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Psychology of money

Money is not about what you know, but how you behave. Traditional finance education focuses on data and formulas, but real-world decision-making involves complex personal factors like ego and marketing. In "The Psychology of Money", Morgan Housel shares 19 stories to help make sense of money decisions.Housel, a partner at The Collaborative Fund, has won several awards for his work, including the Best in Business Award and the New York Times Sidney Award. He lives in Seattle with his family. Some key takeaways from the book include:1. People act based on their experiences, not yours.2. Luck and risk are always present, but often overlooked.3. Recognizing when you have enough is crucial to avoiding financial disaster.4. Investing requires patience and a long-term perspective.5. Being financially "unbreakable" is key to achieving big returns.6. Small events can have a significant impact on outcomes in finance and business.7. People want wealth for happiness, but happiness is complex and individualized.8. The pursuit of wealth can be self-defeating if it's driven by ego.9. Spending money on luxuries may feel rich, but it's not the same as true financial security.10. Humility is essential for saving money and achieving financial stability.11. A reasonable strategy is often better than an overly rational one.12. The past is full of surprises, including unexpected events that can teach us valuable lessons.13. Having a "margin of safety" or "room for error" is crucial in navigating uncertain situations.14. People's perceptions of their own financial situation are often poor forecasters.1. Freedom with one's time is priceless because money allows you to do whatever you want, when you want, with whom you want.2. Money is a concentrated form of energy that enables financial independence through frugality and investing.3. Overspending is the biggest cause of financial ruin due to its ability to trap individuals in debt.4. A simple yet difficult prescription for financial independence involves adopting a mindset of frugality, appreciating free things in life, and investing savings through dollar cost averaging in diversified index funds.5. Asset allocation should focus on owning a house to hedge inflation, having 20% cash reserves for market timing flexibility, and allocating 80% to low-cost index funds with potential for compound growth through regular investing.The history of money can give you a false sense of understanding, leading you to believe that you'll behave accordingly. However, this isn't the reality. We have knowledge, but it's rare that we implement it in our daily lives. It's only when we've experienced historical events and their consequences firsthand that we may gain a deeper understanding and make changes.Luck and risk are intertwined forces that guide every outcome in life. They're two sides of the same coin. When investing in the stock market, you're just one player among 7 billion, with countless variables at play. It's easy to judge others' failures as due to poor decisions, while attributing our own failures to bad luck.Those who have control over their time tend to be happier. The hardest financial skill is setting a goalpost and keeping it from moving. Ambition can quickly get out of hand, driving us to constantly strive for more, never feeling satisfied.There are certain aspects that aren't worth risking, such as relationships, freedom, and happiness. If greed for money leads you to compromise on these, it's time to re-evaluate your financial priorities. A clear financial plan can help define your boundaries.Warren Buffett's wealth isn't solely due to his investing prowess; it's also the result of decades-long investments. His secret is time, which gives him an edge over others. He's accumulated most of his wealth (USD 84.2 billion) after the age of 50, a feat that few can match.Good investing isn't about achieving extremely high returns, but rather earning decent returns over the long term. This allows for compounding to take effect and growth to accelerate.Getting money requires action, risk-taking, and positivity, whereas keeping it requires caution, fear, and inaction. Investing is like being an airline pilot - most of the time you're cruising along, but occasionally you need to make split-second decisions during chaotic moments.In finance, tails can be a major driver. It's normal for many things to go wrong frequently, and even the best investors will make mistakes. Warren Buffett himself has owned over 400-500 stocks in his lifetime, with most of his wealth coming from just a few top-performing investments.We'll all make good and bad decisions, but it's crucial to recognize that our success or failure is often a combination of factors rather than solely due to individual effort.Our current path is misguided, and we'll decide our future prosperity or poverty by our choices. True freedom allows you to do what you want, when you want, with whom you want, as long as you want - this is the greatest dividend your money can provide. Money's value lies in its ability to give you control over your time, not just accumulating wealth.Doing something you love on a schedule you don't like is equivalent to doing something you dislike. We've lost control over our personal time due to technological advancements, and losing this control leads to unhappy lives today. No one admires your possessions more than you do; people often respect or admire those who possess inner qualities, not material goods.Wealth isn't visible; it's the assets and investments that haven't been converted into tangible things like houses, cars, or vacations. Richness is about current income, while wealth is income not spent - it requires self-control to achieve. The world is full of people who appear modest but are wealthy, and those who look rich but are almost bankrupt.Building wealth has more to do with your savings rate than your income or investment returns, which involve uncertainty and risk. You can build wealth without a high income, but you need a high savings rate to succeed. Being rational isn't enough; being reasonable allows you to stay in the game longer, creating more wealth over time.History rarely provides guidance for future investments due to investors' emotional nature. Past surprises can't be used to predict the future, so we should view them as an admission of our uncertainty about what's to come. Unprecedented events will always occur, impacting the world significantly.Since economies evolve, recent history is often a good guide to the future because it factors in conditions relevant today. The farther back you look in history, the more general your takeaways will be. Aiming low can lead to greater felicity. People are poor forecasters of their future selves, so plans should be adaptable to changes as wealth is created.The price of good investment returns is to withstand market volatility, which not everyone can pay.Investing is a complex game, and success often eludes even the most rational approaches. It's not about people being foolish, but rather, they're following short-term trading strategies that feed on momentum, creating self-reinforcing cycles. Long-term investors must resist this temptation.To excel, focus on your chosen path and stick to it. Be aware that others may be playing different games with unique rules. Many fail due to trying to imitate others' moves, leading to financial disaster.Market conditions can change rapidly as supply and demand adapt in unpredictable ways. Growth often results from gradual compounding over many years, while destruction can occur swiftly through singular events or loss of confidence.Our understanding of the world is limited, and history must be reinterpreted through our individual perspectives, which are inherently subjective. This subjectivity creates an illusion that we fully comprehend the world, leading to mistakes in personal finance.We tend to create narratives to fill gaps in our knowledge, making complex systems seem more understandable. However, true understanding remains elusive, and any predictions about the future are merely illusions.Good decisions sometimes defy logic. At some point, one must choose between being happy or being right. A successful investment strategy doesn't rely on predicting market trends but rather on having a high savings rate, patience, and optimism for long-term economic growth.While certain financial concepts may not be particularly new or insightful, they can still offer valuable lessons. For instance, the importance of compounding, the role of luck and risk, and maintaining a margin of safety are timeless principles that can help in managing one's finances effectively.The hardest skill to master is setting clear goals without having them constantly change. A crucial aspect of personal finance is understanding your time horizon and not getting swayed by external influences or behaviors.Pessimism towards investing can be persuasive. Assuming the worst-case scenario doesn't require much imagination, as it only requires accepting the current situation without expecting change. The author of "The Psychology of Money" clearly explains the basics of investing and the stock market in a straightforward manner, aiming to correct fundamental understanding rather than presenting anything extraordinary.Given article text hereThe author claims that this book has been overhyped and questions whether its high ratings are genuine. They suggest that the numerous historical anecdotes and comparisons, such as those involving companies and dates, are unnecessary and only serve to reach simplistic conclusions. These conclusions often relate more to human behavior than financial decisions.The critic implies that the chapters were filled with content simply to meet book length requirements, rather than providing meaningful value. They conclude that this book was not worth its cost. However, a separate review praises the book's "neat writing" and "high-quality content," highlighting Morgan Housel's 19 stories on unusual perspectives on money and their relationship with our lives.This reviewer suggests that achieving financial success has little to do with intelligence but rather how one behaves, and that the book inspires smart decision-making. They also mention that it's a rare book worth re-reading multiple times. In contrast, another review criticizes the book's title and blurb as misleading. The author argues that the book primarily focuses on historical examples of people's financial decisions during significant events like wars or economic downturns.The sections are described as filled with reports and figures that might be overwhelming for beginner readers. They recommend it only to advanced readers in the finance genre, particularly those from the United States. Another review praises the book's insights into how one should think about money and wealth but criticizes its writing style as dry, recommending it to a specific audience of business finance enthusiasts.For every plan, the most crucial part is being prepared for it not going as planned. Nothing comes without a cost, and some prices are hidden. Be cautious of taking financial advice from people who don't play by the same rules as you.Pessimism can be seductive, especially when everyone believes something. Stories have more power than statistics. Use money to take control of your time because losing control over time is a universal drag on happiness.The author's book includes personal confessions about their own psychology and a brief history of how the US consumer attitude developed after WWII. The book emphasizes that compound interest is an unfair advantage, but getting your head straight is more important than anything else.This book is valuable for simplifying complex financial concepts. It's not necessary to be financially literate to start becoming so. The system may appear complicated and chaotic, but it's possible to simplify anything if you have the will.The author read this book in December 2023. They had never studied money or financial management before and found it to be a great starting point.I don't often delve into the topic of money in detail. When considering investment strategies, do you follow expert advice or stick to the same portfolio for years? Do you save for unexpected expenses or is your home filled with items bought on impulse? These questions, according to Housel, are based on where and when you were born and what financial lessons you learned growing up. It's often difficult to understand someone from a different time and place, but nobody acts irrationally when it comes to money.A striking example is how singer Rihanna almost went broke and sued her financial advisor. The advisor simply told her that spending all her money wouldn't leave any for herself. This might seem obvious, but we all need direct and clear advice in plain language. People often say they want a million dollars, but what they really mean is that they want to spend it. There's no distinction between having and spending, which is the difference between being wealthy (having money saved) and being rich (being able to spend at will). Someone with savings they rarely touch is wealthy; someone who splurges on an expensive item is rich.It's more beneficial to aim for wealth rather than riches. Much of Housel's advice can be applied not just to finance, but also to life in general. For example, optimism involves believing that the overall trend is positive despite setbacks. We often underestimate how much luck plays a role in our lives and should be kinder to ourselves when things go awry.The key is getting major decisions right as most things depend on only a few significant factors, and the rest doesn't matter too much. This book offers valuable insights that you might not always want to hear, but it's worth reading.Good advice is given, highly recommended indeed! On a side note, this book also made me realize how great Hans Rosling's Factfulness truly is in terms of investing advice. We often get caught up in the short-term, not appreciating progress we've made over time. Progress creeps along too slowly to notice, but setbacks can hit us hard and fast. In life and investing, optimism beats pessimism when you look at it all in the long run.Quotes from the book are quite enlightening:1. The highest form of wealth is waking up each morning feeling like you can do whatever you want.2. Investing requires understanding the price of successvolatility and loss within a broader backdrop of growthand being willing to pay that price.3. "Enough" isn't too little; it's realizing your insatiable desire for more will lead to regret.4. Understanding your time horizon is crucial, especially not letting others' actions influence your decisions about money.5. Optimism is the best bet most people can make since the world tends to get better over time.6. Use money to gain control over your time because being in control is what truly impacts happiness.7. The rule of compounding is to never interrupt it unnecessarily.8. Nothing is as good or bad as it seems.This review is about a non-fiction book that focuses on eco-fin and life, read from February 15, 2023. The author found the approach unique in presenting facts through studies and real-life examples rather than a preachy tone common in many non-fiction books. It encourages readers to understand why they make certain financial decisions without telling them how to get rich quickly. Each chapter focuses on simple concepts that help readers reflect on their financial choices, such as not judging others based solely on personal experiences.While reading this book, I was surprised by how different it was from what I expected. Nevertheless, I found it to be a very useful book nonetheless.I had read some e-books and non-fiction books in 2022, including the Val Shameless Handmaiden/YT segments on finance and coming from a minimalist mindset, none of these concepts were new to me. Although a reminder is always nice, I thought the last two chapters and the historical context segment after them were the most interesting. You could really just read those and get all the value this book has to offer.Given article text here . . . : " "when you accept the reality of this statement, you realize that having a good match between income and life allows you to do what you want, when you want, with whom you want, and where you want. This has a return value that is not believable. Derek Siver : . . 1000 1800 . 12000 . 22" : " " : 22. Maher RuzozWhen it comes to financial goals, everyone's priorities are different. Following popular trends without considering your own goals can lead to poor decisions and market bubbles. A long-term strategy is key, even in difficult economic times. Being wealthy is not the same as being rich. The latter involves flaunting wealth, while the former focuses on saving money and living below one's means. People often underestimate the power of frugality, but it can have a greater impact on wealth accumulation than investing strategies.Your emotions play a significant role in decision-making. If investing in the stock market makes you anxious, consider safer options that guarantee a good night's sleep. Your rational mind might suggest investing for high returns, but if it causes anxiety, what's the point?The book is filled with inspiring quotes. Some notable ones include:* The difference between bold and reckless decisions can be thin.* Making money requires taking risks, being optimistic, and putting yourself out there.* But keeping money requires humility and fear of loss.* Money gives you control over your time.You're not a spreadsheet; you're a person. Understanding market volatility as a fee rather than a fine is crucial for developing the right mindset to invest successfully.Pessimism might seem smarter, but it's often overlooked in favor of optimism. However, thinking like a pessimist can help you prepare for worst-case scenarios and make better investment decisions.This book offers valuable insights into personal finance, offering lessons on how our relationships with money can impact our lives. With its easy-to-understand language and engaging content, it's suitable for anyone looking to improve their financial knowledge.Book was good thing to think about. Glad I read it. October 1, 2021When best financial writer come out with book, its okay stop everything to read it. Been fan of Morgan Housel's writing for many years. Idea for book 'The Psychology of Money' come from long article by same name. He like to write concise but pack big punch. Best part his writing is he take lessons from history, finance, psychology etc and apply to everyday personal finance. He have special way look at things everyone else and see different in it. This book can read very fast but point whole thing is stop think about how these stories apply to our own behavior. He make us think about our relationship with money. Our behavior impact financial success more than intelligence or anything else. Wealth not really about what others think of us, its more about using our money control how we spend time and live life. Investing not race to be won its test of character. He examine personal finance through lens of human behavior.A few good things in Morgan's words: How you behave is more important than what you know about money. Manage your money way that helps you sleep at night. Time is most powerful force in investing. Small minority of things account for majority of outcomes. Define game you playing and make sure actions not being influenced by people playing different game. There is no single right answer just answer that works for you. No one impressed with possessions as much as you are. Savings that aren't earmarked for anything particular is hedge against life's inevitable ability to surprise hell out of you at worst possible moment. Endurance what makes compounding magic over time. Highest form of wealth is ability to wake up every morning and say "I can do whatever I want today."You can check longer version of review at my blog: non-fiction psychologyJanuary 31, 2022As person who study economics and have run some principles in book this very affirmative for me. It feel like find reason why I do A not B, why I no agree with A and B, and why advice that seem like "should be done by everyone" actually not true. Or people other than me have same privilege and mindset as me. And book here to help that.But often read about personal finance through Instagram creators or economics books, approach in this book much more human and less tactical. Good for person who even new to economics principles. Add plus, narrative short stories built Housel very close to us and some time make me think again over financial decisions I take.Dan advice mother say in book "Just save already, just in case". March 27, 2023I came for Money lesson, yet I got life lessonYou knowThis reviewer's experience with the book was a mixed bag. They initially found it to be engaging and thought-provoking, but became frustrated after chapter 6 when they felt that the examples presented were unrealistic. They had high hopes for the book, which they believed would provide practical advice on managing money, but ultimately felt that this aspect was lacking. The reviewer believes that the author failed to provide concrete steps or a clear plan for achieving financial stability.

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