STORY
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The path to becoming financially successful in the digital age is fraught with missteps. But the emerging importance of emotional intelligence could provide the X factor to help keep you on track.

THE NEW MINDSET FOR SUCCESS

The concept of emotional intelligence (EI) – the ability to understand and manage emotions effectively – is spruiked as the winning ingredient in everything from corporate leadership to skincare. Increasingly, and perhaps somewhat surprisingly, it's also gaining traction when it comes to successful investing, particularly in the volatile business of stocks and shares. But what exactly is it? Can we improve it? And how can it help us make our money work harder?

It isn't a new notion. Various research studies have highlighted the connection between EI and success. New Zealand's Dunedin experiment, for example, has been tracking and studying more than 950 people, from all walks of life and socio-economic backgrounds, for more than 50 years.

The resulting data shows that people who are able to delay gratification, and who can control their emotional reactions in the moment for the benefit of their future selves, are significantly more likely to achieve financial success throughout their lives.

And in 2021, a study by Carrie Anderson, of Lewis University in the US, examined the financial lives of university students. The research highlighted that students who possessed greater emotional regulation were less likely to misuse financial aid, become overwhelmed with student debt or experience unwanted pregnancy, and were more likely to achieve higher academic results, invest, repay debt, and be more financially astute generally.

But back in the late '90s, the notion of EI as a game-changer was quite sensational. Emotion was a "soft skill" — a poor cousin to the "hard" skills necessary for the hard numbers game of financial markets and investing.

Psychologists such as Daniel Goleman predicted that EI would become even more important in the future, with technological advances meaning information would become more democratised and accessible. Most of the business elite of the day minimised the findings as interesting but irrelevant, just another pop fad to help sell a few books and make a few careers.

Age of disruption

Fast-forward 30 years and the digital revolution is in full swing, with internet connectivity, automation, machine learning and artificial intelligence dramatically shifting how we live our lives. This is salient in the financial industry, where consumer behaviour, algorithms and a host of revolutionary new ideas are disrupting the very foundations of traditional marketplaces.

Alongside the digital disruptors, there has been vastly increased access to a tsunami of data and analytics, and novel ways of helping the average person understand and navigate markets like never before. So, it stands to reason that on a newly levelled playing field, EI has the potential to give some the edge.

"Understanding the specific object or thing is less important than understanding the context within which it is found," says Simone Joyce, co-founder of

Australian fintech success story Paypa Plane and current chair of FinTech Australia. "People are no longer successful simply because they have a high IQ or they went to the right school.

"It takes emotional intelligence to understand your relationship with risk and how that relates back to the way you're interpreting the context of any given situation, and therefore put you in a better position to succeed.

"Some people call it intuition, but I think a large part of your EQ sits within your subconscious, and it is this part which is telling you whether something is right or not. People who are attune to this factor, and are able to take that on board, definitely have an edge over those who are less in touch with that part of themselves."

Winners and losers

Every week it seems a new app or software-as-a-service (SaaS) platform comes along that helps simplify and present large financial data sets in more meaningful ways. Data is no longer the exclusive purview of the financial elite – it has been democratised.

With data now more decipherable by us mere mortals, and the level of financial literacy increasing throughout the population, it seems as though the number of genuine runners in the race to be in the financial winners' column is growing exponentially. Access to information, data and analytics is no longer the great differentiator between the winners and losers.

This is a particularly important development for another reason – the fact we are living longer, much longer, than what our current economic system is set up to address.

Many people approaching retirement are realising that superannuation as a savings strategy was built on an assumption of life ending in our '70s. Now they need an investment strategy to keep funding themselves well into their '90s or beyond.

This new and improved access to data is a potential game-changer for those who have largely outsourced their investment strategy over their working life. It's possible that EI offers a bridge to those less experienced in a volatile marketplace.

Naturally, not everyone is going to win. Even if everyone had the same access to data and advice, the very nature of the market dictates that there will be winners and losers. Increasingly, it seems emotion is entering the picture as the new differentiator between the haves and the have-nots. While the traditionalists see emotion as the enemy of good financial decision-making, the emerging line of thought in psychology suggests emotion should be understood and leveraged to be your strategic advantage. So, is it the suppression of emotion or the embracing of emotion that leads to success?

Mind over data

Jason Titman doesn't just talk a good game. The SaaS tech investor and top-level technology executive has been in the trenches and come out on top more times than can simply be attributed to chance.

One of Australia's most prolific and successful investors, Titman has helped create more than $300 million in value by building companies and exiting them. He is a company director of cryptocurrency exchange Swyftx and helped oversee the recent $15 billion merger with fellow Aussie fintech Superhero.

When it comes to consistently making money in the current environment, Titman is an expert on the changing nature of the marketplace and the appropriate mindset it takes to win.

"I'm not sure if more information is actually helpful for most people, as all it is doing is giving a more articulate representation of history, rather than helping people predict the future," he says. "I think EI has always been important, particularly as it relates to people's ability to focus and give their full attention to specific things."

His view is that if you want to be a successful investor, you still need to have deep experience and knowledge in the asset class you are wanting to invest or do business in – access to data doesn't change that. Then, and only then, will you be able to attune to the political, social or environmental changes that are likely to impact future profitability.

"People who do not understand the business seem to focus too heavily on share prices and expert opinion, and miss many of the key decisions or environmental shifts that will create challenges or opportunities down the track," he says.

For Titman, the thing that differentiated him from others was his ability to focus his attention on all aspects of the specific asset classes he was involved in, and ignore the noise of other sectors or industry hype that was less relevant. "Don't just invest money, invest time into fully understanding the business, and resist the urge to simply rely on apps, websites or other people's advice.

"People get emotionally caught up in groupthink ... In the future, people are going to make behavioural and emotional-based decisions just like in the past, but they will be much better supported by loads of data."

The information that is available today is exponentially greater than when Titman started investing 30 years ago. However, copious volumes of econometrics and statistical modelling have been around for years, and he's seen first-hand what people tend to do in the face of overwhelming data.

"I think the people who make the best financial decisions are the ones who don't get paralysis by analysis, who are able to simplify and sort data for what's important and not get distracted simply by the amount of information or whose advice it is supporting.

"The data simply doesn't give you everything you feel it does – there are political realities and social volatilities that are simply impossible to encode into an algorithm. People will always act irrationally – the winners in the future will be those who are able to employ patience when others are panicking."

That is a key insight. To employ patience in the face of panic takes emotional intelligence.

"I would argue that it is impossible that we are ever going to be able to have data and AI in the financial markets that overrides what humans will do," says Titman.

"You need another human to identify and understand human behaviour. You need EI to see clearly and industry expertise to understand implications. AI may be able to take care of the historical data and statistical analysis, but it will take EI and deep domain knowledge to know how best to use it."

When it comes to the mindsets we need to succeed now and into the future, the takeaways from Titman are threefold:

- Have a deep understanding of the business and industry you are investing in.
- Resist FOMO (fear of missing out) or groupthink but rather recognise the irrational behavioural patterns of the herd.
- Control your fear so you don't get hoodwinked by the tsunami of available information.

Altered perceptions

It could be argued that a new wealth of financial information, the great democratisation of data and analytics, may actually make us worse decision makers. Conversely, EI is enabling us to flex the emotional muscles we now need to engage more with data threatening to lead us toward poor, ill-informed decisions.

"Sure, there are advances in data science visualisation and prediction, but does that mean that people will interpret that data correctly? Of course not," says Uwe Dulleck, one of the titans of modern behavioural economics. "More information often leads to confirmation and information bias, creating an increased surety in the rightness of your decision rather than helping you make better decisions."

Dulleck is one of those unique individuals who sits on the cusp of research and practical application. He is a founding member of QuBE (Queensland Behavioural Economics), a co-director of the Centre for Behavioural Economics, Society and Technology (BEST) and a tenured professor in the faculty of Business and Law, School of Economics and Finance at Queensland University of Technology (QUT).

Dulleck references the work of Robert Lucas in the late '70s and '80s, and his famous "Lucas Critique".

"In the '80s, the econometrics got better and better, so we attempted to model inflation and monetary policy based on these insights. But Lucas argued that you cannot beat the market by using advanced econometrics because the markets react very quickly to this new input, which quickly undermines any advantage these econometrics may have provided."

This can be seen in recent times. Economics and big data have been around for a long time now, but 10 years ago were they able to predict today's house prices? Petrol prices? Inflation? Or any number of other commodities?

Even when we were in the middle of the pandemic, we couldn't predict what different elements of the economy were going to do with any degree of certainty.

"The real insight here is that the market changes and adapts quickly to emerging technology and trends, and your ability to shift your mindset and strategy as the market shifts is essential," says Dulleck. "The difference today is that technological advances have dramatically sped up the rate of change.

"One of the big challenges I see is that people try hard to pick winners, when what they should be doing is sharing the risk across many businesses in your field of expertise."

It's a strategy many angel investors use when selecting investment targets. Some investors try to look for the billion-dollar "unicorn" and get sucked into the hype of a new company. But many angels (high-net-worth individuals who provide financial backing for small start-ups or entrepreneurs) understand that it is almost impossible to know in three to five years which company will be the true unicorn, so they forgo the higher-priced and much lauded investments to invest in more lesser-known companies. They realise that for all their domain knowledge, luck still plays a huge role.

Dulleck has observed that people are often motivated to pick winners, not because they necessarily want to get a bigger windfall, but because they want to be better than their neighbours.

"There was an agricultural innovation project where [an industry colleague] had to convince farmers to adopt a new technology, and he found that the best way to get farmers to adopt innovation was to give them a boat," says Dulleck. "Because the boat was a signal to their neighbours that they must be doing well, and the appearance of doing better than their neighbour was a huge driver of behaviour.

"This is what often happens when we try to benchmark our success against what we perceive others' success to be. We see other people's 'boats' and automatically assume a level of success, and take all sorts of risks in order to make up for an imaginary gap that never existed in the first place."

At the heart of this perception trap are two emotional drivers: fear (of being left out, insignificant, unintelligent, ostracised, a loser) and laziness (or more appropriately the drive to avoid the pain of having to learn something new).

The problem with relying too much on data is that statistics can be managed by people in ways that trigger these fears, which means you become the prey for those interested in profiting from your poor decisions. If you see the emotion that is provoking you, when presented with this data, it stands to reason you'll be less susceptible to these type of mind games.

Risk and rewards

"I reject the idea that in order for you to win, someone has to lose," says Justin Richmond, CEO of longstanding financial advice company Olive Financial Markets, and former CEO of numerous large financial services firms. "When there is a growing pie, like is happening right now, everyone can win because new industries and business models are creating a bigger market.

"We're different here in Australia, though – generally we invest so we

8 ways to improve your EI

As researchers involved in the Dunedin experiment discovered, EI is the only major predictor of success in life, with factors such as IQ, academic performance, culture, experience or hereditary wealth having little to no predictive validity.

The good news is there are ways to help understand, manage and even strengthen your EI in order to develop more emotionally intelligent financial habits.

1 Pay now, buy later. Find ways to practise the art of delaying gratification. This can be paying down loans quicker, lowering spending to increase savings or packing a DIY lunch in order to enjoy a sumptuous dinner. Whatever it is, keep asking yourself, "Will I be better off tomorrow if I don't do this today?"

2 Break the generational taboos. We all inherit attitudes and behaviours from our parents, particularly in relation to debt and talking about money. Practise discussing the ups and downs of your financial life with trusted others without fear, embellishment or ego, and ask questions to learn from other people's experience. This will help familiarise and normalise many things that often get hidden behind a veil of secrecy and shame.

3 Play the infinite game. Worry less about how you are doing in comparison to others, and instead just look at what you have got and try to make it better. Make constant improvements based on your own history. By focusing on what you have, you lessen the likelihood of being hoodwinked by the fear of what you don't have.

4 Slow things down. You always have more time than you think. There is a plethora of better choices in the gap between thought and action. The more you can pry these two things apart, the better, less reactive decisions you will make.

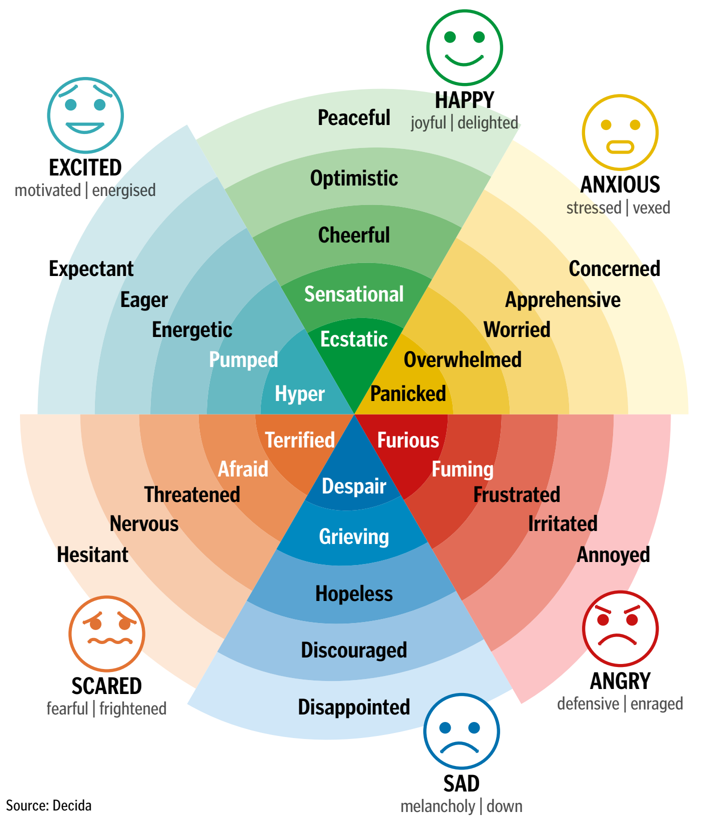
5 Name it to tame it. Use an emotion wheel (see page 38) to increase your emotional lexicon and notice how it feels to dial emotion up and down. This is your superpower – knowing how to manage this in yourself and others is the gateway to stronger emotional intelligence.

6 Practise mindfulness. Setting aside time to practise consciously attending solely to the present moment has been shown to have massive benefits on financial decision-making. This is not a spiritual thing, but a tangible way you can build emotional regulation muscles.

7 Become the expert. Learn everything you can about the asset classes or industries you are investing in. This will help reduce panic when unexpected things happen, and allow you to better recognise irrational behaviour in the market.

8 Build a better environment. You remove tempting foods from the fridge if you're trying to stick to a healthy diet, so do the same with things that tempt you to spend. This could include cutting up credit cards, putting daily spending limits on accounts, avoiding supermarket shopping when you're hungry, or banning yourself from shopping on your phone. Give yourself the best chance to win. Setting boundaries, and then sticking to them, is key to building good EI.

The emotion wheel



Source: Decida

don't lose money, rather than taking hold of opportunity. Australians are great consumers of new technology, but our risk appetite to create is not high.

"In America, failure is seen as simply something you experience on the way to success, so their investment strategies tend to be more broad with a larger appetite for risk. Here, we see failure as an indicator that something is wrong, so we're much more conservative.

"Either way, it takes EI to navigate the different personalities of different markets, and understand that how you make things work in one market won't always translate to another."

Richmond believes that while there are different levels of fear driving different markets, it is understanding, managing and working with that fear that will help you succeed.

"The importance of EI is definitely increasing," he says. "It has always been important, but you can no longer simply be in it to win it. It's about how you fit into the current cultural landscape, and that landscape is changing more rapidly today than it was 20 years ago.

"You cannot underestimate the value of experience, knowledge and data to reduce the likelihood that you'll act irrationally or reactively."

It's a perspective Bradley Dalli, from the Aussie Fire (financial independence, retire early) Movement blog, agrees with. "It all boils down to delayed gratification. If you can learn to live within your means and invest in a wide range of assets, it is possible for everyone to win, not just at the expense of someone else."

However, it takes some strong EI muscles to recognise the urge to spend and refocus that energy toward a reward in a more distant future.

Whether it's about winners or losers, it's clear that EI is more important in our present climate than it has ever been before, and it will likely become even more important in the future.

Building your emotional muscles is critical to improving focus or attention, creating motivation to be curious and learn, becoming more patient and less panicked, better handling change and avoiding some decision pitfalls.

The democratisation of data and analytics is levelling the playing field in many respects, but it is the ones who can truly master their emotions who will find their names in the winners' column when the dust settles. **M**

Phil Slade is a behavioural economist, psychologist, and co-founder of decision architecture firm Decida.

Understand your own EI

The first step to understanding anything is to build a language around it to house understanding. Try thinking about something that you don't have a word for – it's impossible. To articulate is to think. Words are the conceptual vessels that help us explore and learn. To take this further, you need words to have specific meaning in order to create mental frameworks.

For instance, it is one thing to be able to articulate that you are angry, but simply saying you are angry gives no indication of how angry or how aroused you are. Within the bucket of angry emotions you could be annoyed, irritated, frustrated, fuming or furious. Each of these has a different level of cognitive arousal, a different level of control.

Creating a language of emotions that indicates arousal level is key to building your EI. This will help you dial it up and down as is appropriate to your context. Learning to consciously control your level of arousal turns your emotion from a weapon of mass destruction to a superpower of success and influence.

To get started, it can be very helpful to use something like the Decida 5-level emotion wheel* (see above), which helps put language around the common emotion buckets of scared, anxious, happy, excited, angry and sad at different arousal levels. Sad goes from disappointed to despair, happy from peaceful to ecstatic, and so on.

When you do this, you intuitively stop seeing good or bad emotions, and start to consider to what extent you're in control of them. Anxiety is okay (even useful) when it is kept at a level of "concerned" or "apprehensive", but move into "panic" or "overwhelm" and you've lost control and are unlikely to make good decisions.

The toilet paper craze when the pandemic first hit is a classic example of our irrationality when we panic.

Interestingly, when we give in to moments of high arousal, when we "flip out" or "lose our head", our brain releases chemicals such as endorphins and dopamine, so it actually can feel good in the moment. It's only when we calm down and regret starts to kick in that we realise how foolish we may have been.

Learning the language of arousal is key when trying to keep your cool. When you are anxious, it is much more useful to think about being concerned about the thing that is stimulating a panic response, rather than suppressing it. Articulating emotion at a lower level releases its intensity. Suppressing it adds pressure until something bursts. Scientific studies show that suppressing emotion can rob us of 20%-40% of our cognitive capacity, with our subsequent performance equally diminished. High performers know how to manage their emotions and can dial things up and back very quickly and with great ease.

Once we can manage our own emotion, we can then use the emotion wheel to build cognitive empathy with others. We all know how ineffective it is to tell an angry person to calm down, or a grieving person to cheer up.

Better to be irritated at the thing someone is angry about, or discouraged at the thing someone is grieving the loss of. By expressing a lower arousal version of the emotion being felt, the other person feels validated, heard, more connected with, and things settle down.

The ability to be able to dial it up and down can be trained like any other muscle. At first it will hurt, but over time it gets easier as you become more proficient. Practice, like many things, makes perfect.

*THE DECIDA 5-LEVEL EMOTION WHEEL WAS DEVELOPED BY DECISION ARCHITECTURE FIRM DECIDA, OF WHICH PHIL SLADE IS A CO-FOUNDER.

How EI helped Barrie rebuild his life

Barrie Goulding, 46, started life with nothing. His father was in jail and his mum was bringing up five kids in a worn-out fibro home on the outskirts of Cairns. Several bad experiences growing up drove him to the single-minded pursuit of earning money and never, ever being poor again.

By the time Barrie was 22, he had secured himself a job at a call centre for a large financial services company. Within five years, he had been promoted to a position where he was making very reasonable money. Newly married and with a family on the way, he bought a home.

All was going well until Barrie's sister called asking for help. Feeling guilty about doing so much better financially than his elder sibling, he agreed to take out a personal loan for more than $100,000 to help her buy a unit. Soon, his sister was unable to keep up the loan repayments, which fell to him to pay, and for the first time in a long time his finances started to go backwards.

Then one day his sister turned up in a new car. Barrie's wife was furious, and for Barrie the thought of being driven back into poverty was traumatising.

"That moment seeing her drive up in a new car was shattering and that, combined with all the bad memories of what it meant to be poor, created a kind of financial PTSD. I was not in a good way," recalls Barrie.

Fortunately, he sought the advice of a financial coach, who taught him how to identify the fear, anxiety, shame and guilt that had been driving his life decisions to that point, and calm down these emotions through some acceptance commitment therapy (ACT) techniques. The ACT approach is that you feel and see the emotion in your mind's eye, give it a physical shape and name, and then tell it to sit down.

Rather than panicking about what had been lost or fearing being poor, Barrie was able to focus on what he had, and the small steps he could take to get back in control of his finances.

"Building this emotional resilience, understanding and managing my emotions has helped me in every part of my life ever since I started to learn about them in my late '20s."

Twenty-odd years on, Barrie owns three properties outright, is a highly paid and respected executive in a large financial firm, has all his family relationships still intact, and is looking forward to continuing to build wealth well into his '70s to help create a real financial legacy. His grandkids and their grandkids will never have to experience the kind of poverty he had to endure.