

# *The* Psychology *of* Money

TIMELESS LESSONS ON WEALTH, GREED,  
AND HAPPINESS

MORGAN HOUSEL



- Tech executive
- Sold several companies
- Successful

## Ronald Read

American investor :



Ronald James Read was an American philanthropist, investor, janitor, and gas station attendant. Read grew up in Dummerston, Vermont, in an impoverished farming household. He walked or hitchhiked 4 mi daily to his high school and was the first high school graduate in his family.

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- Swept floors at JCPennney for 17 years
- Bought a house for \$12000 @ 38
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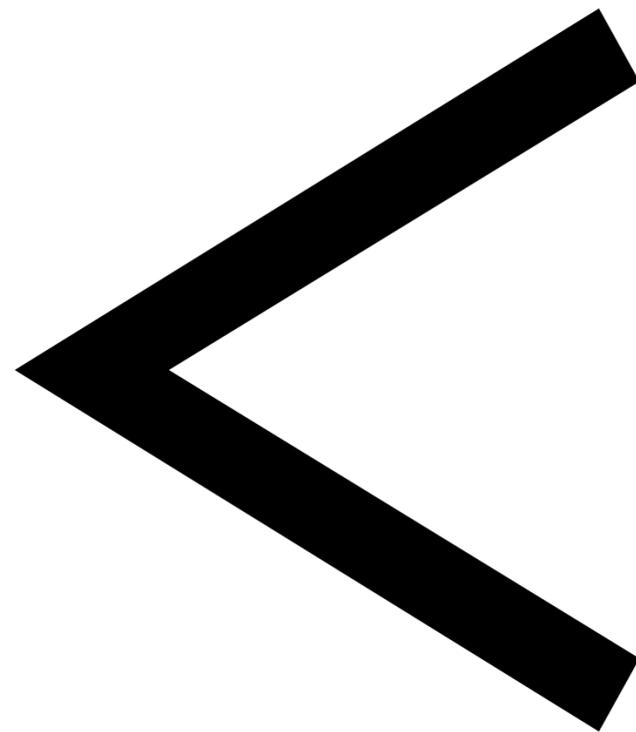


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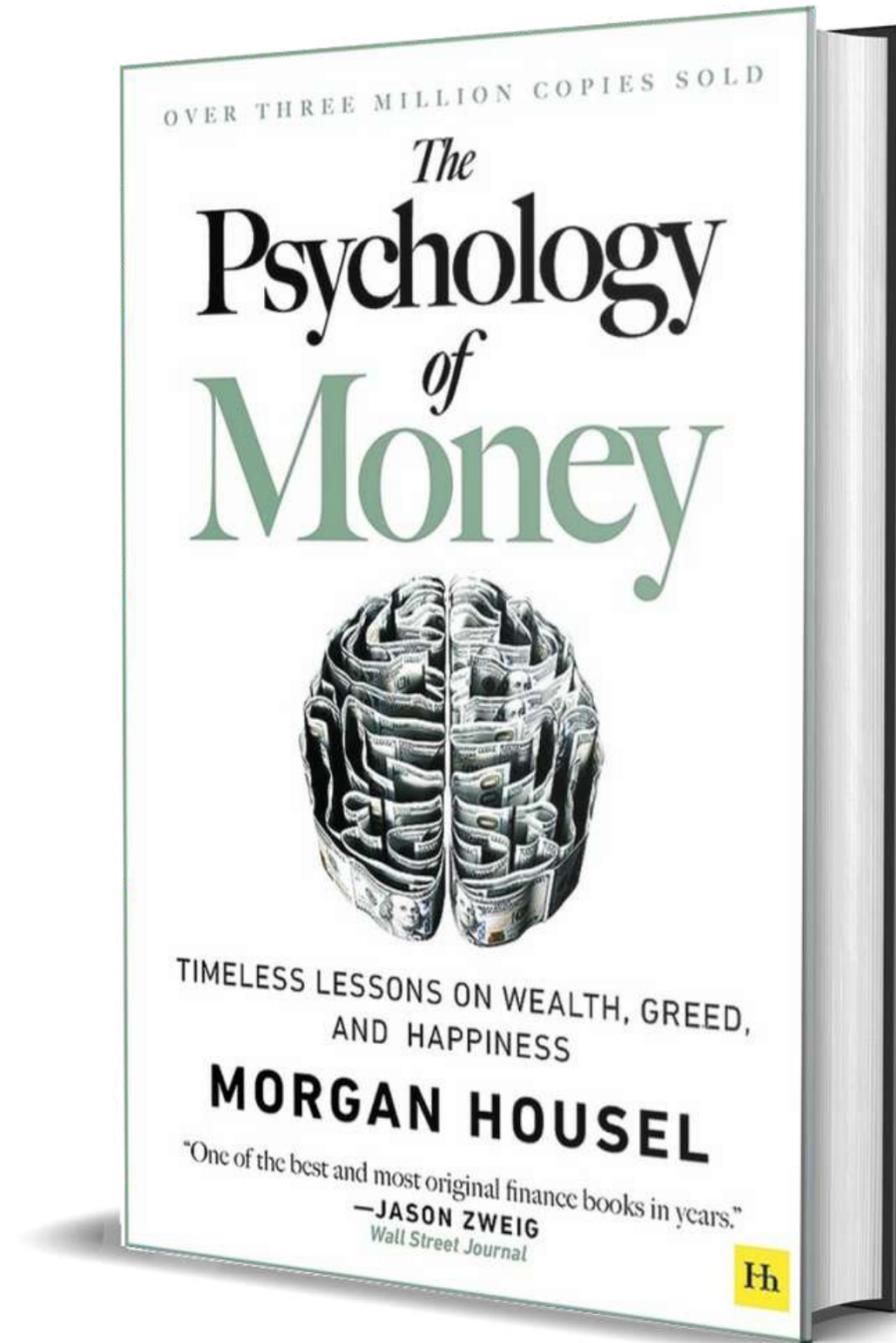
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- **No lottery win and no inheritance**
- **Saved and invested in blue chip stocks**

Doing well with money has a little to do with how smart you are and a lot to do with how you behave.





Not Hard Science  
but  
it is a soft skill.



- No One is Crazy
- Luck & Risk
- Never Enough
- Confounding Compounding
- Getting Wealthy vs Staying Wealthy
- Tails, You Win
- Freedom
- Man In The Car Paradox
- Wealth Is What You Don't See
- Save Money

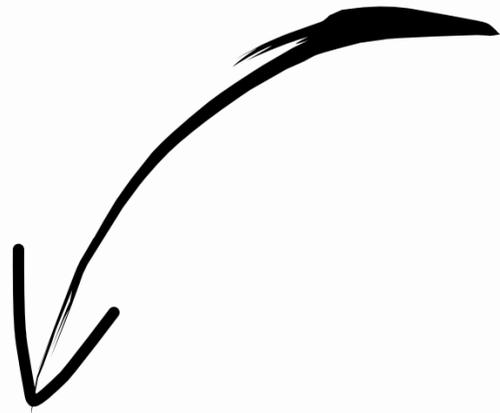
- Reasonable > Rational
- Surprise
- Room for Error
- You Will Change
- Nothing Is Free
- You & Me
- The Seduction of Pessimism
- When You Will Believe Anything
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# 1. No One is Crazy

What looks **crazy** to you  
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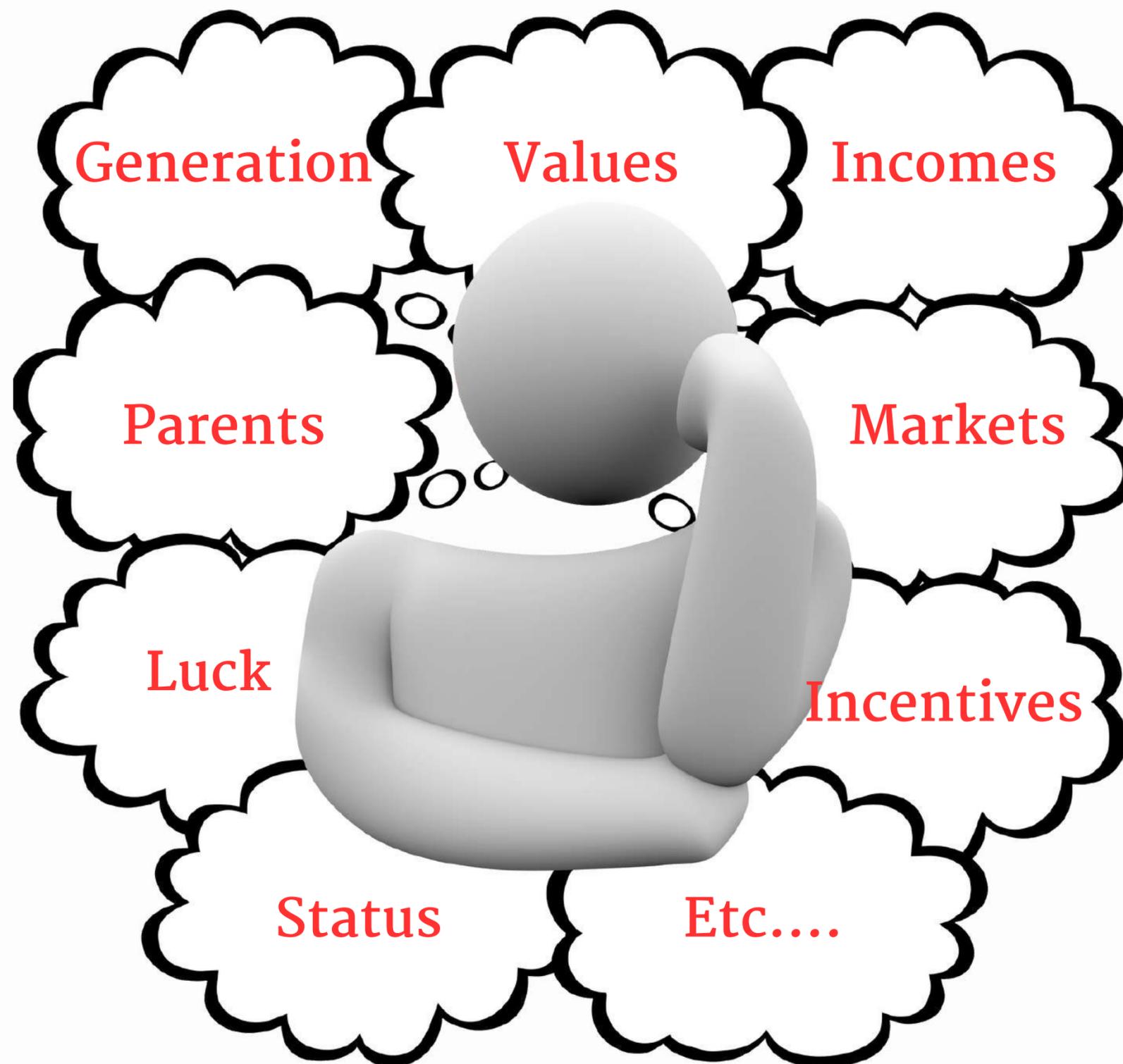
People do not make financial  
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# No One is Crazy

What looks **crazy** to you  
might **make sense** to me.

People do not make financial  
decisions purely with a **spreadsheet**.

We make them at the **dinner table**;  
places where personal **history**,  
**experience**, **ego**, **pride** & **narratives**.



**You - 0.000000001%**

**You think - 80%**

## 2. Luck & Risk

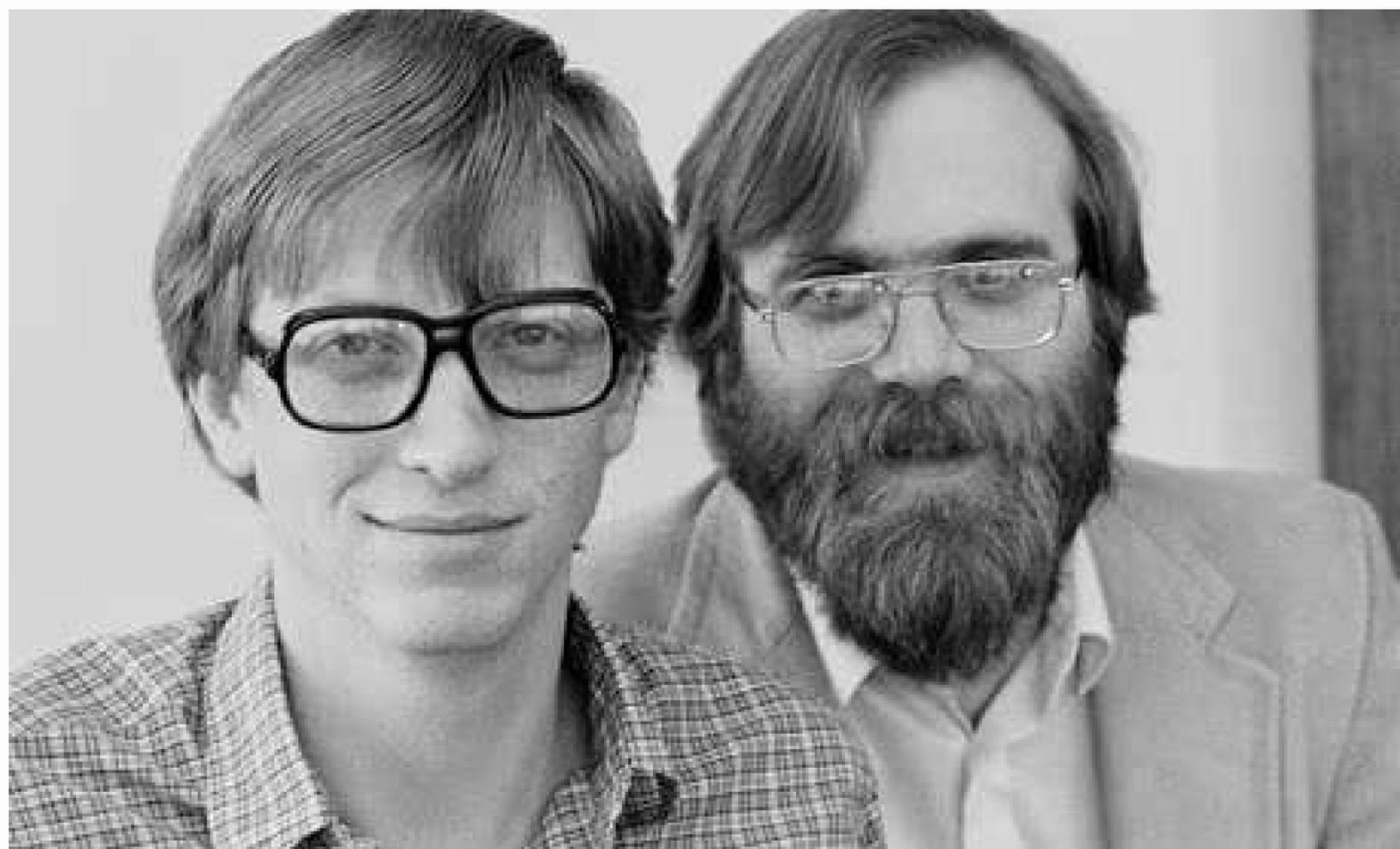


1968  
303 million high-schoolers  
18 million in US  
270k in Washington  
300 attended Lakeside school  
Lakeside had a computer  
1 in a million



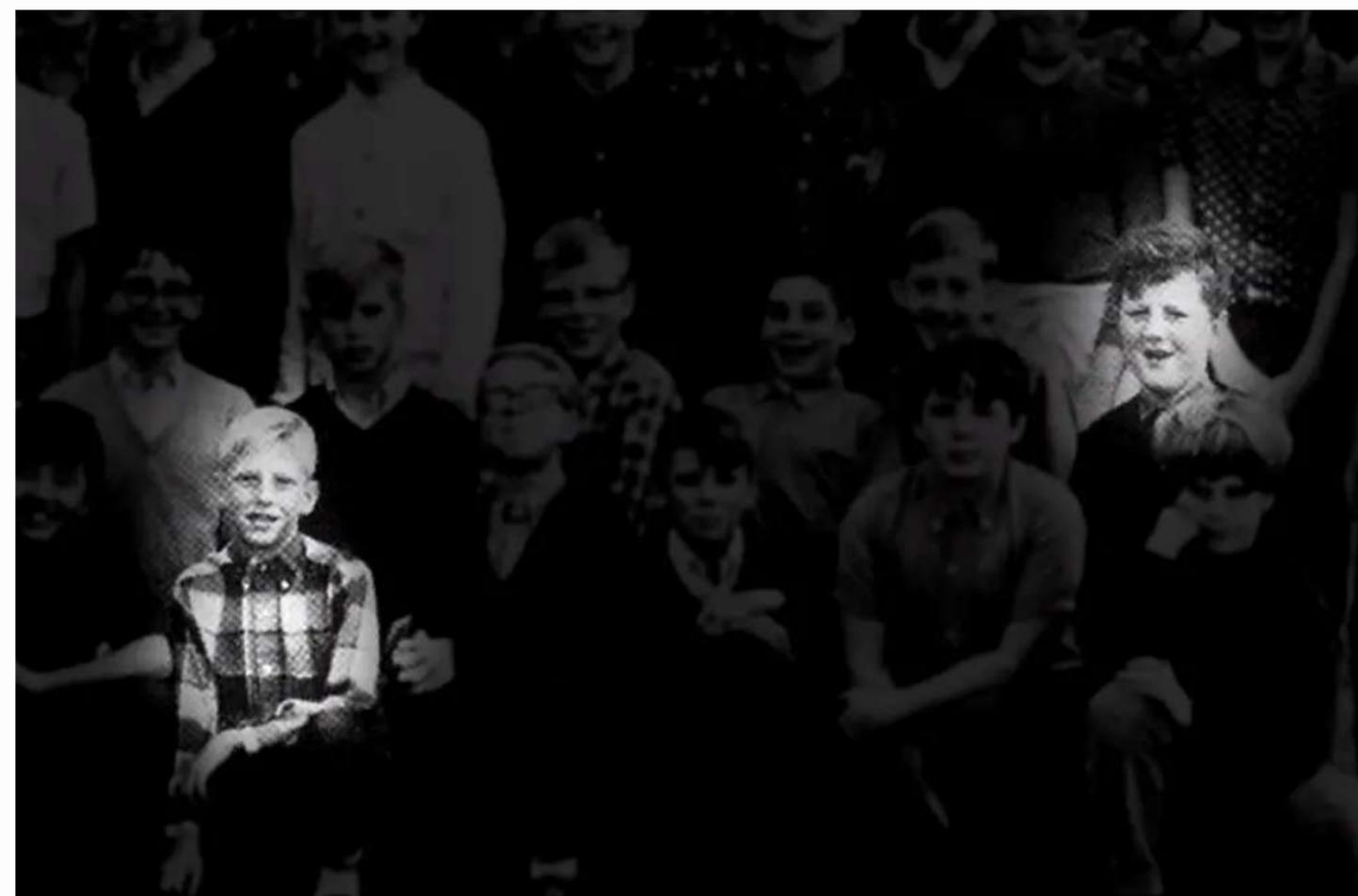
Bill Gates and Paul Allen

Luck



Bill Gates and Paul Allen

Risk



Bill Gates and Kent Evans

The world is too complex to allow  
**100% of your actions to**  
dictate **100% of your outcome.**



**Robert Shiller**

Nobel Prize in Economics

What do you want to know about  
investing that we can't know?

"The exact **role of luck** in successful  
outcomes."

# But how much?

**Others' success - Luck**

**Others' failures - Bad Decisions**

**Own success - Good Decisions**

**Own failures - Risk**

# 2 lessons

**Be careful who you praise and admire. Be careful who you look down upon and wish to avoid becoming.**

**Focus less on specific individuals and case studies and more on broad patterns.**

## 3. Never Enough

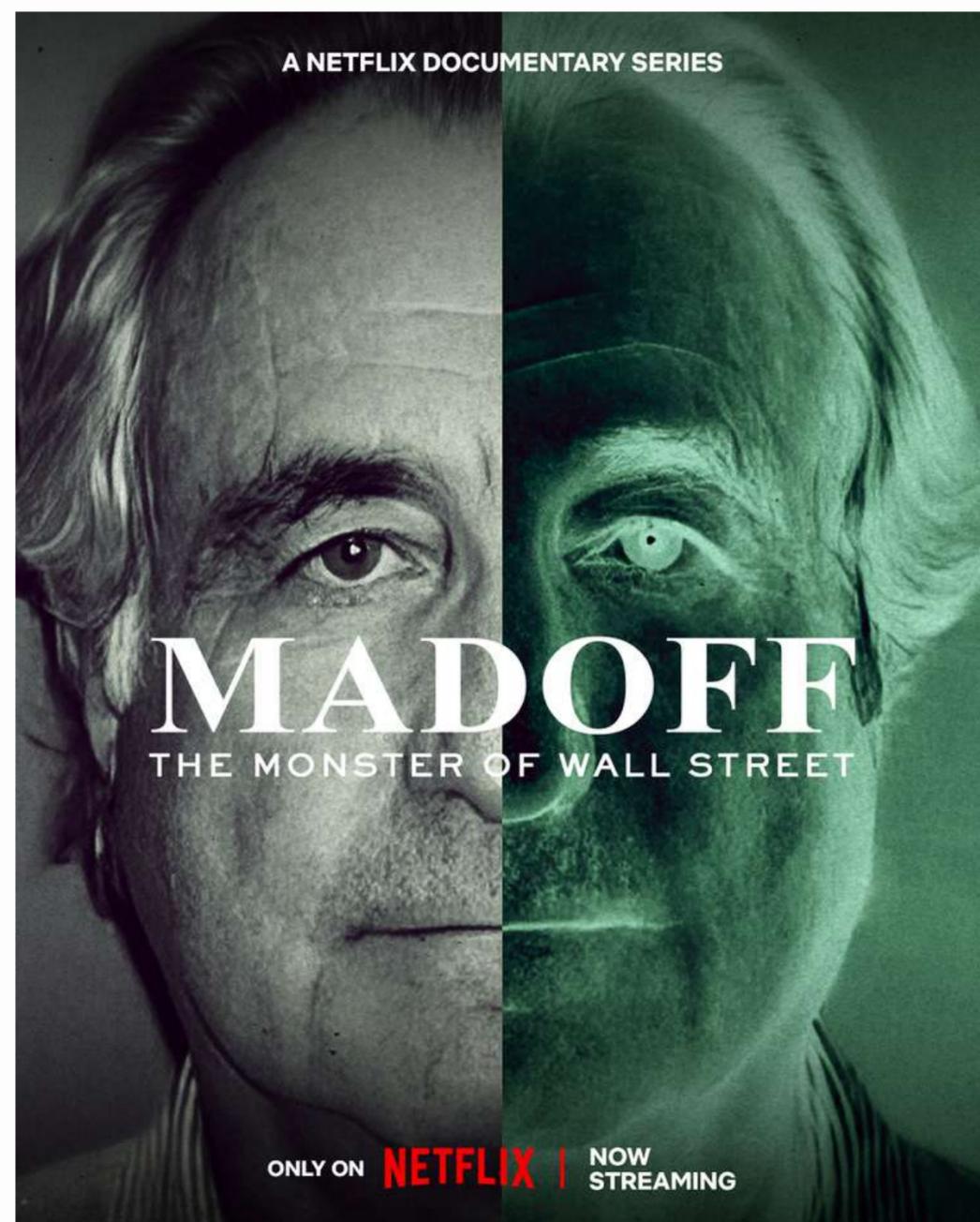


- Born in Kolkata & orphaned
- CEO of McKinsey in mid 40s
- Worked for UN and WEF
- Worked with Bill Gates
- 2008 – Worth \$ 100 million
- 5% – \$600/hour

# Insider Trading



**175,000 shares**



- The man who stole \$65 Billion
- Madoff Investment Securities processed 9% of NYX
- \$25 - \$50 million a year

There is no reason to  
risk **what you have** and **need** for  
**what you don't have** and **don't need**.

## **Get the goalpost to stop moving**

Desire rises faster than satisfaction.  
One step forward – 2 steps back

## **Social comparison**

The only way to win is not to fight

## **"Enough" is too little**

Knowing that wanting more will push  
you to the point of regret

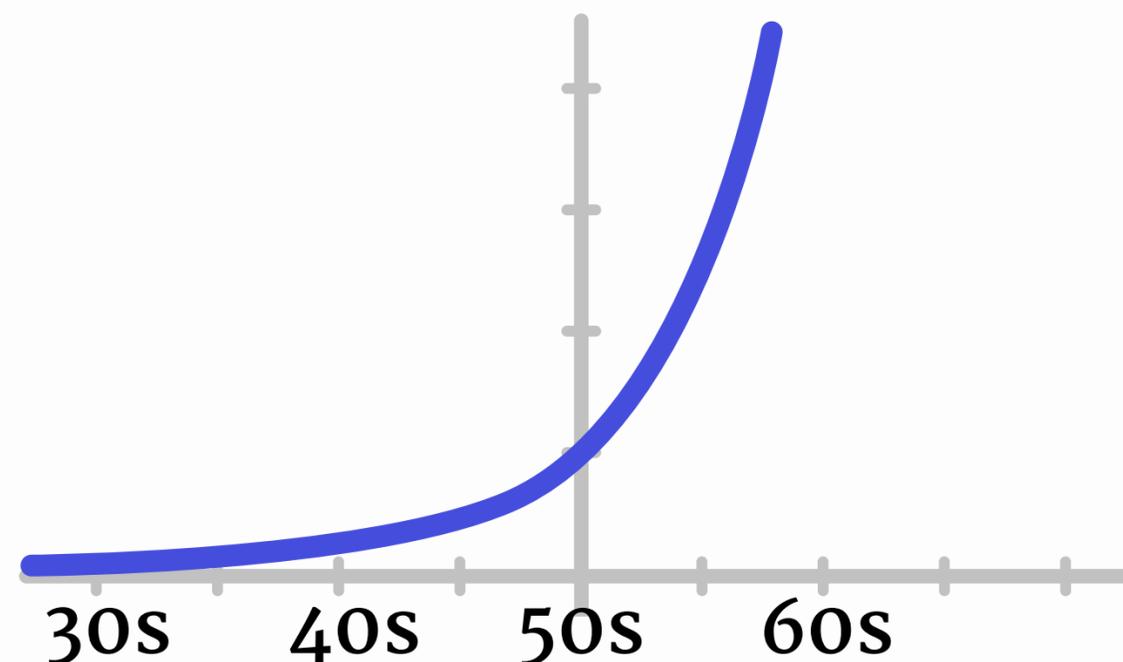
## **Some things are never worth risking**

Reputation, Freedom, Family,  
Happiness, Being loved

## 4. Confounding Compounding



1. 5 cycles of ice ages
2. Not mountain ranges
3. Not volcano eruptions
4. Not because of extremely cold winters
5. Moderately cool summers



- Started investing in 30s
- 2020 - \$84.5 billion
- 2000 books written about him
- \$84.2 billion after 50th BD
- \$81.5 billion after mid-60s



If the water lily **doubles** in number every day and the whole lake is filled on the **30th** day, on which day the lake was **half** filled?

## 5. Getting Wealthy vs Staying Wealthy



- October 1929
- Jesse Livermore made \$3 billion
- Germansky lost everything

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- October 1929
- Jesse Livermore made \$3 billion
- Germansky lost everything
- After 4 years, Livermore lost everything.

**Not big returns.**

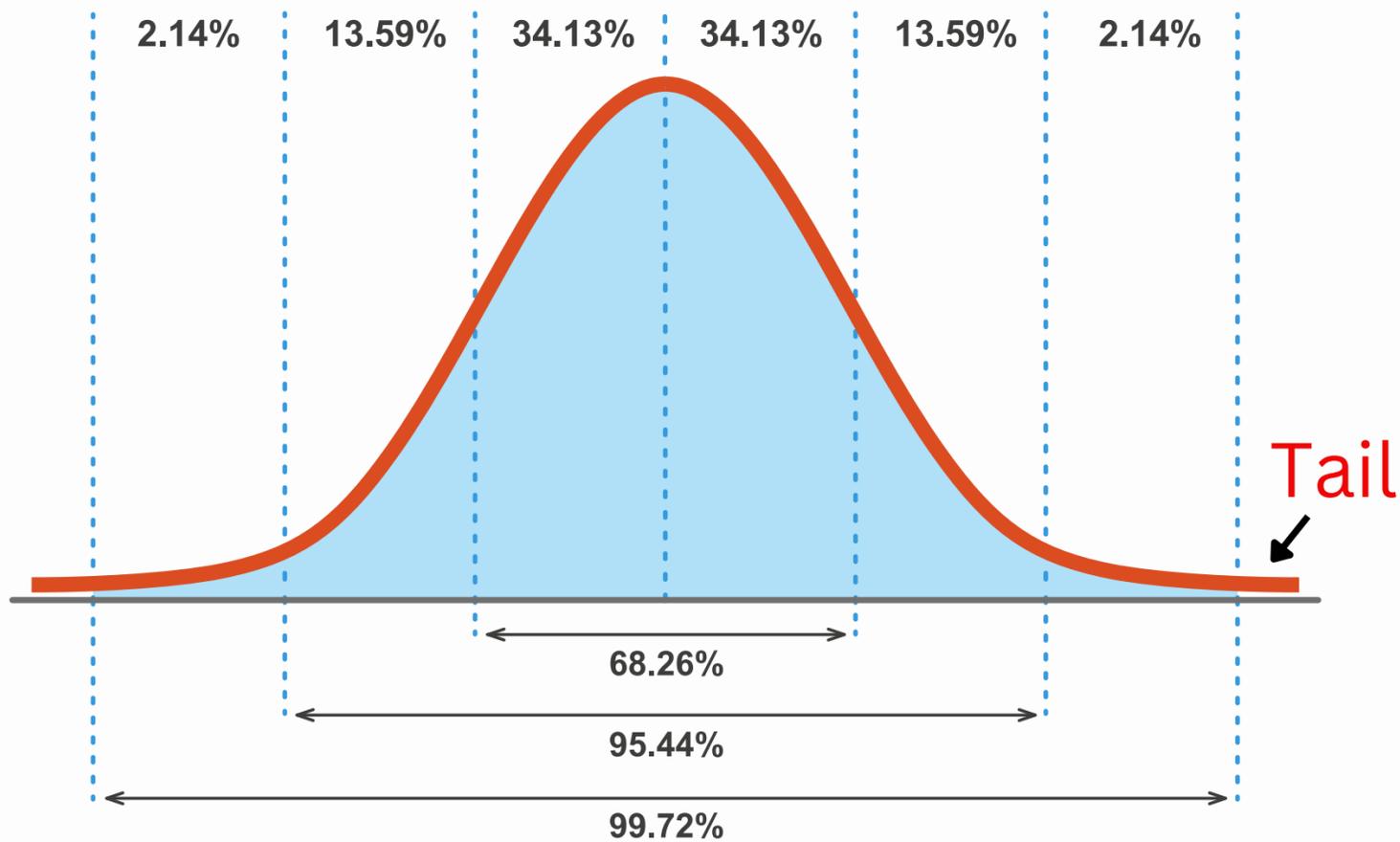
**To be unbreakable.  
Let compounding  
works**

**Plan.**

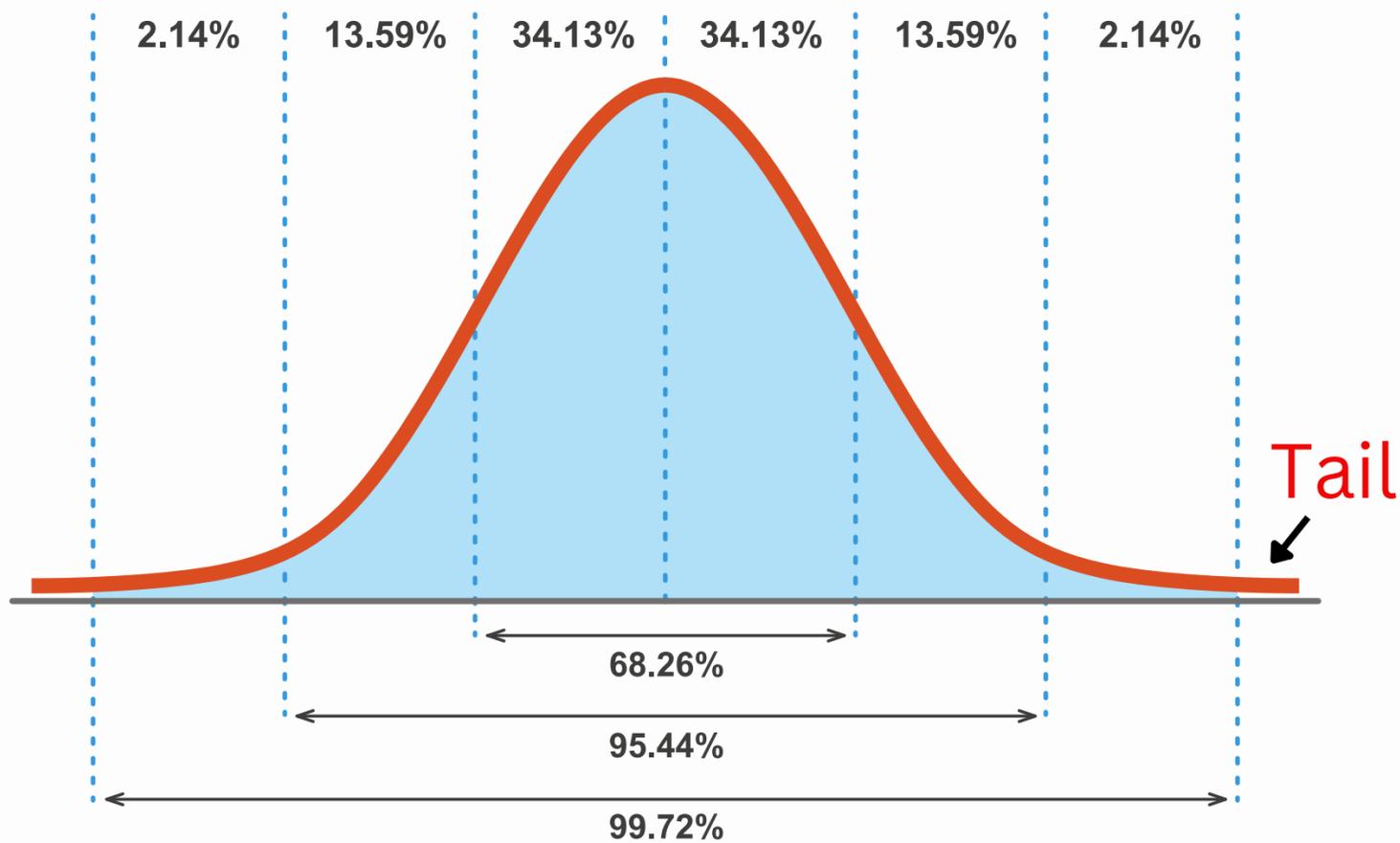
**Also, plan for plans  
not working.**

**Be optimistic.  
Be paranoid.**

## 6. Tails, You Win



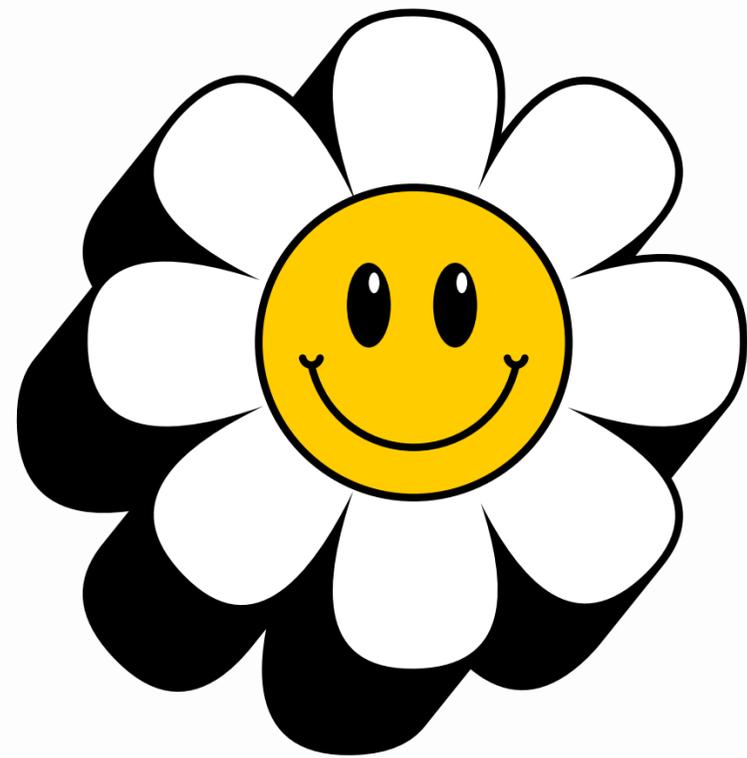
- Mid 30s
- Disney made over 400 cartoons
- Most of them lost money
- Snow White & 7 Dwarfs made \$8m
- Cleared all the debts



- 21000 investments
- 65% lost money
- 2.5% made 10X - 20X
- 1% made more than 20X
- 0.5% made 50X

**Tail drives everything.  
If we remove 10 stocks from 400 -  
500 stocks that Berkshire Hathaway,  
it would be an average company.**

## 7. Freedom



- Angus Campbell, 1981
- Having a strong sense of controlling one's life
- Doing something you love on a schedule you can't control can feel like the same as doing something you hate
- More money but less control will still make you feel poor

Controlling your **time** is the  
highest **dividend** money pays.

## 8. Man in the Car Paradox



- If I drive a nice car, I send a strong signal to others.
- "If I had that car, people would think I am cool."

Using money to be respected and admired by others may bring less of it than you imagine.

Try human values like humility, kindness, empathy & etc..

## 9. Wealth is What You Don't See



- Wealth is nice cars not purchased
- Wealth is the diamond ring not bought
- To look rich, you buy things
- But, wealth is what you don't see

## 10. Save Money



- We need to remind people to save money.
- Oil crisis of 1950s
- Can build wealth without a high income.
- No chance of building wealth without a high savings rate.

The value of wealth is relative to  
what you **need**,  
not what you want.

Past a certain level of income, what  
you need is just what sits below your  
**ego.**

You don't need a specific reason to  
**save.**

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*Aung Mye Thun*

INSIGHTS & INSPIRATIONS