Why is it so hard to make good financial decisions?

How to fix your finances using behavioral science.

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As a behavioral psychologist, I've seen a thousand times how we set goals and intentions but fail to follow through. With saving money, it's no different. It is one of those things in which everything becomes 10 times as difficult.

One, because a lack of money affects the frontal cortex from thinking clearly, and two, because our brains are not wired in a way that favors saving money.

Even really smart people make poor financial decisions all the time.

So, the answer isn't a lack of intelligence or information — it's that our brains are wired for survival in a world that no longer exists. The same cognitive shortcuts that helped our ancestors survive on the savanna now sabotage our bank accounts.

Every day, I see people who understand compound interest but still struggle to save consistently. They know their spending isn't healthy but refuse to make a budget. Or they recognize the importance of long-term thinking but can't resist the instant gratification of unnecessary purchases.

The good news? Once you understand your own psychological patterns, you can address **key psychological barriers** and design systems that help you make and save more money.

Are you avoiding your finance?

Let's jump straight into some behavioral psychology. You probably know what it feels like to avoid looking at your money or expenses. But why do we feel this way?

Ever heard of **motivated ignorance**? Our brains actively avoid information that might make us feel bad about ourselves to protect our identity. Looking at bank statements triggers what psychologists call **cognitive dissonance**: the uncomfortable tension between our financial goals, self-image, and our actual behavior.

The **Ostrich effect** compounds this problem. Just as ostriches supposedly bury their heads in the sand when threatened, we avoid checking account balances, opening credit card statements, or calculating how much we spent last month. The less we know, the less we have to confront our financial reality.

In addition, shame and self-judgment make expense tracking emotionally painful.

Each purchase becomes evidence of our "failures" — proof we lack discipline or financial wisdom.

Our brain sees spending data as a personal attack rather than neutral information.

The thing is that before you can build lasting wealth, we need to confront an uncomfortable truth: most of us have no idea where our money actually goes.

Studies show people consistently underestimate their spending by 10–15%, particularly on unexpected costs. Such as car repairs, medical bills, or travel costs. Often called **expense prediction bias** in **the** literature. In other words, if you want to estimate your spending correctly, you have to expect the unexpected.

Why is data so important?

Here's the cool thing: the very act of tracking expenses changes your behavior, even before you make any conscious changes. Psychologists call this the **Hawthorne effect**. People modify their behavior when they know they're being observed, even if the observer is themselves.

Tracking transforms your feelings into concrete feedback. Instead of vaguely feeling "bad with money," you see exactly where your €2347 went last month. These insights greatly enhance your sense of control and **self-efficacy**. When you have a clear picture of the problem, you gain the confidence to find and execute a solution. You just have to put your big girl pants on!

Open an Excel file and write down day 1 to 31 in the rows. Then create a few columns for different categories of expenses. Open your bank app and put all of your transactions in the sheet at the corresponding days. You'll see exactly how much you've spend on each day and in the whole month.

Financial anxiety often stems from **feeling powerless** — money seems to disappear mysteriously. Tracking restores a sense of agency. You're no longer a victim of mysterious financial forces; you're a data-driven decision maker.

Remember that you can decide what you want to spend your money on. Got excited discovering you spend €127 monthly on coffee? That's valuable self-knowledge, **regardless of whether you want to change the behavior**.

We don't want to save money!

Your brain is very good at sabotaging your intentions to save more money. We humans have a tendency called **present bias** to overvalue immediate rewards compared to future benefits. When you see a €100 item you want today, your brain experiences a dopamine hit. But saving that same €100 for your future self? That triggers no immediate reward, just the abstract concept of "future wealth."

This bias evolved when our ancestors faced uncertain futures. If you found food, you ate it immediately because tomorrow was never guaranteed. Today, this same wiring makes us prioritize Netflix subscriptions over investment accounts.

Hyperbolic discounting compounds this problem. We dramatically devalue future rewards — a phenomenon where €100 today feels more valuable than €110 in a month.

Using behavioral psychology to save more

I used to tell myself "I need to save more" every month, then watch my good intentions evaporate when I saw that new gadget or when friends suggested going out to dinner and going for drinks. Sound familiar? My brain was stuck in a constant battle between "future me" (who wanted financial security) and "present me" (who wanted immediate gratification).

The first step is using **implementation intentions** — specific if-then rules that bypass willpower entirely. Instead of "I'll save more," I created this rule: "If I get paid, then I immediately transfer €500 to my savings account before I even check my balance." Concrete rules I can follow.

Next, I used **Mental Accounting** to see more progress towards financial goals. Instead of one generic savings account, I created separate piggy banks such as "emergency fund," "travel expenses," and "long-term savings". Suddenly, adding €200 to my "emergency fund" felt meaningful — I wasn't just saving money, I was buying my future independence.

As Dave Ramsey would say, you need to give every dollar a purpose.

The final piece was **automation**. I set up automatic transfers that moved money before I could spend it. My paycheck got divided automatically: €200 to my emergency budget, €200 to investments, €100 to my travel money budget. By the time I can decide what to spend my money on, the important stuff is already handled.

The result? Within six months, I had saved more money than in the previous two years combined. Not because I had more willpower, but because I designed an environment and system that didn't provide any room for human biases.

Invest more in your own human capital

Stocks, Bitcoin, or investing in assets that appreciate in value is one step, but here's a controversial truth: you're probably underinvesting in your most valuable asset — yourself.

We'll spend €2,000 on a week-long vacation that creates temporary memories, but we won't spend €2,000 on skills that could increase our earning potential for decades.

Immediate gratification bias strikes again. A vacation provides instant pleasure and social media content. A course, coaching program, or skill development feels like work with uncertain payoffs. Your brain craves the immediate dopamine hit of the vacation booking confirmation, not the abstract concept of "future earning potential."

More interestingly, we often view investing €2000 on skills as risky and consumption as saving. Our perspectives on risk our completely off in today's world.

What most rich people figured out

This is what most people don't understand but changes everything: poor people ask, "What does it cost?", while rich people ask, "What is it worth?"

That €2,000 course might seem expensive until you realize it could increase your income by €5,000 annually. Every time I invest in myself, whether it's coaching, new software, or building new skills, I earn back the investment within the same year. Not sometimes. Every time.

Your skills are the only asset that can't be taken away, taxed, or devalued by inflation. They compound faster than any stock market return because they affect every hour you work for the rest of your life.

You need to spend more to build real wealth

The path to significant wealth isn't about spending less — it's about spending more on the right things. Poor people buy cheap things twice; rich people buy quality things once.

The wealthy understand this principle: **Strategic spending accelerates wealth building**. They spend more on:

- **Quality tools** that save time and increase productivity
- **Professional services** that free up their time for higher-value activities
- **Systems and automation** that scale their efforts
- **Assets** that appreciate or generate income
- Experiences and **relationships** that create opportunities

The poor try to save their way to wealth. The rich buy their way to wealth, but they spend on assets, not liabilities.

Reframe the question: Instead of "How can I spend less?" ask "How can I buy something that helps me earn more?"

Social comparison and lifestyle inflation

Especially nowadays, I see a lot of people with unrealistic expectations and straight-up entitlement. If that's you, don't be afraid. Humans are just social animals. However, side effects such as **social comparison** lead to **lifestyle inflation**.

This is how:

1. **We constantly benchmark against others** (neighbors, colleagues, social media)
2. **We notice when others have “more”** (bigger house, nicer car, fancier vacations)
3. **This triggers status anxiety** (“Am I falling behind?”)
4. **We upgrade our lifestyle to match or exceed theirs** (buy similar or better items)
5. **Our new lifestyle becomes the baseline** (hedonic adaptation)
6. **We repeat the cycle with the next comparison group**

The hedonic treadmill means each purchase provides temporary satisfaction before we return to baseline happiness. The new car, apartment, or gadget that was supposed to make us happy becomes the new normal within weeks.

One solution to this problem is to just unfollow a lot of people on Instagram or other social networks that seem to live the fancy lifestyle you look up to.

You can also regularly audit your expenses against your actual values. Did you spend money on things this year that you actually want?

This seems simple, but in reality we often let others decide for us. Especially in social settings, we often spend money on things that we wouldn’t have spend otherwise.

We did not learn to make good financial decisions automatically

Understanding these psychological patterns isn’t about self-blame; it’s about self-awareness. Your brain’s quirks evolved for good reasons, but the modern financial world requires different strategies.

The key insight from behavioral psychology is that **willpower** is overrated. Instead of fighting your brain’s natural tendencies, design systems that make good financial decisions automatic and bad financial decisions harder.

Remember: You don’t need to be perfect. You just need to be consistent.

The wealthy aren’t those who never make financial mistakes — they’re those who have systems that make good decisions just a bit more likely than bad ones.