

The Psychology of Money

1. Doing well with money has little to do with how smart you are and a lot to do with how you behave. And behaviour is hard to teach, even to really smart people.
2. Planning is important, but the most important part of every plan is to plan on the plan not going according to plan. Long term planning is harder than it seems because people's goals and desires change over time.
3. Dogs were domesticated 10,000 years ago and still retain behaviours of their wild ancestors. Yet here we are, with between 20 and 50 years of experience in the modern financial system, hoping to be perfectly acclimated.
4. Your personal experiences with money make up maybe 0.0000001% of what happened in the world, but maybe 80% of how you think the world works.
5. No one is crazy-we all make decisions based on our own unique experiences that seem to make sense to us in a given moment. Nothing is good or as bad as it seems.
6. Everything worth pursuing has less than 100% odds of succeeding, and risk is just what happens when you end up on the unfortunate side of that equation.
7. You should like risk because it pays off over time. Individual investors' willingness to bear risk depends on personal history. Not intelligence, or education, or sophistication. Just the dumb luck of when and where you were born.
8. However, there are many things never worth risking, no matter the potential gain.
9. Be careful who you praise and admire. Be careful who you look down upon and wish to avoid becoming.
10. Good investing isn't necessarily about earning the highest returns, because the highest returns tend to be one-off hits that can't be repeated. It's about earning pretty good returns that you can stick with and which can be repeated for the longest period of time. That's when compounding runs wild.
11. Good investing is not necessarily about making good decisions. It's about consistently not screwing up. This will make the biggest returns, because the investor will be able to stick around long enough for compounding to work wonders.
12. It's not whether you're right or wrong that's important, but how much money you make when you're right and how much you lose when you're wrong.
13. You can be wrong half the time and still make a fortune. We underestimate how normal it is for a lot of things to fail. This causes us to overreact when they do.
14. Therefore, focus less on specific individuals and case studies and more on broad patterns.
15. The hardest financial skill is getting the goalpost to stop moving. Why someone worth hundreds of millions of dollars would be so desperate for more money that they risked everything in pursuit of even more.
16. No one is impressed with your possessions as much as you are. Spending money to show people how much money you have is the fastest way to have less money. Example, Someone driving a \$100,000 car might be wealthy. But the only data point you have about their wealth is that they have \$100,000 less than they did before they bought the car. That's all you know about them.

17. Building wealth has little to do with your income or investment returns, and lots to do with your savings rate. People's ability to save is more in their control than they might think.
18. Flexibility and control over your time is an unseen return on wealth and that unseen return is becoming more important. Controlling your time is the highest dividend money pays.
19. People do not want the mathematically optimal strategy. They want the strategy that maximizes for how well they sleep at night.
20. Do not aim to be coldly rational when making financial decisions. Aim to just be pretty reasonable.
21. History is the study of change, ironically used as a map of the future. History can be a misleading guide to the future of the economy and stock market because it doesn't account for structural changes that are relevant to today's world.
22. People like to feel like they're in control – in the drivers' seat. When we try to get them to do something, they feel disempowered. Rather than feeling like they made the choice, they feel like we made it for them. So, they say "no" or do something else, even when they might have originally been happy to go along.
23. **Room for error:** The most important part of every plan is planning on your plan not going according to plan. The few specific places for investors to think about room for error:
 - a. Volatility
 - b. Saving for retirement
24. Everything has a price, but not all prices appear on labels.
25. Beware taking financial cues from people playing a different game than you are. For example, How much should you pay for Google stock today?
The answer depends on who "you" are.
If long term investor: Then the smart price to pay involves a sober analysis of Google's discounted cash flows over the period.
If day trader: Then the smart price to pay is "who cares?" because you're just trying to squeeze a few bucks out of whatever happens between now and lunchtime, which can be accomplished at any price.
26. Optimism sounds like a sales pitch. Pessimism sounds like someone trying to help you. Following reasons make financial pessimism easy, common, and most persuasive than optimism:
 - a. Money is ubiquitous, so something bad happening tends to affect everyone and captures everyone's attention.
 - b. Pessimists often extrapolate present trends without accounting for how markets adapt.
 - c. Progress happens too slowly to notice, but setbacks happen too quickly to ignore.
27. The more you want something to be true, the more likely you are to believe a story that overestimates the odds of it being true.
28. Go out of your way to find humility when things are going right and forgiveness/ compassion when they go wrong.