

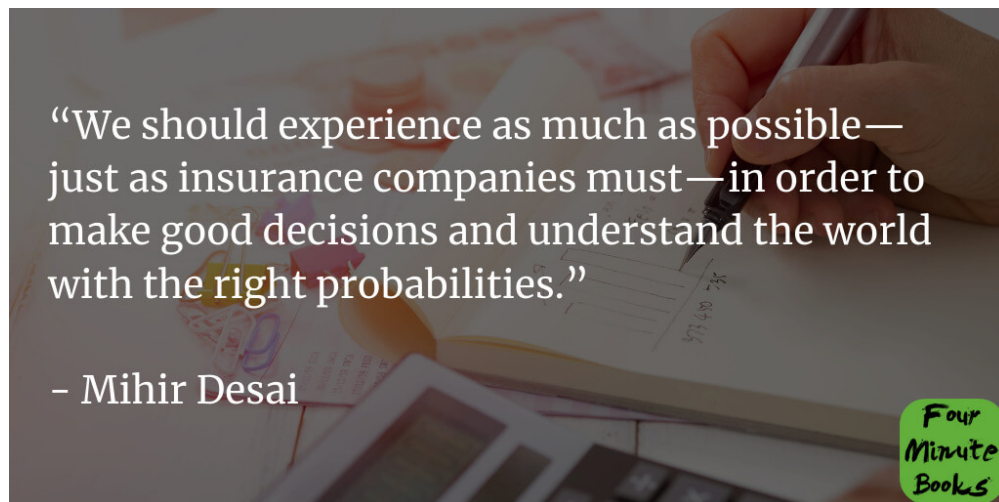
The Wisdom Of Finance Summary

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1-Sentence-Summary: *The Wisdom Of Finance* is a fascinating book that identifies the differences and similarities between the world of money and life experiences like relationships, showing how principles from each of these can benefit each other.

Read in: 4 minutes

Favorite quote from the author:



When I was younger, I thought that money was evil. I worried that if I ever wanted more if it then that would make me a bad person. Thankfully now I've learned better, but the world of finance still has a pretty terrible reputation around the globe.

The 2008 great recession didn't help this, either. As the market crashed, people lost their jobs and in just months their lives were ruined. It's become normal to think of the greedy financial system as the originator of problems like this one.

Sometimes the selfishness of big businesses is evident and our negative outlook on it is justified. But you and I are missing out on some important principles of life if we only look at this side of the coin.

The truth is, there's a lot more to this aspect of life than we might think. And it has a lot more to teach us about the rest of life than we assume.

These similarities between finance and life are the subject of Mihir Desai's *The Wisdom of Finance: Discovering Humanity in the World of Risk and Return*.

3 of the most curious lessons I discovered while reading this book are:

1. Diversification is important in investing and in all aspects of life.
2. Lessons from financial mergers can help your relationships.
3. It can be good to take on debt, whether you're a business or an individual.

Let's get right to it and see how much we can learn!

Lesson 1: Investors know to diversify their portfolios, and you should consider how doing the same in your life will benefit you.

When was the last time someone told you to not put all your eggs in one basket? I've heard this recently regarding my income streams and also as I began investing in stocks recently.

It makes sense, too. If you've got your life savings in just one investment and it tanks, you're out of luck. A wide variety of various types of stocks, in contrast, is much safer.

But did you ever consider that diversification might also be a principle that can benefit your life? Think about varying your educational experiences, friendships, and plans.

Education, for example, isn't something we often think about when considering this principle of finance. **But think about how, if you want to study history, taking an economics class might help you see why early traders valued their goods as they did.**

You really never know what classes are going to be useful after you graduate, so try to differentiate as much as you can.

Diversification of the types of people you associate with can also make a big impact on your success. Investors look to three types of assets that you can classify the people in your life with:

- High-beta assets are risky but have a high potential for gain, like someone you work with.
- Low-beta assets don't have as much opportunity in them, but keep you safe, just like your closest friends.
- Negative-beta assets, like gold, don't increase your worth but keep it stable in crises, just like your family.

Lesson 2: Relationships and financial mergers have more in common than you might think.

When AOL and Time Warner merged in 2001, venture capitalists considered it "the single most transformational event" in the history of business in the US. But by 2009, after years of frustration, the two officially separated.

And although you might not think of it, there are some hidden lessons from this that can benefit your relationships.

The first is that you've got to properly examine your potential partnerships before entering into them. AOL's financials were hiding accounting fraud, and Time Warner missed this because they failed to take a close enough look beforehand.

In your relationships, you must dig deep to make sure there's nothing that will come between you in the long run. Consider whether you want kids, or if you'll enjoy living together, for example.

Also, don't seek a relationship just to fill a hole in your life. Time Warner was merging with AOL because they felt behind with technology. If you similarly try to find someone to make up for what you lack, it could lead to disaster.

And last, make sure that your partnership is built on a foundation of equality from the beginning. Part of the difficulty for AOL and Time Warner was that the latter dominated the merger and imposed its business practices.

If you're in a relationship where either you or your partner is controlling, it's time to get out before things get worse!

Lesson 3: Businesses must take on the risk of debt to grow, and the same can apply to your life.

The common advice when starting a company is that you need venture capital to get it off the ground. You need to buy stock, hire employees, and pay all sorts of other costs. Unless you come from riches, you're going to need financial help.

Many businesses you can't start without going into debt, and there are certain payoffs in life you don't get without doing the same.

Take your education, for example. You might borrow massive amounts of money, hoping that your investment will pay off someday in the form of a good job.

Other aspects of life involve forms of debt that aren't purely financial, though. **Having kids, for instance, requires a lot of upfront work without very many initial rewards.**

Sure, that newborn you have is cute, but getting up in the middle of the night with them takes a heavy toll. And you don't even get to see the entire benefit of all your hard work until later.

It's only after that initial sacrifice that parents get to relive life through their children's eyes. As time wears on and the family grows older, parents and children get to enjoy more of a friendship relationship. As it grows, it eventually becomes the kind that is emotionally fulfilling throughout the rest of their lives.

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The Wisdom Of Finance Review

I really enjoyed *The Wisdom Of Finance*, although I didn't agree with everything in it. Analogies have always been fascinating to me, and I'd never considered how finance is like life. I think anyone can get something out of this that will improve their life, even if they know nothing about economics.

Who would I recommend The Wisdom Of Finance summary to?

The 21-year-old that is considering a degree in finance, the 48-year-old who loves philosophical discussions, and anyone that wants to see what money can teach us about having a better life.