THE PSYCHOLOGY OF MONEY: TIMELESS LESSONS ON WEALTH, GREED, AND HAPPINESS

by Morgan Housel

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ABOUT:

This is a comprehensive summary of the book The Psychology of Money: Timeless Lessons on Wealth, Greed, and Happiness by Morgan Housel. Covering the key ideas and proposing practical ways for achieving what's mentioned in the text. Written by book fanatic and online librarian Ivaylo Durmonski. (Printable available only for supporting members.)

HIGHLIGHTS:

- Adjusting how you behave with money on a daily basis is far more important than adjusting your investment strategy.
- Don't strive only on becoming wealthy. Learn also how to stay wealthy.
- Everything that can break will break. Create plans that will help you when your plans are not going according to plan.

ABSTRACT:

Managing your money is not easy. But here's how the author of the book thinks you should approach cash: It's not about what you know about money, it's about how you behave with money. Financial freedom is not about learning everything related to the stock market. It's about patience and persistence. In this book, Morgan Housel walks us through the major behavior patterns we should adopt if we want to become good with our cash flow so we can finally develop financial literacy.

THE CORE IDEA:

Our behavior patterns prevent us from having good financial health. We accumulate debt and fail to meet our investment goals not because we don't know what to do, but because we're too greedy or deeply involved in social games where we compare ourselves to the people around us. To become better and smarter with your money, you don't need to study new investment strategies. You need to examine how you behave with your money and make adjustments.

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KEY LESSONS FROM THE PSYCHOLOGY OF MONEY:

- Lesson #1: Don't Mimic Specific Successful Individuals. Adopt Broad Patterns
- Lesson #2: Earning Enough is Better From Constantly Striving For More
- Lesson #3: Staying Wealthy Is Different From Getting Wealthy
- Lesson #4: Have A Plan On Your Plan Not Going According To Plan
- Lesson #5: Better Discipline On How You Manage Your Cash

LESSON #1:

DON'T MIMIC SPECIFIC SUCCESSFUL INDIVIDUALS. ADOPT BROAD PATTERNS

If you are not sure how to manage your money, you'll do what everyone else in the world is doing: You'll check how the wealthiest people are using their cash. You'll read the big covers. Check the famous sites. Digest the stories covered by the news.

Sadly, this is not a very good strategy for two main reasons:

Firstly, different people have different backgrounds. If you were raised in a middle-income family, you will have a very different approach to the way you handle your money than someone who grew up in a mansion, for example. For you, spending $1000 on a seminar might seem like a crazy idea. For others, though, that's a lifestyle.

Secondly, we rarely consider the role luck plays in other people's lives. As the author writes, "The line between bold and reckless can be thin." Sometimes, turning your small company into a big corporation can be caused by events you can't predict nor measure. Or in other words, you simply got lucky.

How do these two points translate to us?

Don't obsess over super successful people and don't try to mimic their every move. In most situations, their fame and "greatness" is pure luck – something you can't emulate – or something caused by their social circle – something that depends on many things. Focus on the common behavior patterns that are present in most people. Things like patience and self-control.

Or put differently, not all success is due to hard work. Also, failure is not always related to laziness. There are a lot of factors involved. A lot of moving pieces that are hard to measure.

Look at different people. Observe situations where individuals and companies did good and adopt the repeatable patterns. Usually, these are patience, avoiding reckless behavior, and focusing on the long-term goal.

"When things are going extremely well, realize it's not as good as you think. You are not invincible, and if you acknowledge that luck brought you success then you have to believe in luck's cousin, risk, which can turn your story around just as quickly." Morgan Housel

LESSON #2:

EARNING ENOUGH IS BETTER FROM CONSTANTLY STRIVING FOR MORE

The hardest, yet most important financial skill you'd want to adopt is a sense of enough.

It sounds unproductive, yes. After all, we live in a world where doubling, tripling, or even 10xing your cash seems like the right thing to do. However, the constant pursuit for more will either make you risk everything you currently have or make you emotionally unstable. Both things that will, at some point, make you act recklessly with your cash.

As the author writes, "Modern capitalism is a pro at two things: generating wealth and generating envy. Perhaps they go hand in hand; wanting to surpass your peers can be the fuel of hard work. But life isn't any fun without a sense of enough. Happiness, as it's said, is just results minus expectations."

The higher you rise in the social hierarchy. The bigger your goals will become. And sadly, the more you will want to present yourself as better than the people surrounding you. For example, you will start thinking about purchasing a bigger house or getting a more expensive car. Or in other words, you will want to signal to others that you are, too, rich.

However, trying to keep up with other people's wealth is a game you will never win. There will be always someone who has more than you do. Someone whose presence will make you feel like you're earning pennies.

So how do you approach this?

Let's look at what a Las Vegas dealer replied to the question "How to earn most in Las Vegas?". He said: "The only way to win in a Las Vegas casino is to exit as soon as you enter."

Similarly, the only way you can win the game of "who's the richest person in the room?" is to simply ensure that you don't play the game.

This is hard to do in practice. Eventually, your mind will make associations, whether you want it or not. That's the way we think. After all, we are social animals. Survival-addict creatures. We want to ensure that we have a stable present and a blossoming future. We want to matter. But more importantly, we want others to view us as people who matter. And in the 21st century, the number of your possessions is a direct representation of where you stand in the social hierarchy. If you have more, you are more. Or at least that's what we are told.

Contrary to popular belief, more money and more things will never make you happier. They will simply make you desire even more things and even more riches.

The two things you'd want to focus on are freedom and independence. Both dismiss the idea that more should be pursued.

"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. And your best shot at keeping these things is knowing when it's time to stop taking risks that might harm them. Knowing when you have enough." Morgan Housel

LESSON #3:

STAYING WEALTHY IS DIFFERENT FROM GETTING WEALTHY

How to get rich is a widely discussed topic. We all know that.

But Morgan Housel notes that staying wealthy is far more important. Especially these days, where you have the chance to spend your money on millions of things.

Eventually, you will earn some skills and get a job. Or, if you're the adventurous type, you'll start investing and/or start a business and earn extra money by offering your services.

There are numerous ways to earn income. Yes, some jobs and some industries will make you more money than others, but that's not the important part here.

Being wealthy is not how much you earn. It's how much you keep. And furthermore, what you do with what you keep.

If you're making $100,000 a year, by definition, you're making more than the average person. However, if most of your income is spent on things, traveling, and if there is little left for the rainy days, you'll eventually have money problems.

That's why the author states: "Getting money is one thing. Keeping it is another."

Usually, people who are good at getting money are not that good at keeping them. The reason? The two things require a completely different set of thought processes.

Getting money is about being bold. Taking risks. Hustling. Focusing on short-term results.

Conversely, keeping money is about playing it safe. Persistence. Humility. Concentrating on long-term investments.

You need to keep more than you earn. But it's not that simple.

If your salary increases with time. Your expenses will likely increase in unison with your salary. Subconsciously, you'll tell yourself that you deserve the extra pair of jeans and the new car. After all, you've earned the money yourself, right? With this internal monologue, we trick ourselves into believing that tomorrow will be like yesterday. Even better actually. That's, however, a wrong way of dealing with money.

To stay wealthy, you need two things: a combination of frugality and paranoia.

In life, the only certain thing is change. We don't know if tomorrow will be better than yesterday. That's why it's best to assume that it might be worse. So being a bit paranoid can help. This will make you more conscious of how you spend your money and better prepared for the future.

"Compounding only works if you can give an asset years and years to grow. It's like planting oak trees: A year of growth will never show much progress, 10 years can make a meaningful difference, and 50 years can create something absolutely extraordinary. But getting and keeping that extraordinary growth requires surviving all the unpredictable ups and downs that everyone inevitably experiences over time." Morgan Housel

LESSON #4:

HAVE A PLAN ON YOUR PLAN NOT GOING ACCORDING TO PLAN

Regardless of what your momma told you when you were little, the world is careless of your dreams and desires. No one is going to help you because people are narcissists and care only about themselves. The world won't pave the path to the dreamy place you envision when you close your eyes. Meaning that our plans will most probably fail. That's how things work.

We'll lose a job. We'll have to repair our car. Our stocks will underperform, etc.

To endure financial difficulties and setbacks in general, we need to give ourselves room for error. We need to have a plan for when our plan is not going according to plan. Yes, it's a mouthful, but an important point made by the author.

Financial freedom – at least for ordinary people – happens by making good daily financial decisions and investing for years.

The goal is to invest in medium-level risk assets and leave those investments long enough to compound. Or in other words, invest for 20-30 years and let the interest rate make you rich.

This looks simple on paper. In reality, though, it's hard work. This means that you need to ensure that you will have a stable income for at least 30 years so you can invest part of the cash. If you don't have enough to invest, well, then you simply won't invest regularly and therefore you won't have enough money for your retirement. It's that simple.

That's why the author stresses a lot on creating an investment plan for when things are not working out the way we imagine.

To create your own backup strategy, you can follow this 3-step process:

- **Create a financial buffer**: Saving money. Yes, super simple but extremely effective. You need to have cash for when things are not working out the way you've hoped.
- **Good financial habits**: Probably the most important thing in the book is teaching yourself that spending money to impress others is a damaging behavior. People are careless of what car you drive. Therefore, don't obsess over what luxury item to buy. Focus on how you can make the money you have make you even more money.
- **Prepare to fail**: Things will eventually break. And this applies to everything. You can't rely 100% on your job. You need to stay curious. To learn new things and to ensure that your skills and abilities are even-growing.

> You have to ensure that you'll survive to succeed. And here, survive means a lot of things. Survive financial difficulties. Survive losing your job. Survive necessary house renovation. All of these things require money. And the more troubles you survive, the more you will save and therefore the more you can invest. The more you invest, the more your money will compound.

"You can plan for every risk except the things that are too crazy to cross your mind. And those crazy things can do the most harm, because they happen more often than you think and you have no plan for how to deal with them." Morgan Housel

LESSON #5:

BETTER DISCIPLINE ON HOW YOU MANAGE YOUR CASH

The way the world makes more money is when people spend more money. Yes, capitalism is powered by people's spending habits. The more people spend, the more the economy is thriving. More factories are created and more money is printed. This leads to better healthcare and more jobs.

In theory, everyone should be happy. In reality, things are quite different.

Towards the end of the book, Morgan Housel tells a story about the end of World War 2. After the war was over, the people defending the front lines wanted to do something. But most importantly, they wanted a nice home. A wife and a decent job.

Immediately after the war, the marriage rate spiked. And since this also involved starting a family, the housing market also boomed.

During the years after the war, to encourage spending, the interest rates were extremely low. The American government was basically giving away free cash. This created a thriving economy and happy citizens.

People borrowed more money. Bought cars, homes, gadgets.

As reported in the book, “Sixteen million veterans could buy a home often with no money down, no interest in the first year, and fixed rates so low that monthly mortgage payments could be lower than a rental.”

On the outside, everything looked awesome. The gap between the rich and the poor wasn’t huge. And more importantly, the stuff the rich and the poor possessed were practically the same. Because, well, there wasn’t a lot of variety.

From a micro perspective, though, these years have laid devastating behavior foundations. Everyone thought that they can have whatever they want and that money is not something that they should worry about.

In 1973 things got bleak. The American economy entered a recession. Huge inflation emerged and short-term interest rates skyrocketed.

However, the expectations of how people operate with money stayed the same. People still believed that they should have whatever they want.

This is the most important lesson in the book.

Regardless of how much you earn, if you don't have a healthy relationship with your money, you will never reach a moment of your life where you can be financially independent.

That's the hardest skill to acquire, but the most important one. It requires constant self-control and a bit of carelessness of what other people think, own, and focus on. But if you master this, you will create a gap that will, at some point, allow you to live your life the way you really want.

"Singer Rihanna nearly went bankrupt after overspending and sued her financial advisor. The advisor responded: "Was it really necessary to tell her that if you spend money on things, you will end up with the things and not the money?" Morgan Housel

ACTIONABLE NOTES:

- **“Shut Up And Wait” investment strategy**: A big chunk of the online space is dedicated to investment strategies. All promising to make you wealthy in the shortest possible time. As you can probably imagine, they rarely work. Warren Buffett, the most talked-about investor, is awfully rich not because he did something extraordinary with his money. He’s a millionaire because of two things. First, he’s investing since he was 10 years old. And secondly, he waited. That’s basically it. It’s not so much about finding the “best” ETF or the best stocks to invest in. It’s about finding good enough ones and waiting – that’s how compounding works. The time will take care of the rest. As the author writes in the book, “There are books on economic cycles, trading strategies, and sector bets. But the most powerful and important book should be called Shut Up And Wait. It’s just one page with a long-term chart of economic growth.”
- **Don’t become a prisoner of your past self**: Don’t stick to a job only because you chose it when you were barely legal to drink. Accept that the world will change and that you will need to change along the way as well. If your current job is not making you enough money, and if the potential of making you more money in the future is low, you’d have to change careers. You’ll have to reinvent yourself. The sooner you realize that you can make a change, the sooner you’ll start making this change. The first step is to shift your perspective on how you see the world. Realize that you shouldn’t stay loyal to a career without potential. Or in other words, you should alter the way you think first.

- **More time or more stuff?** Every month you have a choice. Do you want more stuff today, or do you want more free time in the future? The latter, a lot of people never consider. The things you don't buy today can help you live the life you actually want 10 years from now. I know, it sounds like… a lot of waiting. But if you think about it, it's not that bad. Not buying a new bag and not going out today might be bad, but they won't hurt your well-being that much. Instead, if you use the extra money and invest them, they can essentially buy you your freedom. Maybe it's time we start paying attention to the small daily purchases. Who knows, in the future, the things we don't get today can become the lifestyle we do want tomorrow.
- **Quit the envy games**: Spending money to show people how much money you have is the fastest way to have less money. Besides, people don't care if you are rich. They don't care that you drive a fancy car. They, we, care about ourselves. If your friends admire you only because you're rich, I'm sorry to say this, but you probably need new friends. Getting luxury things is the easiest way to gain admiration. But it doesn't mean that it's the best way. Others – if that's what you want – will admire you far more if you're a decent resourceful down to earth human with ambitions and principles. Earning above-average pay if you can do the previous is just a bonus.
- **Prepare to fail**: Despite your magnificent skills and (hopefully) a decent-paying job, even the most charming fairy tales turn into catastrophic horror movies. Everything that can break will eventually break. I'm not saying this to scare you, I'm saying this so you can prepare. Well, technically, the author of the book said it first – in the book. No one will guarantee you that you'll avoid risk, not even your mom – especially your mom. But what to

prepare for – you might ask? Well, I don't know. No one knows. The idea is to be prepared that shitty things will happen. To anticipate failure and to have a plan for when things are not going according to plan. It's impossible to avoid risks. But it's fully possible to be prepared when disastrous situations occur.

COMMENTARY

We overlook and miscalculate our finances because we focus on the wrong things. We try hacks and tips. We hire financial advisors. And even further, we see what others are doing with their cash and we try to mimic them. But to win in the money game, we shouldn't look outside, we should look within – inside ourselves and examine our behaviors, daily.

How we handle money is heavily influenced by our behavior. Therefore, we should alter the way we act if we want to transition from wanting more and having little to being content with what we have.

The Psychology of Money by Morgan Housel is both a personal story and an observation of how the wealthiest people on earth have become, well, wealthy.

There are 20 short chapters in the book, and each one of them comes with brief instructions on how to become financially literate and eventually independent.

The main point the author is trying to transfer to the reader is this:

Money management is not complicated. We are complicated.

This brings me to the ending of this summary…

Key takeway:

Financial stability is extremely simple. In short, you need to spend less than you earn and regularly invest. However, our emotions and desires crush this simple mathematical strategy in pieces. We are poor not because we don't have enough, but because we don't feel enough in front of others. We try to impress other people. That's why we lose our freedom. So, focus on becoming independent. Not on presenting yourself as rich in the eyes of the people around you. The former will lead to financial freedom. The latter into debt.

NOTABLE QUOTES:

"You have to survive to succeed. To repeat a point we've made a few times in this book: The ability to do what you want, when you want, for as long as you want, has an infinite ROI." Morgan Housel

"I did not intend to get rich. I just wanted to get independent." Charlie Munger

"But while we can see how much money other people spend on cars, homes, clothes, and vacations, we don't get to see their goals, worries, and aspirations. A young lawyer aiming to be a partner at a prestigious law firm might need to maintain an appearance that I, a writer who can work in sweatpants, have no need for." Morgan Housel

WORKSHEET

Reading alone won't help you understand the actionable notes. You need to engage with the content. Answer the question below to plan your next steps:

1/ Which people are you trying to mimic? Why?

2/ How much money you make? How much you want? How much will be enough?

3/ What's yours "staying wealthy" strategy?

4/ Do you have a plan for when things won't go according to plan?

5/ What type of behavior sabotages your investment goals?

THANKS FOR READING!

Ivaylo Durmonski