Ballard: With us today is Dr. Brad Klontz, CEO of Klontz Coaching and Consulting and co-author of _The Financial Wisdom of Ebenezer Scrooge_. He’s also the author of _Facilitating Financial Health: Tools for Financial Planners, Coaches and Therapists_. Dr. Klontz is a licensed clinical psychologist, certified substance abuse counselor, consultant, coach and strategic planner. He’s also the president of Coastal Clinics, Inc., based in Hawaii and an accomplished researcher and writer in the area of experiential therapy and the psychology of money. Dr. Klontz earned his doctorate in Clinical Psychology from Wright State University School of Professional Psychology. Thanks for joining us today.

Klontz: My pleasure to be here.

Ballard: My first question is what does psychology have to do with finances and what is the psychology of money?

Klontz: Well, in short, I would say, psychology has everything to do with finances. And finances have everything to do with psychology. Financial markets, and I’m sure you’ve heard this many times before, are driven by emotions like fear and greed. And really when it comes down to it, all of our financial decisions are based on emotions. On a personal level, our financial health or any degree of financial stress we experience is based on our beliefs and emotions we have around money which end up driving all of our financial behaviors. A survey by the American Psychological Association just showed that three quarters of Americans say that financial issues are a major stressor in their lives. Now, again, in my experience, the majority of financial stress seems to be created by people engaging in self-destructive money behaviors, things like overspending, or not saving for retirement, too much debt, and things are getting worse. In ‘06, we had a negative half a percent savings rate in the U.S. which is the lowest we’ve had since the Great Depression. Currently, the average household is carrying somewhere over $9,000 in credit card debt from month to month, so Americans, as a whole, are in some pretty deep trouble. But when it comes down to it, the financial issues are really not about money at all. They’re about psychology.

Ballard: Now these are pretty touchy subjects for people. You’ve said before, that individuals are more willing to talk about their sex lives than they are their financial issues. And there was a poll recently on CreditCards.com that showed just that. People said that they were more willing to talk to a total stranger about their love life than they were to talk to them about the amount of credit card debt they carried.

Klontz: Absolutely, it is ironic. People do come to me with help around their financial issues and when I give them a background history, they’ll leave it blank how much money
they make. And again, they’re really willing to talk about their sex lives or other things that we would consider real taboo. Money is the number one taboo in our culture. We just don’t talk about it. We’re not given a lot of tools to talk about it, which is one of the reasons why we end up in so much trouble. Interestingly, there have been a lot of surveys and some of the work I’ve been doing is on financial infidelity, which is where people lie or hide their spending from their spouse or significant other. Up to 40% of Americans say that they do engage in that type of behavior, which sounds pretty shocking, but going back to your point, the same surveys show that about one in three Americans say that they admit that lie to themselves around money or they avoid thinking about money themselves, so it’s not really surprising.

Ballard: So as a clinical psychologist, how did you become interested in this topic?

Klontz: Well, you know, I always like to joke that my message in this area comes from my own mess. But that pretty much sums it up. I spent about a decade in higher education and I came out with some big student loan debt. And I decided I’m going to make a fortune in the stock market. So, without any training or knowledge around stocks or investing, I sold the only thing I had of any real value at that time, which was my truck, and I invested all my money in the stock market. At that point, everyone you talk to was making money in the stock market. So, it was a sure thing from where I was sitting. And I did well for a couple of months but unfortunately it was 2000, that was just before the tech bubble burst. The emotional pain I felt after losing half of my savings caused me to question some of the beliefs I had around money which led to a period of personal growth for me and a lot of learning in the area of finance. The end result was better financial health for me and my family and also a therapeutic approach I helped design to treat disordered money behaviors. That program was featured in the *Wall Street Journal* which drew some attention to the growing field of financial psychology which is becoming more and more popular now, with all of the financial stress people are experiencing with the whole mortgage crisis.

Ballard: You talk a lot about “money scripts.” What are they and how do they affect people?

Klontz: Money scripts is the term that we use to describe a person’s beliefs around money. They typically operate outside of our conscious awareness, sort of unconscious beliefs that we don’t really identify, but they drive and determine all of our financial behaviors. For example, if you had a belief like rich people are greedy or shallow, which many people do have that belief, that could result in you avoiding or repelling wealth. The problem with money scripts is they’re usually partially true, at least in some circumstances. But the person will internalize that belief and apply them to all circumstances. For example, again, while it’s true that some rich people are greedy, it’s also true that many wealthy people are very generous. Interesting thing about money scripts is they are passed down from generation to generation with patterns that go from grandparents to parents to children. And their power lies in their ability to drive our financial behaviors without us being even aware of them.
Ballard: Given that they tend to function at least somewhat outside of awareness, that they’re passed down from generation to generation and that we may learn them very early in life, it seems that money scripts would be very resistant to change. Is it possible to change them? What can people do about this?

Klontz: Well, interestingly enough, some can change just with some insight. Like for example, I was privileged to have a conversation with my father actually in a room with other people, where he talked about some of his beliefs around work. Like, for example, he said that, “Well, you know, compared to my father, I never felt like I’d work enough. I never felt like I could work hard enough.” And while he’s talking, my fiancée is elbowing me in the side saying, “You say that, you do that.” And for me just the simple awareness of realizing that, “Wow, these internal beliefs and thoughts that have been going through my mind have been passed to my father and he struggled with them, I mean, how far back did that go?” So, sometimes insight is enough. However, the most deeply held and most destructive money scripts seem to be locked in place with some strong emotions, and very often they’ll relate to some troubling or traumatic event somebody had in their life. So, in those circumstances, getting to the root cause and origin of that money script can help release its grip on your life.

Ballard: So if someone wanted to bring their money scripts into awareness, where would they start?

Klontz: I think the first thing to do is to break the taboo. Again, it’s really difficult to talk about money. Many of us are brought up saying, “Hey, don’t ask people how much the make. That’s very rude.” So the first thing I think is to really start talking about money, whether it’s with a friend, a psychologist, with your spouse. And if you’re privileged to have family around, why don’t you interview your parent or grandparent or uncle or aunt and ask some of the stories, if they’re willing to talk about them, around money and how it was used and people’s experiences in your family.

Ballard: So, speaking of coming to terms with your own money scripts, you wrote that you were feeling guilty like you were being a slacker like when you were putting in 70-hour work weeks.

Klontz: That’s right. I did. And that really came to light in my mind when my father said that he realized he was having some problems with work when he did the math and he worked 100 hours the week before. So, no wonder I’m feeling lazy.

Ballard: I imagine there’s some employers out there who would jump at an employee who is willing to put in 70, 80, 100 hours a week. But this type of workaholism can be really destructive, not only for the well-being of the employee but also for the organization.

Klontz: Yeah, absolutely. And actually workaholism is one of those isms and one of the few isms that gets a lot of support in our culture. So it’s like, “Wow, how many hours did you work?” “Oh, I worked this much more.” You don’t get usually that type of
bragging with other type of addictive behaviors. But the problem with workaholism is it comes at a cost. And it ends up interfering with relationships, physical health, and actually a person’s ability to function productively. So, workaholism looks great at the beginning. It usually doesn’t end well. So, employers who are insightful around this will recognize that and really start to build in some healthy behaviors and encourage healthy behaviors in their employees.

Ballard: So having a workaholic employee is one way that money scripts can affect an employer. But are there other ways that employees’ money issues can affect an organization?

Klontz: Yes. You know, I see those going into two different categories: personally and business-wise. Money issues do have a profound effect on an employee’s well-being. Research has shown that financial stress is a significant mortality risk factor. So much so, as much so as heart disease, poor exercise, diabetes. 70% of Americans right now are now saying they carry so much debt that it makes their home lives unhappy. It's the number one cause of marital conflict, a common cause of divorce, and financial stress can lead to depression, anxiety and health problem. So, personally, it can have a major impact. And as any business owner or manager knows, any of these stress-related personal health, mental health problems that are affecting an individual, directly affect their ability to do their job. Money touches every aspect of an employee’s life, their purpose, sense of safety, security, and all their basic needs. An interesting study that just came out of years ago showed that 15% of U.S. workers say that they experience so much financial stress that it negatively affects their work productivity. So, there’s an example of how money issues can affect organizations. With the recent financial problems in our country, I think this percentage has grown much larger. Other problems include people with gambling addiction or overwhelming debt could be at higher risk for stealing from a company or embezzlement and it seems like these issues are growing problems for organizations also.

Ballard: You’ve touched on a number of issues that are of concern to employers these days. Productivity is the obvious one. But they’re also struggling with healthcare costs and helping employees maintain better work-life balance. Are there things that an organization can do to help its employees better manage these financial issues?

Klontz: Yes, there are. The right bit of advice at the right time can definitely help avert an employee’s financial disaster. So, progressive employers are more and more offering opportunities for employees to learn about good financial health. Now, typically, this is done by bringing in a financial planner, a debt counselor, some other financial professional into an in-service or workshop where they talk about the nuts and bolts of good financial health. So, there’d be stuff like reasonable debt, diversifying your investments, saving for retirement and so on. However, most people already seem to know the basics. For example, people know they need to spend less than they make and they need to save for the future.
Ballard: But that’s like simply telling somebody if you want to lose weight, all you’ve got to do is exercise more and eat less.

Klontz: Exactly. And those are two great examples of how more information about why or how to do something just isn’t enough to change a lot of people’s behaviors. This is definitely true for financial issues, just like you mentioned with weight. What’s keeping this person from using this information that they already know to be true? And it comes down to money scripts, those unconscious beliefs that drive our behaviors. So, I think that an effective employee education plan in the area of financial issues must include financial psychology information where we can talk about beliefs, we can talk about patterns of beliefs and how they affect behaviors. We can talk about how emotions affect people’s financial choices.

Ballard: It seems like there’s a lot of gray area here that while there’s certainly an opportunity for education that could be done through various training mechanisms, how does an organization draw clear boundaries between the employee that need some education and training and the one who could benefit from coaching and the employee who’s struggling with even more serious issues who really need the referral to a psychologist for psychotherapy?

Klontz: Yeah, that’s an excellent question. And actually some of the work I’ve been doing in my most recent writings is to actually break those areas apart, training versus coaching versus therapy, because this is an issue that the financial profession is facing as a whole. They have discovered that there’s a lot of psychology in this whole financial planning thing and this financial advising thing and what can we do to help people follow through on their financial plans? I would recommend this. If you have an employee who can put the sound financial advice to work in their lives, an informational seminar is probably all that’s needed to get the ball rolling for him or her. When they have trouble acting on that good advice, as many of us do, such as starting a budget or savings plan, putting that together, there could be some self-limiting financial beliefs or bad habits there. And at that point, they might need some more intensive hands-on follow up and assistance that could be provided by a mentor or coach. Lastly, the third category of therapy, when a person’s destructive financial behaviors continue despite training, despite coaching or mentoring and they start to cause significant problems in that person’s life, at that time, it’s critical, I think, to make referral to psychotherapy.

Ballard: So, could you talk a little bit more about the work that you’re doing with financial professionals?

Klontz: Yeah, I really loved that part of my work. I think all financial professionals have had this experience at some point in their career. When they sit down with a client who has often paid them a great deal of money for their time and learned advice, and financial professional doesn’t disappoint, gives them the best stuff they have. The client seems to nod in appreciation, “Thank you so much.” And then later the financial professional learns the client did absolutely nothing that they recommended
or nothing they agreed to even when it would seem to be some of the simplest recommendations. Or, a client will ask for advice and then seem to fight it every step of the way with giving arguments, excuse, or some anxiety will come up or they’ll express unreasonable fears. And so, what the heck’s happening in those situations? And that’s really where my work with financial professionals begins. What I do is I try to help financial professionals expand their toolbox, to help them become more effective in helping clients make and sustain positive changes.

Ballard: Earlier you mentioned the concept of financial infidelity between spouses or partners. But can this kind of dishonesty about money issues exist between employee and employer?

Klontz: Yeah, I definitely think that’s the case. If you think about it, if you’re willing to lie to yourself around money and perhaps the person that you’re closest with, it’s actually probably easier to do it at work. There’s also a big money taboo. The money taboo goes into the business world, too. We’re encouraged to not tell our colleagues how much money we make. Financial secrets are an integrated part of the business world.

Ballard: Well that gets at my next question. If individuals can have money scripts, can organizations themselves as entities have their own money scripts?

Klontz: I would say they do. Now, this is something that I think that we need to learn more about. I would say like any other belief in a system, money scripts can be shaped and passed down to employees by their leadership. So, whatever beliefs that a CEO has around the financial health of the company or the financial goals of the company will likely get passed down to the employees.

Ballard: So there’s an issue I just have to ask you about. You make your living in part by helping people who are having money problems. There was an article on ABCNews.com that was talking about the economic crisis and those industries that are thriving not only in spite of the economic downturn, but quite possibly because of the economic downturn. And it indirectly referred to you as a “merchant of misfortune.” How do you respond to that?

Klontz: Oh, yeah. You know, about halfway through that interview, I picked up on the hook. Well, it was a real interesting question, because basically the reporter wanted to know what sort of industries and businesses are thriving in this period of financial downturn. Now, I had to admit that sales of my book were skyrocketing and I really tried to make the point, and this is the point that I’d like to make now to you. All this financial stress and anxiety people are feeling is an excellent opportunity for people to step back and examine how they got into that situation. For example, putting all of the blame for this current mortgage crisis on predatory lending practices, financial institutions, I mean, certainly they share a big part of the blame for what’s been happening. However, on individual level, people made decisions, they made choices that in retrospect they probably shouldn’t have made. Perhaps they bought a house that was more than they could afford. Perhaps they were taking a majority of their
resources and buying property to try to flip it. So, I see this particular time of financial stress not only as an opportunity for me to sell books, but as an opportunity for people to really examine their beliefs and their behaviors around money. And it was just this type of experience during the tech bubble burst that provided me with my personal opportunity to do that.

Ballard: Well, Dr. Klontz, useful information to help employees and organizations get their financial houses in order during these turbulent times. Thanks as always. It was great speaking with you.

Klontz: It was my pleasure to be with you. Thank you very much.