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The rich also lack financial discipline

Michael Nairne, *Serious Money*



Oxana Onipko/AFP/Getty Images

Russia's wealthy elite look at yachts during the summer Millionaire Fair in Moscow.

It's hard to stay on course. Millions of people start diets every year but don't maintain their resolve. Home fitness equipment often gathers dust in a lonely corner of a basement. Self-discipline is also a challenge in personal finances and, based on a recent global survey of 2,000 high net worth individuals by Barclay's Wealth, many affluent investors struggle with this problem.

Overall, 41% of the respondents wished they could take a more disciplined approach to their finances. Interestingly, more of the ultra-wealthy faced this issue – 45% of those respondents worth \$16 million or more wished they had more discipline. There were differences based on the source of wealth. Entrepreneurs, real estate investors and inheritors were more likely to wish they had more discipline than individuals who steadily accumulated their wealth over time through savings or investment.

This jibes with my experience. Successful savers usually have the temperament to stay committed to their investment strategies. In contrast, many entrepreneurs find that the qualities that made them successful in business – being proactive, jumping on opportunity and making decisions intuitively – lead them astray in investing. More than once, I have seen former business owners make hefty bets on soaring growth stocks and then suffer regret when prices tumbled. The key elements in wealth preservation – robust diversification, copious patience and a strong value orientation – are simple to grasp but hard to practice.

Women reported a higher need for discipline in financial management than did men. Barclays noted that this may be due to the fact women reported being more stressed about financial matters than men. Paradoxically, it is actually men who need to be more disciplined. In one study of 35,000 households in the United States, it was found that men trade more frequently than women and also earn lower returns. Other studies have found that men are more impulsive in their investing and more likely to bail out at market lows. Behavioural finance experts believe that the reason for these differences is that male investors as a group are more overconfident than women and hence, overestimate the correctness of their judgments.

Based on the survey's findings, here are the top four strategies high net worth investors can use to improve their self-control.

First: set deadlines. Procrastination can be a chronic headache in financial management. It is easier to do nothing than make difficult decisions such as changing investment managers or selecting new executors for a will. Putting a drop-dead date on a decision or deed encourages action.

Second: allow a cooling-off period for major decisions. By holding back a day or two from implementing a significant financial decision, an investor gets a chance to step back and take a thoughtful second look with less emotion. This is particularly important strategy when acquiring illiquid investments such as real estate and private equity.

A third strategy is to tap the expertise of others. By having a team of professional advisors, high net worth individuals can not only ensure the proper analysis of complex financial issues but also participate in a thorough dialogue before proceeding. One of the most important benefits of collaborating with advisors is that it helps reduce regret if things turn badly. Regret is usually higher when a decision is impulsive or not properly researched.

Lastly: follow a pre-defined set of rules or guidelines. One of the smartest rules for affluent investors is adhering to a written investment strategy. This will ensure risk is managed during the boom times when optimism can get out of hand and will avoid panicky selling in bear markets when fear and anxiety prevail. It's hard to accumulate wealth. Without discipline, it is also hard to keep it. Strategies that improve self-control are vital for any investor, high net worth or otherwise.

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