth of a percentage point in annual return.

Skeptical? Take a break from the screaming heads on CNBC, go through the mindstretching exercises that accompany this feature, and read the stories below of people who have thought a little deeper about their relationship to their money - and what that's done for them.

The best known soul-searching exercise in financial planning is the creation of George Kinder, a onetime tax accountant and money manager who developed a set of three questions which pose hypothetical situations about money and mortality to get you to focus on your life's real priorities. (.) When not writing poetry at his home in Hawaii or leading weeklong meditation retreats, Kinder runs emotion-laden seminars for advisers who want to learn his ways. Other teachers have developed their own methods for unearthing clients' deep relationships with money, and many planners have started to cherry-pick their tools and processes.

In any case, don't be surprised if your adviser, whether or not he refers to life planning, spends surprisingly little time on your investments - and a whole lot more time on your life - when you meet for the first time.

To be cynical, part of the appeal for planners is that this approach offers them a new way to market themselves as trusted advisers and not mere purveyors of mutual funds and life insurance or managers of your assets. But that doesn't change the basic premise, which psychologists and behavioral scientists - and unfortunately, divorce lawyers - can all attest to: Your relationship with your money is complicated.

Life planning posits that to find satisfaction, you should do two things: put in the effort to figure out what you really want your money to allow you to do in life and examine how the attitudes you picked up about money decades ago may stand in the way of your reaching those goals. Take on those assignments and you're more likely to stick to the numbers part of a financial plan.

Ask Cynthia Zelis, a family physician in Strongsville, Ohio who still keeps the sheet of paper dated Feb. 26, 2004 that changed her life. For years Zelis, a mother of two, had wanted to cut back on her hours. But her professional responsibilities, her desire to salt away money for her family and the endless to-do list that was her life always seemed to get in the way.

Then she and her husband Brian, also a physician, met with Don James, a local financial planner. Among the exercises he gave them was to answer Kinder's three questions. Her answers, Zelis says, made it clear how much she wanted to find more time to spend with her family.

Soon after, she cut back her hours and responsibilities and the Zelises developed a financial plan with James that accommodated Cynthia's taking a 25% pay cut. 'My daughters know me so much more,' she says. 'It's worth any 25%.' David Strege, a veteran planner in West Des Moines, Iowa, laments that all too often a first conversation between a new client and an adviser goes something like this: 'So you want to retire?' 'Yeah, at 65.' 'What do you want to do then?' 'I dunno.' 'So why do you want to retire?' 'I dunno.' Strege sighs, 'You have to work hard with some people.' Actually, that's not so surprising. You may have a particular objective in mind when you, say, sit down with an online retirement calculator. But you may also have conflicting goals making demands on your money and never have stopped to sort them in order of importance.

You may have expensive pipe dreams you've never pursued because you've assumed they're out of reach (even if they're not). Or you may have priorities that don't match standard-issue financial goals; perhaps you're more interested in giving away money than collecting it or maybe your ideal retirement is working in a low-paying teaching job. 'Most clients don't know what they want,' says Philadelphia financial planner Roy Diliberto. 'They know what they've been told they should want.' For help in clarifying things, many planners start with a 'life transition' questionnaire, which lists a few dozen situations ranging from 'concerned about an aging parent' to 'considering an investment opportunity' to 'job loss' and prompts you to indicate how much of a worry, if any, each of these issues is to you right now.

But the simplest and most thought-provoking technique for confronting your goals comes from Kinder. On the surface, his three questions aren't startling. But if you stop to answer them for yourself, you'll discover they're very good at focusing your mind on what's important in your life.

Question No. 2, for example, asks you to imagine what you'd do if you learned you had five to 10 years left to live and would never know when your last moment would come. The natural follow-up questions, of course, are 'So why aren't you doing that now, and how can you arrange your finances to make that possible?' and 'What are you waiting for?' Think of the recent Jack Nicholson-Morgan Freeman movie 'The Bucket List,' in which two men in failing health tick off the list of things they want to do before they die. 'If you can really nail the goals that are meaningful and profound and urgent,' says Kinder, 'it inspires people to take action.' The point isn't to make sure you go skydiving, as Nicholson's and Freeman's characters do. It's to get you to come up with well-thought-out, attainable goals and develop a path to reaching them. After Susan Stanton, a registrar at a community college, met with Williamsville, N.Y. financial planner Gary Witten, she and her husband got moving on something they'd long been avoiding: finding a continuing-care retirement center for the two of them, getting on a waiting list and setting aside enough money to finance their eventual move. 'Would it have happened anyway without life planning? Maybe,' says Stanton, 62. 'But I'm not sure I would have gotten as realistic about what this would entail in terms of money.' It's not just fuzzy thinking about our future that keeps us from realizing our goals. It's also what we drag along from the past. 'Childhood experience has deep, long-lasting carryover into adult behavior, especially in emotionally charged areas like money and relationships,' says James Gottfurcht, a Los Angeles clinical psychologist who specializes in money issues. 'If there's recurring stress or pain, then even more so.' Catherine Stine buys that. For much of her life, says the 54-year-old public radio fund raiser from St. Paul, she's been 'prickly' around money - angry about men making more than she did and worried about ending up as a 'poor old woman.' But she never understood where her feelings came from until last year, when Roseville, Minn. financial adviser Barbara Kirby gave Stine a Money Quotient questionnaire entitled 'Money Memories' to go over with her boyfriend Rod Johnson.

That's when Stine recalled an episode from 40 years ago: A farmer hired her four brothers to work in his fields. For three long days Stine helped her mother cook the boys' meals and wash their clothes on top of her regular chores. Afterward, the farmer stopped by to pay her brothers. Stine got nothing.

Recalling that and other gender-based economic inequities from her childhood was a revelation for Stine. In hindsight, these episodes both fueled her ambition and, she says, 'made me not very happy with men, economically speaking.' Different planners have different methods for getting at the roots of these often destructive attitudes about money.

One of the more engaging paths was developed by Rick Kahler, a Rapid City, S.D. planner, and father-son psychologists Ted and Brad Klontz. The three turned their work into a book, 'The Financial Wisdom of Ebenezer Scrooge.' Kahler asks his clients to examine what he calls money scripts - blanket pronouncements that they (or Scrooge) may have learned young, such as 'You can't trust anyone with your money' or 'If you had more money, things would be better.' By examining such longheld beliefs - or by stopping to recall vivid memories about money from your youth - you can get a better sense of what may be holding you back today.

Johnson, 52, recalls that when he was 12 or 13 years old and a member of a 4-H club, he sold a half-interest in a steer that he had raised to an acquaintance, who then took it to a livestock show in Maryland where it won a major prize and sold for $2,000. 'It took a year of just hounding this person to get our half of the money,' recalls Johnson, who later heard that the same man had ripped off someone else under similar circumstances. That memory, says Johnson, an executive coach, contributed to his persistent fear of being swindled. That wariness serves him well - usually. 'There are definitely times,' he concedes, 'when I've been too cautious.' Exploring their money pasts, Johnson and Stine agree, eased the tension they had felt around money and helped them understand each other better. 'If you can feel safe talking about money,' says Johnson, 'other things are relatively easy to talk about.' The process, they believe, helped paved the way for them to move in together and tackle the financial decisions they had to make, including selling Stine's old family home. 'I would have been trapped in my house forever,' she says, 'because it was my definition of security.' That's a reminder of the real value in looking back and thinking forward: Those paid-off mortgages and insurance policies and (soon to be growing again, right?) retirement accounts, no matter how much you want them, aren't the end. They're a means to a more satisfying life.

Your top priority is figuring out what that life is. As Cynthia Zelis puts it, 'Even if you have an incredible amount of money, if you don't know what it's for, it makes no difference.' First Published: March 12, 2008: 9:33 AM EDT

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