Financial Five a Day podcast

Episode 10 – Wrap up

George Callaghan and Martin Higginson:

GEORGE CALLAGHAN: Hello, and welcome to the Financial Five a Day podcast, with me, George Callahan, Professor of Economics, and personal Finance at the Open University, and-

MARTIN HIGGINSON: Martin Higginson, also at the Open University, a Senior Lecturer in Economics and Personal Finance.

GEORGE CALLAGHAN: In this podcast series, we'll be using the concept of Financial Five a Day to invite all of us to think more purposefully about improving our financial nutrition, in much the same way that the Fruit and Veg Five a Day campaign shifted habits on healthy eating. We invite you to listen and to learn about the money stories of our guests and be inspired by their tips and guidance.

MARTIN HIGGINSON: We would especially like it if these stories encourage you to reflect on your own money habits and perhaps make some changes yourself, helping you to become more conscious and purposeful around money-- although we must note that we are not offering regulated financial advice.

GEORGE CALLAGHAN: Today's guests are ourselves. We wanted to take the opportunity to review the stories we have heard from our wonderful guests so far, and to delve into some of the important and interesting points that have been heard. So Martin, what are your thoughts on the realities of a financial five a day?

MARTIN HIGGINSON: Just to stress here, you know, people might think about the five-a-day fruit and veg. Not everybody consumes five-a-day fruit and veg. But what we're trying to do here is shift this dial to get people to think about money, talk about money. And so if you think about once a day, twice a day, that is great. So it's not a prescriptive-- even though we will we will come out with five, it's not a prescriptive menu about what people should do. We just want people to start thinking more about money.

GEORGE CALLAGHAN: Thank you. So let's kick off. Our first Financial Five a Day is context.

And we'll split this into two. On the one hand, we've got the external context. We're only too aware that we kind of inhabit a consumer culture, so there's marketing. There's advertising.

There's pressure for immediate gratification that's working on us constantly.

And then we've also got our own internal context. And this is where we've got our own money story, shaped by our childhood. How was money spoken about in the family when you were younger? Hugely influential. We've also got our own money emotions. And I know Martin is going to come in on the money emotions point.

MARTIN HIGGINSON: Yeah. Absolutely, George. And I think that came across with-- all our interviewees talked about their money stories shaping their approach to money. And in particular, when it comes to emotions, I think this is something which often people forget about.

And Simone Genesson, actually, made quite a powerful point-- this idea that we need to kind of reflect not just on the kind of nuts and bolts of finance, but what is our emotional state which is driving us to make financial decisions?

So this is, if you like, we are only human beings, you know? We can make mistakes. We aren't this perfect, rational being that makes perfect decisions. And reflecting on our emotions, how that might actually shape our financial decisions is a really important point.

And in fact, Claudia Hammond talked about this as well. She was saying how we make mental shortcuts. And she used the idea of anchoring, actually-- this idea that you go into a restaurant, and you're drawn to the expensive bottle of wine, but actually, then, you decide to buy the middle bottle of wine, because you're making the baseline expensive bottle. So these kind of emotional, psychological effects are really important. And that would be one of my Five a Day, is actually to think about these kind of psychological, emotional aspects of your lives.

GEORGE CALLAGHAN: And two of our other guests, Pushpa Wood and Alvin Hall, they actually reflected back onto their childhood money stories, which were relatively modest, you know-- perhaps characterized by poverty-- and how that shaped their attitude to money. Pushpa became a lifelong saver, and Alvin became a lifelong saver, and crucially, a lifelong investor that we'll come to later. So the first of our big picture Financial Five is context.

The second one-- and this is a social science idea-- is agency. And that's the capacity that each of us have as individuals to influence our own futures. And one of the most important questions we can actually ask in terms of money is, what do I want?

And there's a temporal-- in other words, a kind of time dimension here. What do I want from money today? What do I want later on this year? What do I want in five years' time, and what do I want in 10 years' time? So to introduce an awareness of, what do I really want here, and then to think about planning ahead.

The other question related to agency-- and this is one that I'm sure we all struggle with individually, and in households-- is, what do I actually need? And that distinction in needs and wants. That's not just goods and services. It might also be, what skills do I need to acquire in order to get what I want? They may well be a way to build your human capital, your skill base, that would enable you to get a higher-paid job, that would then provide the fuel that would enable you to make your purchases. Martin, on agency, what have you got?

MARTIN HIGGINSON: Well, a couple of things that leapt up at me during the pods was when you were talking, George, about knowing kind of where you're going, really. You know? Thinking about your future.

George Kinder spoke, I thought, really interestingly about goals, actually. And what I really liked about that is, yeah, we have our own short-term goals, which could be going on a holiday. We might have long-term goals, which are around, say, providing income for retirement. What he also said was-- and this struck me-- was thinking in a much more deeper, philosophical way.

And if you remember, he actually had these three questions around individuals' lives. And what he actually said was think about your goals in a holistic way, what really matters to you. And he actually brought it back to, say, family, even creativity. But my point, really, here is-- and it links to agency-- is when we're thinking about goals-- and for most people, they don't have the liberty of necessarily thinking about grand things-- but think this kind of, you know, what really matters to you as an individual, and then you can develop a financial plan from that.

And actually, this really relates to agency. Emmanuel Asuquo talked about you taking control of your spending, your plans, for you, and not necessarily be shaped by other people. He talked about how when he started off, he would be buying a flash car, a flash house, this is what he wanted. And actually, suddenly, he thought, why am I doing this? I'm doing this for other people.

You know, let's take control. Use money as a tool, but use it for me. Don't, if you like, harm others, but think about what is important to me.

GEORGE CALLAGHAN: Wonderful, Martin. And in a sense, that's a lovely segue into the third of the Financial Five a Day, which is awareness-- this invitation to us all to be much more conscious in how we spend and use money and think about money. And one invitation I often say to people is, look. When you go for your weekly grocery shop, are you actually present, or are you on autopilot? Are you going to the same supermarket on the same day each week and probably buying the same stuff?

So it's really an invitation to nudge ourselves out of this and develop new habits. Where does that awareness come in? And the first one links back to George Kinder. It's an awareness of self, a lifelong mission of self-understanding.

Then, it's an awareness of trade-offs. And what Professor Peter John brought in there was part of the trade-offs include time. You know? Quite often, we kind of we develop heuristics-- little shortcuts. So let's be aware of how we're actually using our time in relation to money.

And then the crucial awareness is, how are we spending our money, and what might we do differently? So this is a very, very useful concept from economics, this idea of opportunity cost.

If you're spending a pound today, or a dollar, or a euro, then you can't use that pound, dollar, or euro for something else-- for example, saving for the future, or investing for the future.

So yeah. Another one-- and this was what John Cuillo was especially clear on-- and it's an awareness of scams, an awareness of the potential. You know, you always like to think that your fellow human beings are looking out for each other, but some people actually are looking to pursue kind of fraudulent ends.

So there's many wonderful things about technology. And again, we're going to come on to some of them. But it does give criminals a way in to our inboxes, and a way in, perhaps, to our bank accounts. So that awareness is also awareness of, look, am I going to get scammed here? Martin?

MARTIN HIGGINSON: Great points, George. And yes, I mean, certainly that idea of opportunity cost was a really important one for me, too. And Pushpa actually talked about that quite eloquently in terms of, you know, if you're spending 50 pounds here, what else could you do with that 50 pounds?

And I think one of the one of the points about this awareness is also not necessarily thinking about it in isolation to yourself. It's kind of awareness of you and awareness of things around you, but also the importance of talking to other people, actually. And I think that is a really important point which, again, several people spoke about.

I think Simone Genesson talked about this in a very powerful way, saying, OK, you might have reflected. There's deep reflection. But talk to someone else about it, you know? So it might be your partner. It could be your kids, I think it was.

Pushpa actually talked about delayed gratification and the importance of teaching children this idea of delayed gratification. And that-- that awareness, in that context of thinking, if I am spending money now, that money is something which isn't used for something else. Or if I delay my gratification-- and by that, we mean not buying now and saving up-- that can have positive effects in the future. So certainly, that whole area of awareness, I think-- you talked about psychology.

All the time, we're presented by opportunities to buy, opportunities to spend, and being aware that there are these kind of psychological heuristics, shortcuts, that you talked about, George, which can make us make decisions which were perhaps not-- afterwards, we kind of reflect on thinking, this isn't the best. I mean, my top tip there is, you know, go and walk the dog. Go for a coffee before you make these big decisions. You know? Have I been nudged into making a decision I don't really want to do? So absolutely, awareness is crucial.

GEORGE CALLAGHAN: And some of the stuff is quite deep. There tends to be real shame and unwillingness-- in the UK, at least-- to discuss money. And part of the impetus behind you and I and the Open University doing this podcast series is to begin to challenge some of those taboos, to speak about money more freely, more openly with friends, family, and work colleagues.

And in a sense, that does-- again, lovely linkages here-- it links to our fourth Financial Five. And this one, we're describing as fuel, the energy, and the-- we'll split this into two. The first is our habits, and an understanding of, what are my money habits at the moment? A kind of clear understanding of, where am I? And then, reflections of, what habits would I like to develop in the future?

And I think it was Simone, here, that was inviting us to consider, look, what thoughts am I feeding myself around money at the moment? So might we be, you know, maybe a dozen times a day or more, feeding ourselves a thought about, money is evil, money can only do bad things in the world, or I'm no good with money? How might we reframe those thoughts and bring our cognitive processes into a loop that spirals up rather than down?

So this is all about developing more positive money habits. And that's the more ephemeral one. A much more practical, hard-hitting one is to produce a monthly surplus. So every four weeks-- or actually, four and a half weeks, if you look at the calendar year-- every salary point, aim for a monthly surplus.

Now, we know that some people-- you know, if you're on benefits, if you're living in poverty, this is actually a real struggle. But for many people who are in paid employment, it could be a good aim, because it's that monthly surplus, it's that excess of income over spending, that can create the fuel for savings products and for investing. So there's two sort of fuel sources, there-- our emotional and psychological habits, and the really practical one of having a few pounds, maybe even a few hundred pounds, each month that we can save and invest.

MARTIN HIGGINSON: Yeah. Absolutely, George. And that point you made about money not being evil-- Pushpa Wood talked about making sure we think of money for what it is. And money is a tool. You know? Let's not demonize it. Let's not worship.

Let's use money for what it is, which is kind of a means of exchange. You can accumulate value from it. And I think once we start thinking about money in those terms, these habits you can develop can actually start really making a difference. And in terms of the savings point-- I think Jonquil Lowe mentioned this-- is a really good habit, this idea of putting a little bit aside regularly-- the power of compounding. You know?

This is the idea that over time, the gains you're building are accumulating on a much bigger baseline each time. And if you can start when you're relatively young, even putting a small amount aside-- you know, whether it's saving, investing-- that power of compounding, that habit of saving, can make a huge difference. I mean, you know, I'll put my hands up. When I was young, I didn't do it. You know? And I'm thinking, oh, I just wish I'd done it.

So that's a really good habit, as, you've said, is budgeting. Keeping a spending diary occasionally? I think that's a useful habit. Checking your bank account regularly. I think that's-- a few of our guests actually spoke about, you know, it's useful not to put your head in the sand. Look at your bank account. Look at your statements and see how you're getting on.

GEORGE CALLAGHAN: And some of these fall into the simple to say, not necessarily easy to do. And that one about imagining your future self is actually quite a challenge. We're cognitively hardwired to be quite short-term. And that might have a deep evolutionary explanation. But that's the invitation of this podcast series, is to begin to think in a kind of temporal, longer-term horizon.

And Martin, thanks for your honesty about your own money habits when you were younger.

And it's a wonderful distinction-- and I wonder how many academics would acknowledge this-- that you can know the theory as an economist and a personal finance expert, and you can even teach the theory, and then when you actually look at one's own behavior, you think, oh, goodness gracious, me. OK, am I doing that? In a sense, we're practicing what we preach in terms of being lifelong learners. And you know, even people as experienced as you and I are still learning about money.

As a trained, qualified, and practicing coach, this is my favorite part of any coaching session.

And it's our fifth one. And it's the action part. It's, what might we actually do? I've got five I'm going to run through, and then Martin will add three or four more.

And the first one's got a kind of militaristic sound, but it was mentioned by quite a few of our guests. And it was to practice discipline, and this idea that-- I think it might have been Emmanuel Asuquo that was saying that budgets can set you free, which sounds a little bit paradoxical. But the kind of logic there is if you budget, and if you create a monthly surplus, you then have the freedom to make different choices in the future.

So that first one is to practice delayed gratification and to be more disciplined about money. The second one-- this is a lovely little phrase-- pay yourself first. Now, we know that there are certain deductions from our salary slip that we can't avoid. And you know, there's tax, there's national insurance, there's pension contributions. In the UK, there might well be a student loan deduction.

But here, the guidance says the very next thing that you do is you pay yourself first. You know, this is this short-term, temporal bias. We often struggle to think about what we might want in 5 or 10 years. So you could even reframe that as, pay your future self first. So you could set up an automated monthly payment into a separate savings or investment account.

My third one is practice compounding. And I think it's so important, it is worth repetition. And that's the idea that small, incremental changes over time compound into transformational change. So it's the old, you know, small snowball rolling downhill, and then ending up being quite substantial at the bottom of the hill. So compounding, and especially over time, can work its kind of statistical magic.

My penultimate one is to prioritize saving. And you know, there maybe are a couple of steps in the road here-- the first one is to have, maybe, up to three months' savings set aside for kind of contingency events. Those could be emergencies, boilerplate and carbonated, or they could be opportunities. You know, a fantastic weekend away with friends-- you've got a few hundred pounds there.

This does lend to the compounding, because research shows that especially people who are in quite a tricky position with money, the idea of getting to three months, it seems such a kind of far away goal that it can demotivate them. So for households and individuals in that position, you could start by trying to put aside one week of normal spending, and then two weeks, three weeks, and build up to that.

So that's the savings. And Claudia Hammond spoke about this with great eloquence. Barney Quilter, also known as the Escape Artist on his on his blog, was tremendously eloquent and passionate about saving. I mean, he even spoke about, for a period of his life, he moved into what he called monk mode. So not quite a bread and water diet, but he really put the dial down on spending, and put the dial up on saving.

And my last one-- and this, I suppose, is where we'll just kind of remind people-- this is a disclaimer-- we are not recommending any specific financial product here, but we are inviting you to consider investing, and quite often, investing in stocks, shares, or bonds. People go, it's really risky. And it is true that stocks and shares can go up and down over the short term.

Over the longer term, it's the innovation of our market economy that really drives economic growth. Once you've built up your savings, consider investing. And again Barney Alvin mentioned passive investing. That's where you wouldn't be choosing stocks, but you might be putting money into a kind of global index tracker.

And in terms of regrets, Pushpa Wood, who was a wonderfully enthusiastic saver, when she looks back on her kind of financial money life, one of her regrets was that she didn't invest early enough. And I think Simone was nodding in that direction, too. So a drive to action, Martin?

MARTIN HIGGINSON: I agree with all of those, George. I mean, they're on my list. And so I think what I would just add is actually in a slightly different way, a slightly different perspective, because these are really practical, direct things to do, which can make a huge difference.

So may seem slightly woollier, but I think they're as important. And we've touched upon all of these, but just to reinforce them-- I think one action to do is actually reflect. Constantly be reflecting. So now, this isn't to mean to be obsessive, you know, constantly thinking about money, but to be reflecting, are you on track to meet your goals?

Reflect on whether what you're doing is in line with your family's goals. So what you're doing-- if you've got a partner, you know, talk to your partner. Reflect together. Reflect on a decision you've made. Afterwards, reflect on it.

You know, often, we will have this confirmation bias. What we do is we'll make a purchase or we'll do something, and afterwards, we'll look for things which make us feel like we've done the right thing. Well, actually, sit back and think, was that the right course of action?

So feel free to reflect. I would constantly stress that reflection thing. The other point, as I've said, is certainly around talking. I think that's absolutely crucial. I think the other action I would push people to consider is to learn, to feel like money can seem like something we don't really want to do. It's not like, you know, if you listen to a podcast in a bath, I'd probably listen to rather listen to Stoke City, sometimes. You know? Stoke City podcast.

But what I'd say is try and go out there. George mentioned about lifelong learning. You know, as much as all the behavioral aspects are crucial, getting the nuts and bolts right-- so go out there, start learning. Look at the websites, like the BBC, or reputable websites. Perhaps put yourself on a course, you know?

Really start thinking about money as something you need to learn about. We're not taught this stuff in schools. Most people actually have really limited financial education. So learning is an action point. I would say, keep learning.

The last point I would make in terms of an action, which might seem slightly contradictory when we're talking about trying to encourage people to think and talk about money, is to not let money kind of drag you down. I think quite a few of our interviewees kind of came to the conclusion that OK, I've spent all my life learning, thinking, coaching, educating about money, but let's have a bit of relaxation, here. Let's see money for what it is.

As I mentioned before, Pushpa Wood said money is just a tool. Let's not let it kind of weigh us down. Very easy to say, you know, if you've got some money. But try not to kind of overly obsess about money, but place it in the right level of need in terms of what we need to know about it.

GEORGE CALLAGHAN: Just to end, Martin and I would like to thank all of our nine guests, everyone who's listening in to the pod, and maybe a kind of final invitation to go away and think about what practices and habits could you develop that would give you and your households a healthier financial future. Thanks very much.