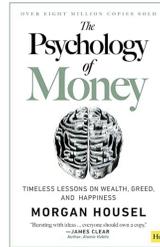


## Your Kindle Notes For:



### **The Psychology of Money: Timeless lessons on wealth, greed, and happiness**

**Morgan Housel**

94 Highlight(s) | 0 Note(s)

Location: 41

The premise of this book is that doing well with money has a little to do with how smart you are and a lot to do with how you behave. And behavior is hard to teach, even to really smart people.

Location: 44

My favorite Wikipedia entry begins: "Ronald James Read was an American philanthropist, investor, janitor, and gas station attendant."

Location: 80

Or, two (and I think more common), that financial success is not a hard science. It's a soft skill, where how you behave is more important than what you know.

Location: 88

It's not that any of these things are bad or wrong. It's that knowing what to do tells you nothing about what happens in your head when you try to do it.

Location: 109

Physics isn't controversial. It's guided by laws. Finance is different. It's guided by people's behaviors. And how I behave might make sense to me but look crazy to you.

Location: 125

People do some crazy things with money. But no one is crazy.

Location: 152

Spreadsheets can model the historic frequency of big stock market declines. But they can't model the feeling of coming home, looking at your kids, and wondering if you've made a mistake that will impact their lives. Studying history makes you feel like you understand something. But until you've lived through it and personally felt its consequences, you may not understand it enough to change your behavior.

Location: 156

"some lessons have to be experienced before they can be understood." We are all victims, in different ways, to that truth.

Location: 223

And that idea—"What you're doing seems crazy but I kind of understand why you're doing it."—uncovers the root of many of our financial decisions.

Location: 247

It should surprise no one that many of us are bad at saving and investing for retirement. We're not crazy. We're all just newbies.

Location: 258

We all do crazy stuff with money, because we're all relatively new to this game and what looks crazy to you might make sense to me. But no one is crazy—we all make decisions based on our own unique experiences that seem to make sense to us in a given moment.

Location: 305

Luck and risk are both the reality that every outcome in life is guided by forces other than individual effort. They are so similar that you can't believe in one without equally respecting the other.

Location: 343

If we had a magic wand we would find out exactly what proportion of these outcomes were caused by actions that are repeatable, versus the role of random risk and luck that swayed those actions one way or the other. But we don't have a magic wand. We have brains that prefer easy answers without much appetite for nuance. So identifying the traits we should emulate or avoid can be agonizingly hard.

Location: 355

No sane person would recommend flagrant crime as an entrepreneurial trait. You can easily imagine Vanderbilt's story turning out much different—an outlaw whose young company collapsed under court order.

Location: 364

The line between bold and reckless can be thin.

Location: 373

Countless fortunes (and failures) owe their outcome to leverage.

Location: 374

“The customer is always right” and “customers don't know what they want” are both accepted business wisdom.

Location: 379

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

Location: 385

Therefore, focus less on specific individuals and case studies and more on broad patterns.

Location: 397

Bill Gates once said, “Success is a lousy teacher. It seduces smart people into thinking they can't lose.”

Location: 398

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. But the same is true in the other direction. Failure can be a lousy teacher, because it seduces smart people into thinking their decisions were terrible when sometimes they just reflect the unforgiving realities of risk.

Blue highlight | Location: 404

Nothing is as good or as bad as it seems.

Location: 462

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

Location: 467

1. The hardest financial skill is getting the goalpost to stop moving.

Location: 471

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.

Location: 489

"Enough" is realizing that the opposite—an insatiable appetite for more—will push you to the point of regret.

Location: 501

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.

Location: 538

The big takeaway from ice ages is that you don't need tremendous force to create tremendous results.

Location: 555

Effectively all of Warren Buffett's financial success can be tied to the financial base he built in his pubescent years and the longevity he maintained in his geriatric years. His skill is investing, but his secret is time.

Location: 583

You never get accustomed to how quickly things can grow.

Location: 596

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Location: 710

Destruction in the face of progress is not only possible, but an efficient way to get rid of excess.

Location: 830

A good definition of an investing genius is the man or woman who can do the average thing when all those around them are going crazy.

Location: 840

Something I've learned from both investors and entrepreneurs is that no one makes good decisions all the time. The most impressive people are packed full of horrendous ideas that are often acted upon.

Location: 875

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 become wealthier to make them happier. Happiness is a complicated subject because everyone's different. But if there's a common denominator in happiness—a universal fuel of joy—it's that people want to control their lives.

Location: 885

Having a strong sense of controlling one's life is a more dependable predictor of positive feelings of wellbeing than any of the objective conditions of life we have considered.

Location: 888

Money's greatest intrinsic value—and this can't be overstated—is its ability to give you control over your time.

Location: 905

But doing something you love on a schedule you can't control can feel the same as doing something you hate.

Location: 972

Take it from those who have lived through everything: Controlling your time is the highest dividend money pays.

Location: 993

Humility, kindness, and empathy will bring you more respect than horsepower ever will.

Location: 1,009

Modern capitalism makes helping people fake it until they make it a cherished industry. But the truth is that wealth is what you don't see.

Location: 1,020

The only way to be wealthy is to not spend the money that you do have. It's not just the only way to accumulate wealth; it's the very definition of wealth.

Location: 1,039

The danger here is that I think most people, deep down, want to be wealthy. They want freedom and flexibility, which is what financial assets not yet spent can give you. But it is so ingrained in us that to have money is to spend money that we don't get to see the restraint it takes to actually be wealthy. And since we can't see it, it's hard to learn about it.

Location: 1,076

Wealth is just the accumulated leftovers after you spend what you take in. And since you can build wealth without a high income, but have no chance of building wealth without a high savings rate, it's clear which one matters more.

Location: 1,092

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

Location: 1,097

When you define savings as the gap between your ego and your income you realize why many people with decent incomes save so little.

Location: 1,114

Every bit of savings is like taking a point in the future that would have been owned by someone else and giving it back to yourself.

Location: 1,115

That flexibility and control over your time is an unseen return on wealth.

Location: 1,142

Having more control over your time and options is becoming one of the most valuable currencies in the world.

Location: 1,186

It may be rational to want a fever if you have an infection. But it's not reasonable.

Location: 1,204

Markowitz is neither rational or irrational. He's reasonable. What's often overlooked in finance is that something can be technically true but contextually nonsense.

Location: 1,221

There are few financial variables more correlated to performance than commitment to a strategy during its lean years—both the amount of performance and the odds of capturing it over a given period of time.

Location: 1,223

The historical odds of making money in U.S. markets are 50/50 over one-day periods, 68% in one-year periods, 88% in 10-year periods, and (so far) 100% in 20-year periods. Anything that keeps you in the game has a quantifiable advantage.

Location: 1,248

Stanford professor Scott Sagan once said something everyone who follows the economy or investment markets should hang on their wall: “Things that have never happened before happen all the time.”

Location: 1,314

This is not a failure of analysis. It’s a failure of imagination. Realizing the future might not look anything like the past is a special kind of skill that is not generally looked highly upon by the financial forecasting community.

Location: 1,320

The correct lesson to learn from surprises is that the world is surprising. Not that we should use past surprises as a guide to future boundaries; that we should use past surprises as an admission that we have no idea what might happen next.

Location: 1,391

But specific trends, specific trades, specific sectors, specific causal relationships about markets, and what people should do with their money are always an example of evolution in progress. Historians are not prophets.

Location: 1,394

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Location: 1,420

Benjamin Graham is known for his concept of margin of safety. He wrote about it extensively and in mathematical detail. But my favorite summary of the theory came when he mentioned in an interview that “the purpose of the margin of safety is to render the forecast unnecessary.”

Location: 1,479

The danger is that rational optimism most of the time masks the odds of ruin some of the time. The result is we systematically underestimate risk.

Location: 1,485

I just want to ensure I can remain standing long enough for my risks to pay off. 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.

Location: 1,512

If there's one way to guard against their damage, it's avoiding single points of failure. A good rule of thumb for a lot of things in life is that everything that can break will eventually break. So if many things rely on one thing working, and that thing breaks, you are counting the days to catastrophe. That's a single point of failure.

Location: 1,518

The biggest single point of failure with money is a sole reliance on a paycheck to fund short-term spending needs, with no savings to create a gap between what you think your expenses are and what they might be in the future.

Location: 1,524

In fact, the most important part of every plan is planning on your plan not going according to plan.

Location: 1,537

Imagining a goal is easy and fun. Imagining a goal in the context of the realistic life stresses that grow with competitive pursuits is something entirely different.

Location: 1,576

We should avoid the extreme ends of financial planning. Assuming you'll be happy with a very low income, or choosing to work endless hours in pursuit of a high one, increases the odds that you'll one day find yourself at a point of regret. The fuel of the End of History Illusion is that people adapt to most circumstances, so the benefits of an extreme plan—the simplicity of having hardly anything, or the thrill of having almost everything—wear off. But the downsides of those extremes—not being able to afford retirement, or looking back at a life spent devoted to chasing dollars—become enduring regrets. Regrets are especially painful when you abandon a previous plan and feel like you have to run in the other direction twice as fast to make up for lost time.

Blue highlight | Location: 1,581

Compounding works best when you can give a plan years or decades to grow. This is true for not only savings but careers and relationships. Endurance is key.

Location: 1,584

Aiming, at every point in your working life, to have moderate annual savings, moderate free time, no more than a moderate commute, and at least moderate time with your family, increases the odds of being able to stick with a plan and avoid regret than if any one of those things fall to the extreme sides of the spectrum. We should also come to accept the reality of changing our minds.

Location: 1,616

Every job looks easy when you're not the one doing it because the challenges faced by someone in the arena are often invisible to those in the crowd.

Location: 1,696

Why do these things happen? And why do they keep happening? Why can't we learn our lessons? The common answer here is that people are greedy, and greed is an indelible feature of human nature. That may be true, and it's a good enough answer for most. But remember from chapter 1: no one is crazy. People make financial decisions they regret, and they often do so with scarce information and without logic. But the decisions made sense to them when they were made. Blaming bubbles on greed and stopping there misses important lessons about how and why people rationalize what in hindsight look like greedy decisions.

Location: 1,728

Bubbles form when the momentum of short-term returns attracts enough money that the makeup of investors shifts from mostly long term to mostly short term.

Location: 1,752

The formation of bubbles isn't so much about people irrationally participating in long-term investing. They're about people somewhat rationally moving toward short-term trading to capture momentum that had been feeding on itself.

Location: 1,783

A takeaway here is that few things matter more with money than understanding your own time horizon and not being persuaded by the actions and behaviors of people playing different games than you are.

Location: 1,798

Optimism is a belief that the odds of a good outcome are in your favor over time, even when there will be setbacks along the way.

Location: 1,899

Assuming that something ugly will stay ugly is an easy forecast to make. And it's persuasive, because it doesn't require imagining the world changing. But problems correct and people adapt. Threats incentivize solutions in equal magnitude. That's a common plot of economic history that is too easily forgotten by pessimists who forecast in straight lines.

Blue highlight | Location: 1,902

A third is that progress happens too slowly to notice, but setbacks happen too quickly to ignore.

Location: 1,927

Growth is driven by compounding, which always takes time. Destruction is driven by single points of failure, which can happen in seconds, and loss of confidence, which can happen in an instant.

Location: 1,942

The short sting of pessimism prevails while the powerful pull of optimism goes unnoticed.

Location: 1,986

The more you want something to be true, the more likely you are to believe a story that overestimates the odds of it being true.

Location: 2,045

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

Location: 2,081

Carl Richards writes: "Risk is what's left over when you think you've thought of everything."

Location: 2,086

Satisfying that need is a great way to put it. Wanting to believe we are in control is an emotional itch that needs to be scratched, rather than an analytical problem to be calculated and solved.

Location: 2,103

I have had several occasions to ask founders and participants in innovative start-ups a question: To what extent will the outcome of your effort depend on what you do in your firm? This is evidently an easy question; the answer comes quickly and it has never been less than 80%.

Location: 2,150

Go out of your way to find humility when things are going right and forgiveness/compassion when they go wrong.

Blue highlight | Location: 2,154

Saving money is the gap between your ego and your income, and wealth is what you don't see. So wealth is created by suppressing what you could buy today in order to have more stuff or more options in the future.

Location: 2,159

But the foundation of, "does this help me sleep at night?" is the best universal guidepost for all financial decisions.

Location: 2,160

If you want to do better as an investor, the single most powerful thing you can do is increase your time horizon.

Blue highlight | Location: 2,167

Use money to gain control over your time, because not having control of your time is such a powerful and universal drag on happiness. The ability to do what you want, when you want, with who you want, for as long as you want to, pays the highest dividend that exists in finance.

Location: 2,173

But saving for things that are impossible to predict or define is one of the best reasons to save.

Blue highlight | Location: 2,174

Everyone's life is a continuous chain of surprises. Savings that aren't earmarked for anything in particular is a hedge against life's inevitable ability to surprise the hell out of you at the worst possible moment.

Location: 2,214

I mostly just want to wake up every day knowing my family and I can do whatever we want to do on our own terms. Every financial decision we make revolves around that goal.

Location: 2,220

That stuck with me. Being able to wake up one morning and change what you're doing, on your own terms, whenever you're ready, seems like the grandmother of all financial goals. Independence, to me, doesn't mean you'll stop working. It means you only do the work you like with people you like at the times you want for as long as you want.

Location: 2,257

No, none of those. I'm saving for a world where curveballs are more common than we expect.

Location: 2,267

And I think for most investors, dollar-cost averaging into a low-cost index fund will provide the highest odds of long-term success.