BOOK REVIEW

Psychology of Money: Timeless Lessons on Wealth, Greed and Happiness

By Morgan Housel

Reviewer Details:

Name: S Adithya

Brief Background: Born in Chennai and brought up in Delhi, I completed my 12 years of schooling at D.T.E.A. Senior Secondary School, R.K. Puram, Delhi. I joined SSSIHL, Brindavan Campus, for my undergraduate degree in B.Com. (Hons.). I have gained some basic experience writing reviews for One-Act Plays and short stories as part of my assignments in my Additional English course over the past few semesters.

Reason for choosing this book: Money is essential in today's world. People are often falling into debt traps, experiencing the effects of inflation and depreciation. The 2008 financial crisis led to widespread fear of another likely outcome and an outbreak of another pandemic. Taking these into consideration, I pondered how I could manage my money effectively. Hence, this book seemed apt for me to read, and I am fortunate that I didn't miss the opportunity to read it.

Book Details:

Title: The Psychology of Money: Timeless Lessons on Wealth, Greed and Happiness

Author: Morgan Housel

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Total number of pages: 242.

Price: ₹399 (MRP)

Description: *'Psychology of Money'* is a guidebook for everyone venturing into the world of investment to help them deal with their finances. This is a nonfiction book dealing with the psychological aspects of personal finance and the investment of money.

Connection to B.Com. Curriculum: This book focuses on financial management. I feel that this book could be an eye-opener for everyone who wishes to invest their money and manage their money without any difficulty. I have come across many of my friends starting to invest their money during the course of their undergraduate program itself.

Therefore, reading through this book will help a person learn about not only the technical and economic aspects of money but also the psychological aspects of it. Thus, I found this book linked to the B.Com. Curriculum.

Author Details:

Morgan Housel is a partner at The Collaborative Fund. He is a two-time winner of the 'Best in Business Award' from the Society of American Business Editors and Writers. He is also the winner of the "New York Times Sidney" Award and a two-time finalist for the "Gerald Loeb" Award for Distinguished Business and Financial Journalism.

This is his third book. He has written an article previously in 2018 in the Wall Street Journal's column on the 'Psychology of Money', which deals with personal finance and investment decisions. This book is an extension of that report, wherein the author has quoted real-life examples to reiterate his points. His awards and his experience as a columnist at the Wall Street Journal give him the credibility to write a book about investment analysis.

Introduction:

Audience:

This book is a must-read for all age groups. This book covers various insights into how one can manage personal finance, and I feel that this book will come in handy for anyone willing to save and invest their money. This book is particularly useful for all young minds beginning from the age of 18.

Purpose:

The author feels that, unlike physical laws, money has more to do with how people behave with it than rigid rules. This book will help to remove the dilemmas that many first-time investors may face. If one wants to put up a brave front while dealing with his/her money, this book is just for them. The author's main message is that psychological factors play an equal role in determining the success of an investment portfolio.

Key Findings:

This book covers vast amounts of information about investment and savings. The key finding for me is that 'money is how you behave with it; your relationship with money is more influenced by what you think than what you do in reality'.

- Dealing with money brings into consideration the matter of perspective. What may seem right to one person may seem crazy to another. In reality, no one is crazy.
- Money takes time to grow. One has to be patient for it to compound to earn better returns.
- Getting wealthy is one thing, but keeping that wealth and staying wealthy for a long time is another. Getting wealthy involves taking risks, while staying wealthy involves being cautious about risks.

- Controlling our time is the highest return that money can pay, and as such, one has to invest in investment schemes that could lead to this outcome.
- We don't need a reason to save money. Saving just to meet the future will yield better outcomes.
- One has to make reasonable decisions instead of rational ones.
- Finally, respect the differences. There is no single set of answers. The answers differ in terms of what works best for each person.

This book is in sync with the author's previous publications, which also deal with investments, the stock market, and investors' perceptions. I believe that readers would benefit a lot if they also went through the book *"Rich Dad, Poor Dad"* to learn how to be unbeatable in the investing world. *(This suggestion is written here based on the inputs taken from my colleagues*.)

Summary:

The book discusses how to make good financial decisions with insights from history and psychology. It also explores the soft skills associated with decisions related to money and how the thought process towards our finances and money affects the critical decisions of both investment and life. The author talks about simple ideas, such as *perception differences,* and entirely new ideas, such as *Tail Events*[1].

The author presents these main ideas: luck and risk being the realities that exist in the world of finance; the power of compounding and patience; the meaning of true wealth; the world being full of surprises - past performance having nothing to do with future results – accepting it is the bold way to be successful in investing and saving money.

The book is divided into 20 chapters, some deal with ways in which one can embrace their relationship with money, while others caution the readers against the risks of investment. There is an introductory chapter and a postscript chapter (which talks about the changing behaviour of US consumers). The first 18 chapters cover how to make good financial and investment decisions. The last but one chapter provides a summary of the previous chapters; the final chapter deals with the author's financial practices.

The author takes the readers through each chapter, starting with an anecdote about various persons. Both primary and secondary sources are used to support the author's arguments. Mr. Housel interviewed a few people and used their quotes in the book. The author's method of presenting his advice leaves a strong impact on the readers and keeps them engaged and motivated to flip to the next page and the next.

[1] rare, extreme outcomes that have a disproportionately large impact on outcomes in finance, business, and life. These are low-probability but high-impact events that can make or break portfolios, careers, or even entire economies

Critique:

‘Psychology of Money’ is well written and is strongly backed up by valid and authentic evidence, with a massive pool of real-life examples of personalities such as Warren Buffett, Bill Gates, etc., which is enough for the reader (at least me) to be convinced about the reliability of the advice.

The book has been divided in such a way that each chapter can be read individually by picking up any chapter. He talks about investment (for investors) and savings (for non-investors) as a means to increase one’s wealth. The author starts the chapter with a quotation from the chapter, giving the reader a perspective on the chapter.

The tagline of the book, *‘Timeless Lessons on Wealth, Greed, and Happiness,’* can be seen in every chapter. One has to read between the lines to truly appreciate the intentions of the author. The author has coupled his guidance with his personal experience.

There are some aspects of the book that I found lacking. Though most of the ideas presented by the author seem original, there are some that I found to be repetitive, like the compounding feature of money, which many investors already know.

Considering the increasing number of Indian investors, the author could have used examples of successful Indian investors like Harshad Mehta, Rakesh Jhunjhunwala, etc.

There is also a major lack of women's personalities mentioned in the book by Mr. Housel. Today, many women have succeeded in investing their money and achieving a strong position in their respective fields.

Nevertheless, despite its limitations, the argument that the author makes through his work in this book seems valid to me, and so do all the other famous personalities, such as James Clear and Howard Marks, who suggest reading it.

Observations:

The author discusses how a person's behaviour with money can affect their investment portfolios. The financial world is unpredictable, and anything can happen at any time. I can make an investment based on a good decision, but I can still end up losing money.

When we compare our status (wealth) with that of others, we tend to buy more expensive and luxurious items, without realising that we're reducing our wealth. What we don’t see in the form of material assets is true wealth.

Our decisions and efforts toward the same are not the only factors that determine the success of our investment. As Mr. Housel puts it, *“Luck and risk are both the reality that every outcome in life is guided by forces other than individual effort”*. The author mentions that *"The world is too complex to allow 100% of your actions to dictate 100% of your outcomes"*.

Leaving room for errors in our investment decisions plays a crucial role in every investor's decision. Mr. Housel mentions that *"a Margin of safety – you can call it room for error or redundancy – is the only effective way to navigate a world that is governed by odds, not certainties"*. To leave room for error, one has to accept the possible outcomes that could affect our decision, which is the smart way to proceed.

"An investing genius is the man or woman who can do the average thing when all those around them are going crazy". Our investment decision is also affected by what happens today (known as tail events). Any decision that we make on most days doesn't matter. The small number of days on which decisions are made has a greater influence on whether something big might happen. Therefore, I observed that even in times of recession, if I don't withdraw my investment, I could gain a greater return as compared to one who withdraws their investment.

On the whole, the way in which the author takes the reader through the entire book is very interesting. Readers can put them into practice in their real lives.

Additional Information:

The book has a pleasing appearance. The front cover of the book captures the attention of the readers. Not much pictorial information is given. The back cover consists of opinions of psychologists, investors and writers, a summary of the whole book and a short note on the awards won by the author.

The author has provided references at the end of the book, but I feel that these could have been given at the end of each page. Nevertheless, it can be said that the contents of the book could compensate for the mundane difficulties faced.

Conclusion:

After reading this book, I can confidently say that it has helped me learn more about how to manage my money. One major takeaway for me is that "money" has more to do with how I behave with it. To be successful in increasing my wealth, I need to embrace my relationship with money.

The very fact that 2.2 million copies have been sold since its initial publication signals that the author was successful at conveying his message. I recommend this book to all amateurs stepping out into the investment and savings world to be more confident about their relationship with their money.