

The
Psychology
of
Money
2

TIMELESS LESSONS ON WEALTH, GREED,
AND HAPPINESS

MORGAN HOUSEL

- 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
- All Together Now
- Confessions

11. Reasonable > Rational

Fever's role in fighting infection.
1 deg increase – slow down replication
rate by a factor of 200

Fevers are beneficial. Why do we fight
them?

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them?

Fevers hurt.
And people don't want hurt.

12. Surprise

History is the study of **change**.
It is not a map of the **future**.

We will miss the outlier events



19th & 20th Centuries - 15 Billion People

Adolf Hitler
Joseph Stalin
Mao Zedong
Gavrilo Princip
Thomas Edison
Bill Gates
Martin Luther King

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The Great Depression
World War 2
The Manhattan Project
Vaccines
September 11
The fall of the Soviet Union
Antibiotics

This is not a failure of *analysis*.
It is a failure of *imagination*.

This is not a failure of **analysis**.
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The correct lesson to learn from
surprises is that the world is
surprising.

13. Room for Error



- A game of odds – not certainties
- A good chance of being right but a decent chance of being wrong
- We don't know and cannot know exactly what is going to happen next

Battle of Stalingrad



- 30 of 100 tanks worked
- Germany lost the battle
- One of the most bloodiest

Room for error

Margin of safety

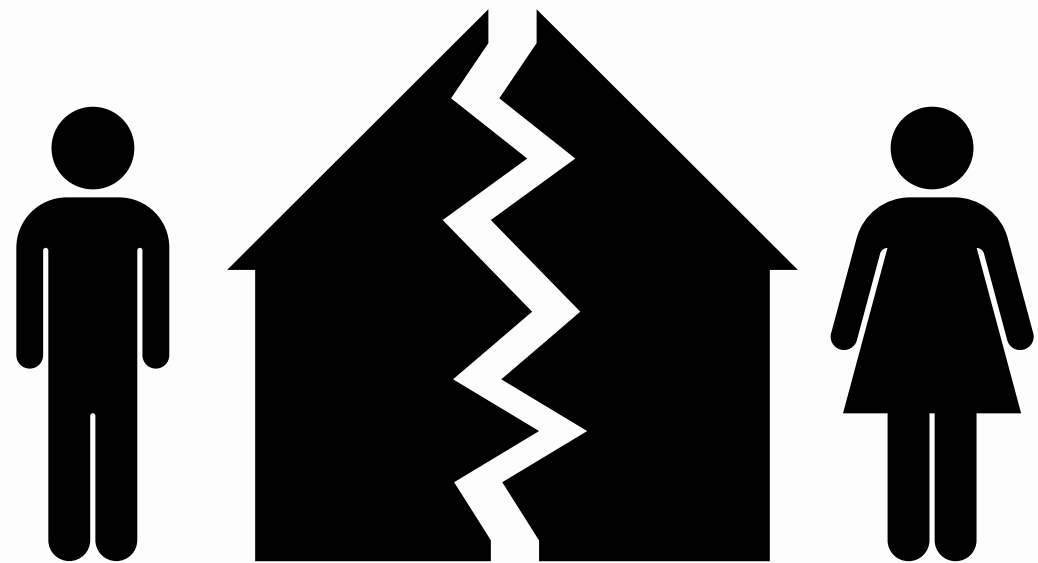
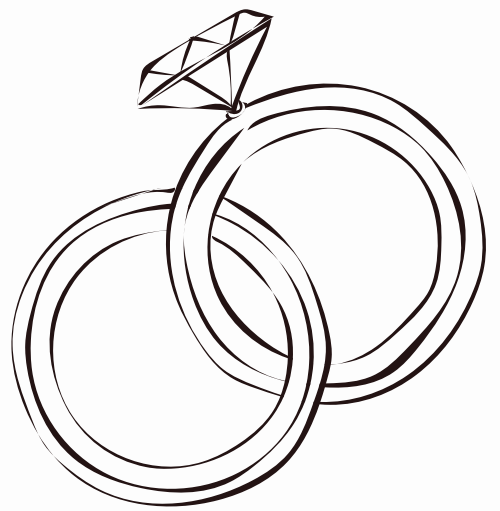
Redundancy

The **most important** part of your plan is planning on your plan **not going according to plan.**

14. You Will Change

Tattoo

Tattoo



We make **decisions** that will influence the lives of the people we're going to become.

When we become those people, we are not always **thrilled** with the decisions we made.

Tips

- **Go for moderation**
- **Accept and move on**

15. Nothing is Free



Fee



Fine

15. Nothing is Free



Fee

Not forced to pay



Fine

Forced to pay



- Market volatility is a fee
- Find the price and pay it

16. You & Me



How much should you pay?

- 30 Year - discounted cash flow
- 10 Year - potential over the decade
- 1 Year - current product sales cycle
- Day trader - any amount

Beware of taking financial advice
from people who are playing
different game than you are.

17. Seduction of Pessimisms



- 1940s (WW2 + Famine)
- Within 40-50 years
 - 15X Economy
 - 2X life expectancy
 - Unemployment is always below 6%
 - World leader in innovation
 - Own some of the most prized real estate in US
 - US will become closest ally

US is doomed

II Regions Underlying the 50 States

How rival colonizers spread across the continent and set patterns that influence modern politics and culture.

Midlands

Culturally pluralistic, founded by English Quakers. Ethnic and religious purity were never priorities; community-oriented and distrustful of government intervention.

Left Coast

New Englanders (by ship) and farmers, prospectors and fur traders from Appalachian Midwest (by wagon). Yankee utopianism meets individual self-expression and exploration.

Far West

Settlement largely controlled by corporations or government via deployment of railroads, dams, irrigation, mines; exploited as an internal colony, to the lasting resentment of its people.

Yankeeedom

Puritan legacy; perfect earthly society with social engineering, individual denial for common good; assimilate outsiders; vigorous government to thwart would-be tyrants.

New Netherland

Dutch-founded; retains traits of 17th-century Amsterdam: a global trading culture; materialistic; multicultural; committed to tolerance and freedom of inquiry and conscience.

Tidewater

17th-century gentry recreated semi-feudal manorial society of English countryside. Conservative; respect for authority and tradition, not equality or political participation.



El Norte

Borderlands of Spanish-American empire, far enough from Mexico City and Madrid to develop own characteristics: independent, self-sufficient, adaptable and work-centered.

Greater Appalachia

Settlers from war-ravaged Ulster, northern England, lowland Scotland. Deep commitment to personal sovereignty and individual liberty; intense suspicion of external authority.

New France

Folkways of French peasantry blended with traditions of Algonquin-speaking people of what is now Eastern Canada. Down-to-earth, egalitarian, consensus-driven.

Deep South

Established by slave lords from English Barbados as a West Indies-style slave society. Modeled on slave states of the ancient world — democracy was the privilege of the few. Fights for rollbacks of federal power, taxes on capital and the wealthy, and environmental, labor and consumer protections.

Spanish Caribbean

Legacy of the maritime component of Spain's New World empire with hub in Havana. Includes Puerto Rico and other territories in Caribbean basin.

*Two counties are shared between two cultures: Cook County, Ill. (Yankeeedom/Midlands) and Orleans Parish, La. (New France/Deep South). Alaska is divided among Left Coast, Far West and First Nation, a vast region of Arctic and sub-Arctic North America where indigenous peoples remained in effective control. Hawaii is part of Greater Polynesia. - By The New York Times | Source: Colin Woodard

- Dec 29th 2008
- The Wall Street Journal
- US will break into 6 pieces
- China, Mexico, EU, Japan & Canada

Pessimism just sounds **smarter** and
more **plausible** than optimism.

Why is pessimism more persuasive?

1

Captures
everyone's
attention

2

Disregard how
markets adapt

3

Progress is slow &
setbacks are
immediate

18. When You will believe anything



2007



2009

18. When You will believe anything



2007

- \$16 trillion poorer
- 10 million unemployed



2009

Story-driven world.
Narrative-driven world.

The more you **want** something to be true, the
more likely you will **believe** that story.

Everyone has an **incomplete** view of the world.
But we form a complete narrative to **fill** in the
gaps.

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2009

19. All Together Now

- Humility & Compassion
- Helps you sleep at night
- Increase your time horizon
- Still make a fortune even when many things go wrong
- Use the money to gain control over your time
- Be nicer and less flashy
- Save. Just save
- Define the cost of success and be ready to pay it
- Worship room for error
- Avoid the extreme ends of financial decisions
- Define the game you are playing
- Respect the mess

20. Confessions

Half of all US mutual fund portfolio managers **do not invest** a cent of their **own money** in their funds.

Save or invest
to reach the goal of independence
in a way that
maximizes sleeping well at night.

That is
the **mastery** of the
psychology of money.

No one is **crazy**.

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Aung Mye Thun

INSIGHTS & INSPIRATIONS