How to approach your finances this festive season

In the hive of festive activity, it's easy to forget your financial goals and spend more than you planned. Next thing you know, it's the New Year and the long month of January, with its all too familiar financial hangover, is stretched out before you.

You may have heard about the 'Marshmallow Test', a series of experiments conducted by Stanford University psychologist Walter Mischel in the 1960s with nursery-school children to explore the relationship between patience and reward. The children were each given a marshmallow with the promise that if they could resist eating it for 15 minutes, they would receive a second marshmallow. As expected, some didn't wait long to eat the marshmallow, while others were able to delay their gratification to receive the bigger reward.

The long-term results of the tests were fascinating. When researchers followed up with the children years later, they found that those who had delayed their gratification ultimately fared better in life: They were more competent, had achieved higher final scores in high school and even had a lower body mass index than the children who had immediately eaten the marshmallow. The study has been replicated across the world, and while some experiments, which used a more diverse group of children, found that social and economic background can have a considerable influence on a child's ability to delay gratification, the Marshmallow Test remains a good illustration of the benefits of self-control.

What is your marshmallow?

Unless you have a really sweet tooth, marshmallows will not have the same appeal to an adult. So perhaps try the experiment with something that you do value: Your end-year bonus, if you are lucky enough to receive one this year, or an unexpected windfall.

Think about what you would like to indulge in this festive season, such as dining out, getaways, gifts and at least one of the items sitting in your online shopping wishlist. Then consider what would contribute to a more secure financial future. This could be paying off debt, starting an emergency fund, investing towards your child's education or topping up contributions to your retirement annuity before the end of the tax year to maximise your tax savings.

When it comes to finances, we know theoretically what the right behaviour is: Invest to create long-term wealth. But knowing isn't always enough, is it? We all have good intentions to make sound financial decisions, but the temptation to spend makes it difficult to commit – especially during the festive season. If you can exercise some self-control and subdue the impulse to splurge, the financial reward in future could be well worth the sacrifice.

Five suggestions to put you on the right track:

1. **Get balance:** When it comes to saving, small rewards can make you feel less resentful about saving and may help you commit to your long-term cause. For example, if you get a bonus, allow yourself a little indulgence and you will feel less like you are punishing yourself by saving the rest.

2. **Save before you spend:** Self-control runs low over time. When managing our finances, we tend to begin the month with good intentions but as the weeks go by, we falter. A good way to counter this is to set up a debit order for your savings that comes off at the beginning of the month and then forget about it, rather than telling yourself you will save whatever you have left over at the end of the month.

3. **Avoid stress spending:** We are more likely to splurge when we are feeling stressed but, be warned, the high from retail therapy is often followed by the bang of reality. If you are a stress spender, avoid putting yourself in tempting situations.

4. **Rewire your thinking:** A cue is something that prompts an action, and we tend to get into the habit of responding to certain cues in the same way but this doesn't mean it's the correct impulse. For example, many of us interpret having money in our bank account as a cue to start spending. We should recondition ourselves to interpret having money as a cue to save.

5. **Believe that you can do it:** We can be our own worst enemies when self-doubt gets in the way of us achieving our goals. If you don't really believe you can achieve something, then your internal feedback loop prevents it from happening. If you want your brain to believe you can do it, you need to believe that what you are doing is worthwhile. To help you do that, visualise your long-term goals and the joy you will derive when you accomplish them.

While it is tempting to focus on short-term satisfaction and avoid long-term decisions, creating real wealth is achieved by taking a series of small steps. One of the most valuable gifts that you can reward yourself with at the end of a seemingly difficult year is to acknowledge your future financial needs and invest towards these.

In the end, investing is just like the Marshmallow Test – there is a reward for patience.

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