



Do our emotions impact our purchasing decisions?

Researchers at Harvard and Carnegie Mellon conducted a study to explore if there's a link between our emotions and our spending habits.

Group A was shown a sad video about loss. Group B was shown a neutral video about the Great Barrier Reef. Both groups were then offered the chance to bid on an insulated water bottle. Group A offered to pay almost four times more than group B. Group A denied that emotions affected their decision.

Decision making and emotions are both controlled by the same area of the brain—but we aren't always aware of how our feelings may affect our choices, especially when it comes to assessing how today's actions may influence the way we may feel in the future.

How emotions affect our spending and long-term finances.

One of the most difficult decisions we face is to choose between our present needs and future needs. While our immediate needs may be easier to satisfy, giving us instant gratification, planning for the future requires consideration and self-discipline. The rewards of forward-looking planning can be quite significant.

What makes long-term thinking so hard?

Planning for the long term can be overwhelming, requiring us to navigate through many complexities—our lifestyle, personal habits and our surroundings, among other factors. The influence of these outside forces can cloud our judgment as we try to decide what is most beneficial for our future selves.

Here are some of the common obstacles that affect how we think:

1) INSTANT GRATIFICATION

Our brains are hardwired to live from moment to moment. But what we do with our finances today can seriously impact our financial status tomorrow.

2) PEER PRESSURE

We care deeply about what the people around us think and do. Even more importantly, we care about whether what we think and do fits in with the rest of the pack—even when it comes to investing. But for long-term planning, going with the crowd may not be the wisest choice.

3) ENVIRONMENTAL INFLUENCES

Life is full of distractions—and these distractions may lead us to make poor decisions and spend impulsively. Imagine trying to solve a puzzle while construction blares outside the window and mosquitos bite at your arms.

Small purchases can make a big impact.

Small monthly purchases can add up quickly over time, which may be detrimental to your budget, but could be beneficial when you apply the same principles to your investments.

Each month, you spend \$99.99 on impulse buys and miscellaneous purchases. The following chart shows how much your monthly purchases accumulate over time.

Monthly purchases over time	
1 Month	\$99.99
1 Year	\$1,119.88
10 Years	\$11,198.80
30 Years	\$35,996.40

What would happen if you invested that same \$99.99 over the next 30 years? Your future returns could be \$107,443.46.*

Use the Auto Pay Analyzer tool to see how investing a little each month can go a long way.

The decisions we make today can help shape our future.

Emotions color our experiences and allow us to connect with others. When it comes to finances, keeping impulsive behaviors in check can help us plan for our financial future.

Sources:

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*The estimated return is provided for illustrative purposes only. The estimated amount was calculated using a standard annual compounding interest rate equation of 3% with monthly deposits at a fixed growth rate of 6%. Actual results may vary. It is not an actual investment and there is no guarantee of expected future results, either express or implied, being made.



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