Morgan Housel. (2020). The Psychology of Money: Timeless lessons on wealth, greed, and happiness. Harriman House.

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Financial "how-to" and "self-help" books have long attempted to reduce complex economic and financial terminology to make language and guidance more accessible to an interested reader. A standard approach in the literature is to share specific linear financial steps a reader can pursue while infusing advice with rich narratives, "tell-alls," and axioms in primarily academic and relatable language. Morgan Housel's (2020) *The Psychology of Money: Timeless Lessons on Wealth, Greed, and Happiness* is no exception to this paradigm. It functions as a guide and cautionary tale to the layperson seeking financial advice, beginning, and more experienced individual investors who seek a straightforward approach to getting and staying financially secure. The text presents a practical framework for wealth accumulation and a series of 19 stories reflecting the experiences of well-known public figures in finance (think Warren Buffet), billionaire entrepreneurs (Walt Disney, Jeff Bezos), cautionary tales (Rajat Gupta, former CEO of McKinsey, Bernie Madoff), staying the course (Livermore and Germansky as 1920s Depression-era stock market operators; Rick Guerin as Buffet's contemporary whose desire for quick returns led to his downfall), and luck, quipping "you can be wrong half the time and still make a fortune" (p. 67). As an experienced award-winning expert on behavioral finance and former Wall Street Journal columnist, Housel's goal is to explain basic tenets of investing in an easily digestible format using storytelling and historical data.

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The major contributions of Housel's work, however, which distinguishes this text from others is two-fold: first, his incorporation of psychological principles including emotional reasoning as reassurance to his reader that by following some basic tenets around getting and staying wealthy, one becomes a more confident, happier investor and person. Second, though he appreciates the import of historical, empirically-driven investor data in propelling investment decisions, he recognizes its limitations and categorizes these as "imperfect" and ones that "can make even smart people nervous, greedy, and paranoid" (p. 111). His interesting observational anecdotes combined with clear financial guidelines allows one to strengthen their investing skills by trusting their instincts over the long term. Housel's investment advice mirrors the contemporary global economic environment which the International Monetary Fund[3] recently categorized as "steady but slow", thusly serving as an empirically-grounded, realistic, and inspirational work well-worth further discussion.

Housel begins his Introduction with an explanation that the text is intended to serve as an expansion of a 2018 report on investment behaviors driven by individual "flaws, biases, and causes" (p. 12) around critical yet "often counterintuitive features of the psychology of money" (p. 13). The premise of the chapter is that although individuals are often taught to approach investing in rational economic terms with set laws, rules, and structures to solicit action, money and how individuals perceive and use it should also include psychological irrationality: "emotions and nuance" (p. 13). Decades of scholarly analysis through financial theorems and models had yet to explain historical economic patterns and conditions that led to the 1920s Depression or 2008 financial crisis. Housel contends that using precepts of both psychology and history more effectively encapsulate how individuals behave around money: "...you don't need to study interest rates; you need to study the history of greed, insecurity, and optimism...you need to think about the agony of looking at your family and wondering if your investments are imperiling their future" (p. 13). And so, Housel sets the stage for readers to situate themselves in what communication scholar Walter Fisher (1985) calls the narrative paradigm, whereby the most effective communication occurs via storytelling designed to counteract a world of rules, laws, and choices predicated solely on rational thought. In this way, Housel concurrently seeks to distribute financial power and knowledge to the masses through accessible, transparent communication which, Foucalt (1975) suggested, is controlled by hierarchical powers. "It's not a long book. You're welcome." are perhaps two of the most compelling and inviting sentences to greet a reader likely anxious about their finances and investments from the start. Housel's low-key yet intelligent tone provides the very psychological comfort a cautious reader may need.

Chapter 1 continues in this vein, with a reassurance from the author that one's individual perspectives on money and investing are heavily influenced by their situational context: their past experiences, historical events that define the eras

3 https://www.imf.org/en/Publications/WEO/Issues/2024/04/16/world-economic-outlook-april-2024

in which they grew up, cognitive biases, and ideological conditioning from others. This forms the basis for divergent opinions regarding investment strategies, with "equally smart people" disagreeing "about how and why recessions happen, how and why you should invest your money, what you should prioritize, how much risk you should take, and so on" (p. 14). Subsequently, an individual's comprehension of economic events, appetite for risk, and confidence vary greatly and heavily dictate subsequent behaviors, a precept Housel explains by alluding to academic research (50-year study of consumer behavior around money) and examples of stock performance and inflationary impact using hypothetical readers born in the 1960s (high inflation), 1970s (S&P boon), and 1990s (negligible inflation) to illustrate the impact of situational specificity. The second part of Chapter 1 provides a second explanation for investor perception: the study of money, savings, spending, and wealth accumulation is incredibly new. U.S Social Security was not created until the 1940s; the standard retirement program for 35% of Americans, the 401K (U.S. Census 2021) did not debut until 1978, and index funds are less than 50 years old (p. 24). Our expectations around monetary comprehension and performance, argues Housel, are grossly maladjusted given this minimal timeframe, and individual behavior around money is therefore "not crazy": "we all make decisions based on our own unique experiences that seem to make sense to us in a given moment" (p. 25). In Chapter 12, Housel openly acknowledges the limitations of history as the primary barometer by which to assess investment decisions and reiterates the importance of being attention to major milestone events as surprise "outliers" that most impact market conditions as unprecedented or unexpected (Hitler's rise to power, dot-com bubble, September 11th to name a select few). For academics exploring whether Housel's work has merit as a scholarly tome, this grounding in historical context combined with real-world examples and an alternate framing as to how we typically view investor data is particularly relevant in explaining the factors that drive individual monetary decision-making.

In Chapter 2, Housel explores the twin ideas of luck and risk, introducing the concepts through the premise that these intertwined phenomenon guide life outcomes as counterparts to individual actions (p. 29). External factors such as timing, who know you, when you are born, where you live, your access to information, market conditions, can and do combine to shape the results of one's conscientious efforts. Although rarely credited for driving financial success due to its capricious and arbitrary nature, luck is prevalent in success which Housel demonstrates through several stories and examples (Bill Gates and Kent Evans' story is particularly poignant). Failure from risk-taking is likewise a reality that Housel contends should be embraced rather than feared, a concept that is not new (think Jeff Bezos, John Maxwell), but Housel counsels against random and reckless risk-taking by suggesting that one not "assume 100% of outcomes can be attributed to effort and decisions" (p. 34). By focusing on broader investment patterns over a longer period, individuals can survive market dips as a natural part of the wealth-accumulation process, avoid self-blame and criticism that might provoke unreasonable financial behaviors (trying to game the system or panicking at stock market fluctuations), and “leave room for understanding when judging failures” (p. 36). He elaborates on this idea in Chapter 14 in discussion around optimal parameters for long-term planning: to avoid “extreme ends of financial planning” (p. 138), which is distilled down to the idea that nothing extreme is worth the risk for ultimate financial gain (i.e. workaholism), and to become acclimated to the idea that we, as humans, will change our minds over time and therefore must adjust our investment planning accordingly. We must acclimate to the concept of volatility (Chapter 13, p. 127) which he uses to reiterate the importance of living within “the margin of safety (p. 127) whereby an investor can err, have market downturns or negative returns yet still succeed financially over a longer period. Once again, these ideas are not the original purview of Housel, but he frames these concepts in a unique way by coupling them with authentic and relatable data and a heavy reliance on stories, which he notes are “more compelling than statistics” (p. 169).

Housel’s next chapter further highlights the psychological idea of “have and have-nots” through anecdotes about financial fraudsters Rajat Gupta and Bernie Madoff, making note that while risk is important, family, loved ones, reputation, and happiness are invaluable and one must learn the limits of what is enough to avoid risking these at all costs. Chapters 4 through 6 then take the reader through a spellbinding number of facts, data on investing, and narratives chronicling the lives of the wealthy and those whose fortunes deteriorated. These lay the foundation for some of the most critical discourse in the text: that of compound investing over a long-term horizon. Earning “pretty good returns” (p. 51), regardless of amount (of course more is better) throughout an extended period is favored over high returns that tend to be intermittent and unsustainable. Housel introduces a paradoxical and surprising concept: getting wealthy requires reasonable risk-taking utilizing a “margin of safety” and a keen survival instinct that most individuals have, whereas staying wealthy is predicated on being frugal and “paranoid” that at any moment in time, one might lose everything. Compounding interest is the crux of financial success, Housel argues, and those like Warren Buffet who cautiously but continuously engage the market while simultaneously being willing to give an asset years or decades to grow will succeed. Planning is key, yet one must incorporate the fact of setbacks or monetary “failures” and room for error as an integral part of the plan, a point he again emphasizes in Chapter 13 with a lively discussion of card-counting in Las Vegas casinos.

Likewise, while sensible optimism is important, paranoia, which Housel reframes as having active foresight for what “might” happen and engaging in behaviors that motivate one to take reasonable risks, is even more necessary to keep one responsive and reasonably reactive to external forces. Using 170 years of U.S. economic performance indicators and countervailing milestone events (wars, recessions, pandemics), coupled with industry-specific anecdotes from Disney, Apple, Google, art collector Hans Berggruen, to introduce the concept of economic “tails” or “the farthest end of the distribution outcome” of financial results (p. 66). This is meant to provide confidence to the reader: once one acknowledges “tails drive everything” (p. 72), it is palatable to understand that breakage, failure, disasters, blips – and recovery – are a normal and anticipated part of the longer-term investment process. By normalizing risks, introducing paranoia, advocating sensible optimism, and level-setting outcome expectations, Housel provides readers with a cognitive and emotion framework to survive the financial markets.

The subsequent three chapters again return to the idea of material expectations and instant gratification, by contrasting the status of being "rich" versus being "wealthy." Housel argues the term 'rich" applies to a finite moment in time, whereas wealthy connotes a longer-term investment outcome of a decision-to-spend that can be deferred (p. 90). In an immediate gratification-oriented society, this statement might provoke questions as to why one should defer instant pleasure. In truth, Housel challenges, the desire for wealth grounds itself in the concepts of freedom and control: "Money's greatest intrinsic value…is the ability to give you control over your time. To obtain, bit by bit, a level of independence and autonomy that comes from unspent assets that give you greater control over what you can do and when you can do it." (p. 78). For some, the author remarks, this freedom is represented by early retirement; for others, it is the ability to pursue a lesser-paying but more passion-filled career; and for others, the ability to have a financial security blanket during health or personal crises. "You realize that aligning money towards a life that you want, with who you want, where you want, for as long as you want, has incredible return" (p. 80). Ultimately, Housel is using what money can afford not in material wealth but rather as a symbolic construct for freedom through more time, and happiness.

Housel amplifies this argument in the next several chapters, making a compelling argument that in a hyper-connected, globalized world that is becoming more reliant on digital mechanisms (artificial intelligence, technology evolution), intelligence or "being smart" is no longer a distinguishing feature or skill in setting one apart. Rather, flexibility – the idea that one can command their own time – will evolve as the most negotiable and desirable currency. He leverages this idea of flexibility as predicated on the amount of savings and investments one accrues over the long term, and pivots into explicating the concept of "reasonable rationality" (p.101). Citing 1990 Nobel Prize Winner in economic sciences Harry Markowitz, he notes, "Academic finance is devoted to finding the mathematically optimal investment strategies. My own theory is that, in the real world, people do not want the mathematically optimal strategy. They want the strategy that maximizes for how well they sleep at night." (p. 104). In support of this, Housel suggests that pathos (emotion) as a social component, and those external, sometimes emotional but illogical factors we consider when investing (our family, neighbors, competitors), must have its place in decision-making that is equal to or greater than logic. This is what encourages reasonable rationality: the blend of pathos and logos.

Volatility lives in the "gray space" that Housel contends many investors are very unfamiliar or comfortable with, in which market conditions may rapidly decline and negatively impact investment portfolios. Yet taking concrete steps to bypass, avoid, or reroute these external conditions – by hedging bets, selling off stocks prior to a pending recession, or buying before a boom – or doing what GE did during the reign of CEO Jack Welch and pulling forward future quarter earnings to better reflect current earnings and performance – ultimately destroys "the illusion of not having to pay the price" (p. 147). Housel does not chide, criticize, or devalue investor decisions in these instances; he instead offers the reader an opportunity to ask and respond to questions as to what motivational factors might contribute to their discomfort – and then to confront that discomfort directly to benefit from improved investing practices.

Perhaps one of the most helpful chapters in Housel's work are 16 through 20. Housel shares his own mission statement written twenty years prior with readers, emphasizing that despite his passive investment approach, he remains sensibly optimistic "in the world's ability to generate real economic growth" (p. 156) and that the subsequent decades will result in accrued rates of return to his investment portfolio. Rather than decrying pessimism as solely "a focus on risks and potential failures" (p. 167), which often grabs more attention than optimism, tends to overemphasize short-term setbacks and overlooks long-term progress. Optimism, on the other hand, requires faith in future outcomes despite temporary challenges. Much like volatility, it is not a concept to be avoided but rather embraced by investors. Finally, Housel concludes the text by summarizing his most critical concepts around savings, wealth, materialism, time horizons and engaging in compounding interest, reiterating that one can be a successful investor by being successful in market conditions only 50% of the time, errors and failures are to be embraced and not feared, and sharing his family's perceptions of investment. These concluding chapters reinforce the idea that, to succeed in accruing investment profit, an investor should employ psychological principles

Were one to pinpoint the inherent challenges with Housel's work, it would be important to note that several chapters are a bit repetitive and do not necessarily add heft to previous chapters, particularly on the relevance of history, and on planning and expecting errors or failures. There is also some potential confusion between operationalizing financial behavior using the long tail approach (live in the possibility of errors) versus planning around significant historical milestone events that are unprecedented. Finally, a recommendation for Housel would be to employ terminology and concepts by name from the field of psychology to further explain and enhance why investors and organizations behave in certain ways - for example, motivation, attribution error, or cognitive bias (Tversky & Kahneman, 1972). This would concretize the many compelling points of alignment between behaviors around money and psychological drivers of the same. Overall, Housel's book is a must-read compendium of sage financial advice supported by substantive empirical data and engaging but relevant narratives. It is well-suited for beginning investors, those who are perhaps more advanced investors yet gravitate towards a fresh nuanced "newer" understanding of the market and effective investment tenets, and academics who are seeking an accessible tome to share with university students. Never again will discussing investment decisions be considered a dry, perfunctory, and formulaic effort.

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