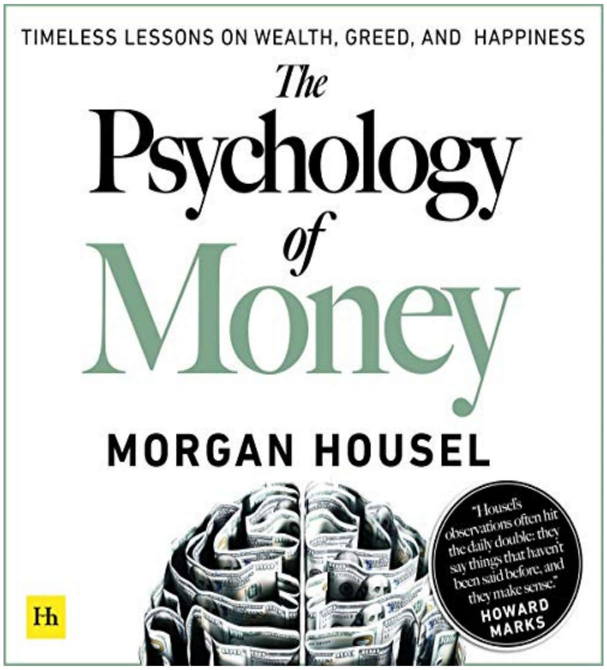

LCBS-2022-08-01-BookReview-ThePsychologyOfMoney-MorganHousel.pdf

The Psychology of Money – Morgan Housel

DISCLAIMER - I am not a Financial Advisor and do not work for any Brokerage Firm. The opinions given are of my own and are not to be used as professional advice. These are my findings and can hopefully help you to make informed decisions on investing. Consult a Broker or Lawyer before making any investment.

The Psychology of Money by Morgan Housel is one of the better books I have read this year. It is one of the top-selling books on Amazon, meaning it is read by a large audience. The book talks a lot about investments but goes a lot deeper into why people feel the way they do about money.

When we were born and how the stock market was doing when we turned 21 has a lot to do about whether we will be avid stock buyers or not. I had no idea that we are so prone to think that the stock market moves as it did when we turned 21. When you turned 21, if the market was flourishing, then you may be a big investor. Not so likely if you came in during the time of 2007 to 2008 in the housing downturn.

What I learned from the Psychology of Money:

Mr. Housel begins the book by giving stories about different people and how money affected them. I will only list one for brevity. Ronald Read was a man that was a low key as you could find. He fixed cars at a gas station for 25 years and swept floors at a J C Penney for 17 years. He bought a 2 bedroom house for $12,000 at age 38 and lived there for the rest of his wife. He was widowed at age 50 and never remarried. His favorite hobby was chopping firewood.

Read died in 2014 at the age of 92. That was when his story made international headlines. 2,813,503 Americans died in 2014. Fewer than 4,000 of them had a net worth of over $8 Million when they passed away. Ronald Read was one of them. This former janitor left $2 million to his stepkids and more than $6 million to the local hospital and library.

How did he acquire all this money? He saved what he could and purchased blue chip stocks. Then he waited for them to grow in just a few decades to $8 million. Not complicated, but very consistent. He had a plan and stuck with it and didn't waste money.

Each of us have experiences that cause us to have different perspectives on money. The reality is that your personal experience with money makeup maybe less than .000001% of what has happened in the world, but you may think you know 80% of how the world works. We must learn that we know very, very little about money to be successful in investing.

Mr. Housel warns us to be careful who we praise or admire. Be careful also who you look down on and wish to avoid. To be successful is not given to us. It has to be earned. Not all success can be attributed to hard work nor can poverty be due to laziness. Time and circumstance happen to all.

One of the hardest financial skills is getting the goal posts to stop moving. Things change and yesterday's rules may not work today. Never stop reading and learning. When we learn “Enough” is enough, we are good. If not, this insatiable appetite for more can push you to the point of regret.

Don't get too attached to anything. Why does it matter? There are things worth fighting for in life.

Learn that the following things are invaluable:

- Reputation is invaluable
- Freedom and independence are invaluable.
- Family and friends are invaluable.
- Being loved by those who you want to love you is invaluable.
- Happiness is invaluable.

Your best shot at keeping all of these is to know when to stop taking risks that might harm them. Know when you have enough.

Planning is important and the most important part of every plan is to plan on the plan not going according to plan. A plan is only useful if it can survive reality. The future is filled with many unknowns. Be sure to allow room for error in your plans as there will be mistakes along the way.

Some things to consider in planning. In the last 170 years:

1. The Stock market fell more than 10% from a recent high 102 times.
2. Stocks lost a third of their value 12 times. (or more)..
3. Annual inflation exceeded 7% in 20 separate years.
4. The words "Economic Pessimism" appeared in the newspaper at least 29,000 times according to Google.
5. The standard of living has increased 20-fold over these years.

Seeing things clearly without pessimism or optimism is hard to do. But we need to strive for facts. Peter Lynch, the great investor who managed the Magellan fund at Fidelity said "If you are terrific in business, you're right six times out of ten." Consider where you stand in making business decisions.

The highest form of wealth is the ability to wake up every morning and say "I can do whatever I want today". People want to be wealthier to make them happier. However, happiness is a complicated subject meaning different things to different people. The one common denominator in most people is that they want "to control their lives." The ability to do what you want, when you want, with who you want, for as long as you want is priceless.   This is the highest dividend that money pays.

John D. Rockefeller had money and many possessions. His feeling was that “controlling your time” is the highest dividend money pays.

One of the greatest authors on investments was Benjamin Graham who authored “The Intelligent Investor”. He gave very practical advice on how to make smart investing decisions.   Mr. Housel says that when you apply his formulas today, few of them work.   Benjamin Graham’s main focus was buying stocks for less then their net working assets which sounds great, but very few trade that low today.

Before his death, Mr. Graham was asked about whether his plan still worked.   He stated: “In general, no. I am no longer an advocate of elaborate techniques of security analysis in order to find super value opportunities. 40 years ago when our book was published it was a rewarding activity. But the situation has changed a great deal since then.”

So as Robert Kiyosaki said in “Rich Dad, Poor Dad”, you had best keep reading and learning. What used to work in the past may not be the same in today’s world.

John Templeton, the great mutual fund creator, said “The four most dangerous words in investing are: ‘It’s different this time.’ “

Mr. Housel spent a whole chapter discussing how we must make room for error in our decisions. Not everything we think will work does.   Don’t assume the future will be the same as the past. The future may be 1/3 worse than the past few years.   A 1/3 buffer is enough to allow most of us to sleep well at night.

Long-term financial planning is essential. But things change—both the world around you and your own goals and desires.   We don’t know what the future holds, so we must plan for unexpected events.   Market returns are never free and never will be. They demand you pay a price, like any other product.   The volatility/uncertainty fee- the price of returns- is he cost of admission to get returns greater than low-fee investments like cash and bonds. You must believe the “feel” is worth it to be successful and come up

with a plan that works. There is no guarantee. Sometimes it even rains at Disneyland.

Mr. Housel urges us to go out of our way to find humility when things are going right and forgiveness and compassion when they go wrong. It is never as good or bad as it looks. The world is big and complex. Luck and risk are both real and hard to identify. Become OK with a lot of things going wrong. You can be wrong half the time and still make a fortune. You must define the cost of success and be ready to pay it.

Some things to consider:

- **Allow Room for error.**
- **Avoid the extreme ends of financial decisions. (Goals/desires change)**
- **Like the risk as it pays off over time if made with good planning.**
- **Define your plan carefully. Be sure advice comes from people playing the same game.**
- **Respect the Mess. We can disagree because not everyone views things the same.**

Mr. Housel closes the book by discussing his personal ways of doing things. He keeps 20% or more of his assets in cash. He says this is indefensible on paper, but it is just what works for him. He does it because cash is the oxygen of independence, and more importantly, we never want to be forced to sell the stocks we own. But everything I've learned about personal finance tells me that everyone—without exception—will eventually face a huge expense they did not expect—and they don't plan for these expense as they were not expected.

I recommend reading this book. It is a bit more theoretical than exact investment advice, but I believe most of it is sound.

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