Book Review

The Psychology of Money: Timeless Lessons on Wealth, Greed and Happiness by Morgan Housel

JAICO PUBLISHING HOUSE INDIA 2020, Pages: 241,
Price: 399 ISBN: 978-93- 90166-26-8

The book, as the author claims, focuses on the behavioral aspects of money and not the technical aspects as is the current trend. Financial success is a soft skill; it is about knowing how to behave with money. In this book, spread across twenty chapters, the author has cited examples in a story form, trying to convince readers that soft skills are more important than technical skills. For instance, when a rich man wants to remain rich, he has to control his emotions; otherwise, he won't be able to remain rich for long. Money in fact, is one of the two topics (health and money) that have a bearing on everyone. Money matters have always confused people due to their lack of focus on the 'psychology of money'. Experts on the other hand, have always focused on the 'technical aspects' of money; however, focusing on the psychological aspect too, would help in resolving flaws, biases, and causes of bad behavior, which invariably result in bad financial decisions.

Chapter one of the book titled 'No ones' crazy'; essentially talks about 'understanding money'. In other words, each one of us has his/her understanding of money. This understanding in turn, is based upon individual experiences, especially during the formative years of life. Investment decisions that people make is greatly influenced by this experience. The next chapter has been titled as 'Luck and Risk'. Herein, the importance of luck in one's success has been highlighted. In fact, to drive home the point, the author has used Bill Gates' life history as an example, affirming thereby that both luck and risk are inseparable, and it is hard to pin down upon one while speaking about one's success. When luck is not in one's favor, one should learn to handle failures. In the third chapter 'Never Enough', the author uses the example of Rajat Gupta, a millionaire, who was found guilty of insider trading. This example was given to drive home the point that despite having good fortune, people find it difficult to say 'enough' to money. The author goes on to affirm that if one needs to be satisfied and contented in life, one must develop a sense of 'enough'. Possibly the hardest financial skill to acquire while discussing money is to stop moving one's goalpost; one should know when to stop taking 'risks', while saying to oneself 'enough'. The fourth chapter 'Confounding Compounding' begins by explaining the word compounding vis a vis its importance. Herein, the author takes the example of Warren Buffet to explain how compounding actually worked in his favor, and how today, he is known as the world's greatest investor. This chapter goes on to elaborate upon Warren Buffet's success story, while mentioning that right from his early years he built a financial base, and maintained longevity through his geriatric years. Finally, the author concludes by saying that the secret of Warren Buffet is time, not necessarily his investing skills.

The fifth chapter is titled 'Getting Wealthy vs Staying Wealthy'. Getting money and keeping money are two different aspects altogether. In this chapter, the author cites two examples of Jesse Livermore and Abraham Germansky, how they made money, but failed to keep their good fortune. The author reinstates that making money demands taking risks, being optimistic and committing oneself; while keeping money requires humility and frugality, and even an element of fear. The following chapter, titled 'Tails you win' talks about how you as an individual can be wrong with your decisions half the time, and still end up making a fortune. Herein, the author exemplifies the point by saying that every investor makes several investments, and many a time, the returns are minuscule. Thus effectively, it takes only one good investment that would cover the losses made earlier. The author further goes on to say that people seem to notice only the highly profitable investments, while ignoring the loss-making ones, which the author terms as the 'tail'. According to the author, the successful investments are effectively the results of a 'long tail'. The seventh chapter has been titled 'Freedom'; freedom relates to the time when one is able to take complete control of one's life. The best part of money is that it gives control over one's time. For instance, when we spend money on buying luxurious items, we tend to give up the control, which we have over our lives. Further, the author goes on to reinstate that the key to happiness is controlling one's own time; therefore, the highest dividend from money is controlling your own time. The eighth chapter has an interesting title 'Man in the Car Paradox', and also comprises two pages only. This is possibly one of the shortest chapters that we might have read in our lifetime; however, the message that it conveys is very effective and poignant. The chapter essentially states that people have an innate desire to be respected and admired by others. Importantly, this desire may not always be fulfilled by money. Thus, in this chapter, the author advises people that to seek respect and admiration, one needs to be humble, kind and empathetic.

The ninth chapter of the book has been titled 'Wealth is What you don't see'. Notably, the words wealth and rich have been categorically differentiated in this chapter; i.e. rich reflects one's current income, while wealth is hidden. Generally, people tend to judge wealth with what they see, often leading to wrong conclusions, because especially in capitalist society, people can and easily do 'fake' wealth. Effectively, wealth is an option of not spending money at the moment, while deferring it to some other time. The tenth chapter of the book is titled 'Save Money'; herein, the author tries to convince people to save. Further, in this chapter, people based upon their orientation of saving money, have been categorized as those who save, those who don't think they can save, and those who don't need to save. It is important to note here that wealth is built on high savings not on how much money a person earns. High savings means having low expenses. Chapter eleven of the book has been titled 'Reasonable> Rational' and it is about being reasonable; herein, the author advises to be reasonable, rather than being rational, especially when it comes to money matters. The author distinguishes between the two by reiterating that being reasonable is more realistic, and people thereby adhere to it in the long-term. Rational thinking on the other hand, according to the author, tends to become a liability, as people discard it in between, because it lacks the 'emotional quotient'. The twelfth chapter of the book has been titled 'Surprise'; here, the author describes history as a study of surprising events, which shouldn't necessarily be seen as an unassailable guide to the future. Investors for instance, must not rely on past data for predicting the future, because innovation and changes are continuously taking place. The author goes on to reinstate that each individual is essentially driven by his/her emotions, and thus, prediction becomes difficult. Especially the outliers, a handful of them may play an enormous role in bringing sweeping changes.

'Room for Error' is the thirteenth chapter of this book. The chapter begins with an example of Las Vegas casinos, where one can learn the importance of room for error from blackjack players. Importantly, to the 'blackjack' players, it is a game of odds, not of uncertainty; when the odds are in favor, only then does the blackjack play. People often underestimate the power of error in investment and it is an important ingredient for becoming a good investor. As error increases endurance and with it comes the ability to stay invested for a long time. Room for error must be applied while estimating future returns. The following chapter (14) is titled 'You'll Change'. With time people evolve, so do their desires and goals; this in turn, does have an impact in terms of long-term financial planning. The author reiterates that whatever the circumstance, one must never stop investing. However, while investing, especially in the long-term, one needs to bear two things in mind; i.e. avoid extremes, and accept the reality of changing minds. 'Nothing is Free' is the title of the fifteenth chapter. Thus, even successful investing is not free; it comes at a price. Ironically, the price that one pays for successful investing often gets overlooked, as it is not in monetary terms, but more in the form of volatility, fear, doubt, uncertainty and regret. Further, the author raises a retrospective question: 'why do people avoid paying the price for a good investment?' It is because of the individual's mind-set;

people see and understand the 'fee' for investing, and think it to be fine. But when they actually change their mind-set, things tend to look different and better.

The sixteenth chapter has been titled 'You and me'. In this chapter by the words, you and me, as per the author, mean two different investors investing with different needs and objectives. Investors, many a time make an investment decision by watching others. In effect, this is a dangerous way of deciding upon an investment, because the rationale is not known. Thus, it is difficult to predict the next course of action. Further, in this chapter, the author cites several examples, which effectively make understanding easy. 'Seduction of Pessimism' comprises the seventeenth chapter, and it begins with the description of the word pessimism. According to the author, pessimism is more popular and gets more attention than optimism, as it is more captivating. In the financial world, pessimism may be considered 'seductive', as it is instinctual and unavoidable. Besides, there are other reasons that make pessimism easy, common and pervasive. Some of the common reasons include the fact that money is ubiquitous, and affects all if something bad happens. Thus, limitations of a pessimist in extrapolating present trends and set back, does come as a surprise. The eighteenth chapter of the book has been titled 'When you'll believe anything'. According to the author, stories are the most powerful drivers in an economy. A good story does act as fuel, and increases the enthusiasm level in an economy. While managing money in this story-driven world, one should bear in mind that everyone seems to have an incomplete view of the world, and in essence, we create stories to fill the gap. This gap in turn, could lead to misunderstanding for instance, the stock market behavior, due to which, individuals may end up investing money in the wrong kinds of stocks. The following chapter is titled 'All together now'; here, the author tries to sum up the learning of the book. The two learning that appeal are less ego, more wealth and manage your money in a way that helps you sleep at night. Wealth is the outcome of delayed gratification, if one keeps on spending then won't be able to create wealth. Finally, the guidepost for all financial decisions is your sleep; if it gets disturbed, then it is not worth investing. The last and final chapter has been titled 'Confessions'; here the author reveals what works for him when it comes to money. While investing, each individual must find out what works for him/her the best. The author reveals that his financial goal has been to lead an independent life. It means freedom to live life on his terms. All his financial goals revolve around this. Independence on the other hand, is directly related to one's saving, and beyond a point, one's ability to keep expectations in check and living below one's means.

The writing style is basic, comprehensible, and above all unorthodox. This book could be termed as a good book. Especially the eighth chapter of the book gives us an 'Aha!' moment, as it is only of two pages, but it delivers a poignant message effectively. The use of anecdotes helped the author drive home the main points, thereby making the 'book reading experience' both comprehensible and interesting. By reading the book, individuals may gain crucial insights about money and investment. Finally, the book is also of interest to scholars and researchers, as it provides a new perspective to ponder over.

Vinit Singh Chauhan
IMT-Nagpur,
Nagpur (MH) - 440 013, (India)