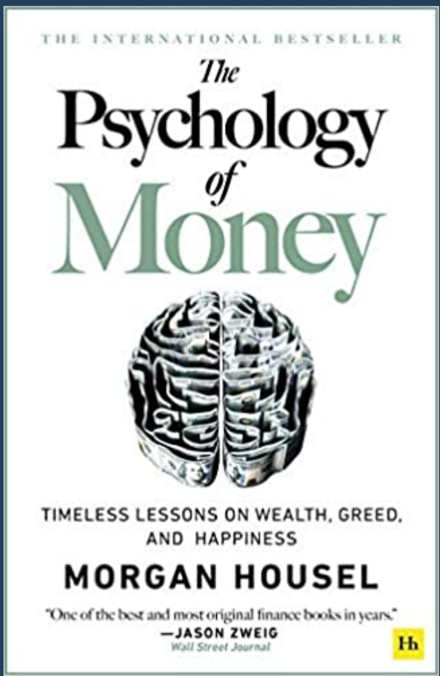
The Psychology of Money



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Are you the kind of person who says that finance is too complex to understand? So Morgan Housel wrote the book “The Psychology of Money” for you!

According to the author, financial education, for most people, is treated and taught in the same way as the exact sciences (through laws, formulas and rules), where, in fact, it is based on people's behavior.

In this summary, we will talk about how great financial performance requires more personal skills than intelligence on its own. That's because being aware of what needs to be done doesn't exactly match what goes on in your head when you try to do what needs to be done.

Main ideas of the book

- The economy is guided by people's behavior;
- Personal experiences account for 80% of your understanding of how the world works;
- It's important to be humble when things are going well and practice self-forgiveness when they're not;
- You can be wrong many times and still get it right in a big way that your mistakes will be insignificant;
- Time is the most significant force in investments;
- Being prepared for unforeseen is what allows you to keep your goals in hard times without major impacts;
- Manage your money so that you can sleep peacefully: this is subjective;

To whom is this book indicated?

If you want to understand how personal finance, investments, financial planning and the money industry, in general, works, "The Psychology of Money”, by Morgan Housel, was made you!

The summary is indispensable for people starting their journey with finance, who want to reorganize their priorities, and also those who already have extensive technical knowledge and would like to look at money from another perspective.

Overview of the book

The same point from different perspectives

According to the author, Morgan Housel, the personal and unique experiences that each individual has correspond insignificantly to the functioning of the world as a whole, but, for you, they can account for about 80% of how you believe the world works.
Okay, but how is this related to money? Well, basically, what we experience is stronger than what we learn throughout life. We learn, we believe, we have different expectations and predictions than others, not because we are smarter or smarter or more ignorant, only because we are a reflection of different experiences.
Although our experiences are different, do you know what they have in common? All have the same power to influence people.

Nobody is crazy

Based on what we were talking about earlier, we find that nobody is crazy. What? According to experiences, people make decisions that, for those who have not gone through the same things, may be considered an absurd idea.
Empathy is important, but when we study the Great Depression, for example, we don't even come close to feeling what people who went through it did. We know that some situations cannot be understood just using imagination.
Today, it might be considered insanity to keep all your money under your bed, but for someone who lost most of their funds to the bank in 1929, it makes perfect sense. Spending your entire salary on the market right after payment may seem irresponsible: not when you've lived through periods of so high inflation that the same product could triple its value in just a few hours.
Here we look at extreme examples, but this can be applied to simpler cases like the financial situation we grew up in, privileges and opportunities we had (or we didn't), including the time we were born (I bet you've seen an elderly person distrusting the safety of online shopping). Did you understand why nobody is crazy?

Babys metaphor

We can compare the power of experiences by imagining a baby's situation: he doesn't know that his parents need to go to work, or that they have bills and taxes to pay.
A baby just understands that the parents are not at home, and therefore cannot play with him. That doesn't mean he's wrong, he just doesn't have the knowledge of how some things work.
What does this teach us? We understand that all people have an incomplete view of how things work. Not understanding some things doesn't mean they don't exist: the baby will one day have bills to pay too.

Between Luck and Risk

Morgan Housel claims that “nothing is as good or as bad as it seems”, and it makes us question how far we should consider luck as an influencer in our lives.
Did you know that Bill Gates attended one of the only schools in the world that owned a computer at that time? Besides Paul Allen, there was another student who developed research and activities with them. His name was Kent Evans, and he died while mountaineering in high school.
The chance of studying at an educational institution that, at that time, had the money and insight to acquire a computer was one in a million. The probability of losing your life on a mountain at that time was one in a million. Bill Gates experienced luck, Kent Evans, risk.
And what can you learn from this? From the moment we recognize and respect luck and risk, evaluating people's financial success, for example, we realize that nothing is as good or as bad as we imagine. And that results are not only guided by individual effort.

Contingency Margin

Usually people save money to buy a car, a house, take a trip or when they have a specific goal.
In "The Psychology of Money", the author emphasizes the importance of saving money for no specific reason. The main reason is that you can prepare and organize to achieve a goal, but you can't prepare for the unforeseen.
In this book, we understand that having a contingency margin for unforeseen events allows us to continue with our plans without major negative consequences, nor do we need to give up some things to get what is urgent at the moment.
Just the fact that you know you are safe if something unforeseen happens, makes you carry out all your other activities with the same security. One more time, Morgan Housel shows us how our psychological state has great influence.

How much is enough?

Being aware of what is enough for us is very important for us to set limits.Part of society often does not have a limit on what is enough, which is capable of negatively influencing their spending, sometimes risking everything they have achieved.
The author says that nothing justifies risking something you already have and need for something you don't have and don't need. This is often directly related to our ego, and the need that many people have to show what they even don't have.
It is dangerous when the wishing for financial growth, power or prestige grows more than the wishing for satisfaction. In this way, there is frustration for never achieving what they want, in addition to causing people to take risky and unnecessary steps to reach the unreachable.
Remember: enough is no small thing. The opposite of enough can lead to regrets.

Getting Rich versus Staying Rich

One of the most important considerations is that making money is different from keeping money. It is common, because of individual experiences, when people change their live standard, they lose control over spending, or create higher and higher consumption targets.

Fortune is what you don't see

We consider wealth when we see expensive watches, cars of the year and houses with more bathrooms than residents. We are surrounded by the need for social comparison - and then we find the ego again.
In reality, wealth is in what is not spent. Consider yourself a rich person when you are able to save more money than you spend, especially when it comes to the non-essentials.

Slow and always

Did you know that the 103.7 billion dollars net worth (in 2021) of Warren Buffett's, 100.2 billion were collected after his 65 years?
The fact that Buffett is one of the biggest investors in the world is undeniable, but one of the main factors that influenced him was that he built his financial base already in his adolescence and kept his investments until the Third Age.
Please pay attention: this does not mean that you will not be financially successful just because you have not started saving money years ago, it is just an example of how time can be our friend and that it is never too late for us to take the first step.

Time is your best friend

Compounds are the basis for good financial growth, and to keep your profits compounded (always earning more than the day before), it takes time, constancy and patience.
The author talks about how we often don't realize the growthing because we are looking from the wrong perspective.
Maybe you don't have much more money today than you did yesterday, and you may wonder about the insignificance of saving too few amounts of money. Instead, consider these amounts yielding over years. I bet you will see it in a different way!
One more time, we see the importance of being prepared for unexpected events: when you don't need to remove some of your income to cover unforeseen events, it keeps growing.

Nothing worth having comes without a cost

In "Psychology of Money", we understand that good things require some sacrifices. The author makes it clear that taking control of our time is one of the main goals of saving money.
Having money gives us the possibility of choice: the possibility to choose the thing we want to do, when we want, with whom we want, for as long as we want. And that requires some sacrifices, which must, undoubtedly, be balanced with our achievements.
It's important to work to grow and develop, but you should always take some time for your family. It's important to save money, but it shouldn't be extreme to the point to disregard the essentials. Everything must be balanced so that, when you reach your goals, you will still be able to enjoy the achievement.

What do other authors say about it?

According to Nassim Nicholas Taleb, author of the best-seller "**Antifragile**", the importance of being prepared for surprises, in this case, related to money (or lack of it), is unquestionable. In this way, we can resist the impacts of these situations, besides taking advantage of the opportunities it provides us.

In "**The Invisible Hand**", Adam Smith debates current economic models, making us understand that the way the economy works goes far beyond the way we save and spend our money, expanding knowledge about all the other influences we suffer.

It would be impossible to walk about investments without remembering one of the biggest investors in the world, right? In the book "**Warren Buffett's Management Secrets**" you will learn about the most important management principles applied by Buffett in his life and career.

Okay, but how can I apply this in my life?

- Nothing is as good or as bad as it seems: look at situations from different perspectives before making a decision;
- Manage your money in a way that you can have control over your time;
- You don't need to have a specific reason to save money: start preparing for unexpected events;
- Nothing worthwhile is free: set the price of your success and be ready to pay it;
- Making money is different from keeping money: you deserve to acquire important things, but always remember your long-term needs.