

February 7, 2009

WEALTH MATTERS

It's Not Just the Money, It's the Mind-Set

By [PAUL SULLIVAN](#)

During the boom years, money in America became many things it was never meant to be. It was status. It was identity. It was a magnet for love and friendship. What it rarely was is what it is: a means of exchange.

Now that a huge chunk of that wealth has evaporated and sources for its return have dried up, people are reeling. If the salary caps proposed this week by [President Obama](#) are adopted for companies receiving government aid, formerly high-earning executives are going to have an even harder time making it back. The net result is a psychological crisis over wealth and self-image.

“This feels absolutely different because it’s so widespread,” said Eric Dammann, a Manhattan psychoanalyst, in comparing this crash to 2001 and 1987. “It feels like everything is imploding at the same time as well as this sense that there is no light at the end of the tunnel.”

Or as David Darst, chief [investment](#) strategist of [Morgan Stanley](#)’s Global Wealth Management Group, said, “People around the world are like children with a baby rattle and the market is the adult, and we’re gripping that rattle until we have confidence that the adult is going to give it back to us.”

In other words, a lot of wealthy people are scared about what could happen to the money they have left and are willing to go to extremes to protect it.

Consider Thomas Ruskin. A retired New York City detective, he is the president of CMP Protective and Investigative Group, and his business is booming. For personal security, he says, revenue is up three times from what it was six months ago. Clients are demanding more protection — whether or not they actually need it — and paying upward of \$100,000 a month for his services.

Divorce investigations have also increased. “In the last 90 days, we’ve seen a tidal wave,” he said.

Mr. Ruskin added that the feeling that good times were over had made spouses less tolerant: “It’s mostly for infidelity that has been going on for years and that spouses were willing to accept in better times.”

Strange behavior is not limited to Wall Street. Brad Klontz, a financial psychologist in Hawaii and partner in Klontz Kahler, a financial therapy and planning firm, said someone he worked with had liquidated his portfolio, put the money into gold and silver and bought a safe to store the bullion. This person, he says, is considering buying an assault rifle to protect his wealth. “If it really got down to that point it would be total anarchy, and there would be nothing you could do,” Mr. Klontz said. “And this is a really smart guy.”

Talk to enough people who work with the wealthy and the picture that emerges of the upper echelon of American society is borderline feudal: the haves are ensconced in their castles and the have-nots are

barbarians to be kept at bay. Yet even though civil society is still functioning and the have-nots are not storming the McMansions, the haves are still struggling to come to grips with the new realities.

After writing about [the practical steps people need to take](#) to shore up their finances, I realized there was just as great a need to address the psychological mindset of the still-wealthy. This state — full of anxiety and fear more than depression — is just as painful as the financial losses they have incurred.

Calm the Elephant: Mr. Klontz uses a simple metaphor to explain what is happening to people who are overwhelmed by the crash. The emotional part of the brain is an elephant and the rational part is the guy on its back. When things are going fine, the elephant trudges along and the guy feels in control. But when the elephant gets scared, there is little the guy can do but hold on.

“It’s a scary time,” Mr. Klontz said. “The emotional part of the brain makes 80 percent of the decisions, and when it really gets activated, it shuts off rational decision-making. It’s lemmings going over a cliff.”

Animal analogies aside, the first step in calming your financial fears is no different from what any talk therapy requires — a recognition of the problem. In this case, people need to realize the stress and anxiety they are feeling is probably overblown. They may have to downsize, but no one is going to beat them up for doing so.

Identify the Source: The trigger for this collective anxiety is the wholesale collapse of three things in which Americans invest tremendous pride and self-esteem: homes, jobs and investments. But in most cases none is the root of the anxiety.

Mr. Dammann, the psychoanalyst, said he had many clients who after losing 50 percent of their net worth still had tens of millions of dollars left.

To them, lots of money in the bank was not freedom or security. It was who they were. “As their net worth shrinks, their self-worth shrinks,” he said.

The cure is to get them to understand what money means to them. Why do they feel their lives won’t have meaning if they cannot buy expensive clothes, own ever-larger homes and jet around the world on a whim? The answers are no surprise: childhood traumas, fears of inadequacy, a desire to make your success widely known.

“The problem is not the economy,” he said. “It’s all the stuff it’s stirring up.”

Allow Yourself to Grieve: The toughest thing to get over is the belief that you did everything right, but that someone changed the rules on you. This is an entitlement mentality — not everyone gets to own a home, let alone two or three — but the psychological loss is no less real. People need to grieve.

“It’s a grieving less about the individual thing,” Mr. Klontz said. “It’s the loss of a dream. It’s how you thought things should be.” Without the chance to grieve, he said, “that’s when our thinking becomes rigid and bitter.”

There is consolation for those intent on keeping up with the Joneses. “I’ve been telling people that you’re just as rich now, because everyone has lost 30 percent,” he said.

Embrace the Worst Case: Is giving up bottle service in nightclubs and cutting out weekend jaunts to Aruba too much to bear? How about getting to the point where you lose everything — like [Bernard L. Madoff's](#) investors — and have to turn to family members for help? For some the very thought of a life less fabulous is so painful as to be paralyzing.

Ted Klontz, Brad's father, business partner and a psychologist in his own right, has clients visualize the worst thing they could imagine happening to them. For many, either because of pride or because of bad childhood memories, it is asking their family to take them in. Verbalizing this fear is the key.

“What an incredible opportunity to talk to your wife about, ‘What do we do if...,’ ” he said. “It reduces the anxiety and trauma.”

This might have helped those preparing for the end of days. Mr. Ruskin, the detective, said none of his clients' security fears had materialized, though he was quick to add: “That doesn't mean it's not there and it's not going to happen.”

Past as Prologue: Above all, people's psyches are being wracked by what behavioral economists call present-event bias. This is the belief that what is happening now will always be. The same thing happens in bull markets — values always seem to be rising until they don't — but it is clearly more painful when wealth is being destroyed. Markets, of course, will go up again.

“Folks have been traumatized and damaged psychologically, financially, emotionally,” said Mr. Darst, the Morgan Stanley investment strategist. “I was just in Dubai and Saudi Arabia. I had a distinct impression that there was hopefulness about the size and structure of what's next.”

[Copyright 2009 The New York Times Company](#)

[Privacy Policy](#) | [Search](#) | [Corrections](#) | [RSS](#) | [First Look](#) | [Help](#) | [Contact Us](#) | [Work for Us](#) | [Site Map](#)
