

# AI-00949 Hedonic Treadmill Investment

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**Define hedonic adaptation. Is there a similar concept of hedonic adaptation pertaining to a feeling we humans feel when a stock price reaches to a certain highest point but in a later time it reaches to another high point and so on and so forth. The number that we used to be satisfied at became irrelevant when the next higher value is attained. It feels like a never ending pursuit of a greater value that we never feel satisfied. What is the phenomenon called.**

You've exactly described the concept of **hedonic adaptation** in the context of financial gains.

Hedonic adaptation refers to the tendency of humans to quickly adjust to new levels of pleasure or satisfaction. A raise might feel amazing at first, but over time that new salary becomes your new normal. The same principle applies to stock prices. That high point you were thrilled about initially may not feel as exciting once the stock climbs even higher.

There isn't a specific term for this phenomenon in the financial world, but it's a well-documented psychological concept that applies perfectly to this situation. It's like being on a hedonic treadmill, constantly chasing the next high without ever feeling truly satisfied.

**Is financial hedonic adaptation (FHA) a normal phenomenon to humans or is it unique? Can it be tamed or controlled**

Financial hedonic adaptation (FHA) is absolutely a normal human phenomenon. It's rooted in the broader concept of hedonic adaptation, which applies to all aspects of life. Here's how it works:

- **Set Point:** Everyone has a baseline level of happiness or satisfaction, often referred to as a "set point." This isn't necessarily neutral, but tends to be positive for most people.
- **Adaptation:** When we experience positive events like a raise or a stock price increase, happiness goes up. However, over time, we adapt to this new level and it becomes our new normal.
- **Chasing the High:** This adaptation creates a desire for more to recapture that initial excitement. In finances, this might mean needing an even higher stock price or a bigger raise to feel satisfied again.

While FHA is normal, it can be detrimental to your financial well-being. Here are some ways to manage it:

- **Focus on Goals:** Define long-term financial goals like retirement or a dream vacation. Track your progress towards these goals to celebrate achievements and stay motivated.
- **Practice Gratitude:** Take time to appreciate what you already have financially. This can help counter the tendency to chase the next high.
- **Focus on Experiences:** Studies show experiences bring more lasting happiness than material possessions. Consider allocating some extra money to experiences you'll truly value.
- **Set Realistic Expectations:** Understand that stock prices and your income will fluctuate. Focus on a long-term investment strategy and don't get caught up in the day-to-day noise.

By understanding FHA and implementing these strategies, you can make more mindful financial decisions and avoid the hedonic treadmill.

**Can the hedonic treadmill (HT) be leveraged to achieve something like a financial gain? If FHA is a normal human phenomenon, then most humans will repeat the action over and over again for example in a market capitalization of a publicly traded company? So if I pick a stable and profitable company, most likely there will be future gains to attain because of hedonic attraction is present**

You're right, the hedonic treadmill (HT) can be partially leveraged for financial gain, but with limitations. Here's why:

## How HT can help:

- **Stay Invested:** HT can motivate you to stay invested in the market for the long term. Even if you don't feel the initial excitement after a stock price increase, HT can discourage selling and potentially missing out on future growth.
- **Company Selection:** Hedonic adaptation can make you value continued growth. Choosing stable companies with a history of growth can benefit from HT as you'll likely be happy with seeing the stock price climb over time, even if the initial jump isn't as thrilling.

## Limitations of HT:

- **Desire for Bigger Gains:** Hedonic adaptation can make you crave increasingly higher returns. This can lead to risky investment decisions in pursuit of that next big high, potentially jeopardizing your financial stability.

## Tips for using HT for financial gain:

- **Focus on Long-Term Goals:** Don't get caught up in short-term gains or losses. Focus on a long-term investment strategy aligned with your financial goals like retirement.
- **Practice Gratitude:** Appreciate the gains you've already made. This will help counter the desire to chase ever-increasing returns.
- **Diversify:** Don't put all your eggs in one basket. Diversify your portfolio to mitigate risk and avoid emotional decisions based on the performance of a single stock.

Hedonic adaptation is a complex phenomenon. While it can motivate you to stay invested and appreciate continued growth, it can also lead to risky behavior. By understanding its limitations and implementing these strategies, you can leverage HT to make sound financial decisions and achieve your long-term goals.

## List 20 guidelines for FHA we discussed

While we discussed several important concepts related to financial hedonic adaptation (FHA), it wouldn't be entirely accurate to call them strict guidelines. FHA is a natural human tendency, and creating a rigid set of rules might be counterproductive. However, here are 20 key points to keep in mind when considering FHA:

## Understanding FHA:

1. **Hedonic Adaptation Explained:** FHA describes how we adjust to positive experiences, making them feel less exciting over time.
2. **Set Point Theory:** We all have a baseline level of happiness (set point) that adaptation adjusts towards.
3. **Chasing the High:** After adapting to a new financial level, we might crave more to regain the initial satisfaction.

## Managing FHA:

1. **Set Long-Term Goals:** Define goals like retirement and track progress to celebrate achievements and stay motivated.
2. **Practice Gratitude:** Appreciate what you already have financially to counter the desire for more.
3. **Focus on Experiences:** Invest in experiences that bring lasting happiness, rather than just material possessions.
4. **Realistic Expectations:** Understand that stock prices and income fluctuate. Focus on long-term strategy, not daily changes.

## Leveraging FHA for Gains (Partially):

1. **Stay Invested:** FHA can discourage selling and potentially missing out on future growth.
2. **Company Selection:** Choose stable companies with a history of growth to benefit from continued price increases.

## Limitations of Leveraging FHA:

1. **Desire for Bigger Gains:** FHA can make you crave ever-increasing returns, leading to risky investments.

## Additional Tips:

1. **Diversify Portfolio:** Spread your investments to mitigate risk and avoid emotional decisions based on single stocks.
2. **Financial Planning:** Consider consulting a financial advisor to create a personalized plan considering your risk tolerance and goals.

3. **Track Your Progress:** Regularly monitor your investments but avoid obsessing over day-to-day fluctuations.
4. **Rebalance Portfolio:** Periodically rebalance your portfolio to maintain your desired asset allocation.
5. **Invest Consistently:** Set up automatic contributions to build wealth steadily over time.
6. **Educate Yourself:** Continually learn about investing and financial concepts to make informed decisions.
7. **Manage Risk:** Understand your risk tolerance and invest accordingly. Don't chase high returns at the expense of safety.
8. **Long-Term Perspective:** Focus on building wealth over time, not getting rich quick.
9. **Be Patient:** The market has ups and downs. Stay patient and avoid impulsive decisions based on short-term trends.
10. **Enjoy the Journey:** Investing should be part of a larger financial plan for your future goals. Don't let it become a source of constant stress.

Remember, FHA is a natural human tendency, but by understanding it and implementing these tips, you can make informed financial decisions and achieve your long-term goals.

### **Is there an inverse of Financial Hedonic Adaptation?**

There isn't a universally recognized term for the exact inverse of financial hedonic adaptation (FHA), but we can explore concepts that go against the grain of FHA. Here are a few ideas:

- **Meaning-Based Investing:** This approach focuses on investing in companies or projects aligned with your values, creating a sense of purpose beyond just financial gain. The positive association with your values can potentially counteract the diminishing satisfaction of pure financial growth seen in FHA.
- **Frugality with a Purpose:** While frugality is often associated with deprivation, it can be reframed as a mindful approach to resource allocation. When you prioritize experiences and goals over fleeting material possessions, the

satisfaction you derive from saving and spending wisely can be more enduring than the short-lived joy of new purchases.

- **Gratitude-Based Investing:** Regularly practicing gratitude for your current financial situation can help you appreciate the progress you've made. This appreciation can act as a counterpoint to the constant urge for more that characterizes FHA.
- **Focus on Security:** Some investors prioritize building a secure financial future over maximizing returns. This focus on security can provide a sense of accomplishment that goes beyond the pursuit of ever-higher financial achievements.
- **Loss Aversion Mitigation:** People tend to feel losses more intensely than gains. Strategies to mitigate loss aversion, such as stop-loss orders or asset allocation based on risk tolerance, can help you avoid the emotional rollercoaster associated with FHA.

Remember, these are alternative perspectives that might help manage FHA, not a complete reversal. Understanding human psychology and how it interacts with finances is crucial for making sound investment decisions.

### Is there an inverse for hedonic adaptation?

There isn't a well-defined scientific term for the exact inverse of hedonic adaptation (HA) in general, not just financially. However, researchers have proposed concepts that go against the grain of HA. Here's a breakdown:

- **Upward Adaptation:** This theoretical concept suggests that under certain circumstances, positive experiences can lead to a lasting increase in happiness, not just a return to baseline. Factors like personal growth, mastery of skills, or building strong relationships could contribute to upward adaptation.
- **Savoring:** This refers to consciously focusing on and appreciating positive experiences to extend their positive impact. By savoring positive financial gains, you might create a more lasting sense of satisfaction than simply adapting to them.
- **Personality Traits:** Studies suggest personality traits like gratitude, optimism, and mindfulness can influence how we adapt to positive experiences. These

traits might help people maintain a more elevated level of happiness after positive events.

It's important to note that these concepts are still being explored, and there's no single theory that definitively explains the opposite of hedonic adaptation. However, they offer valuable insights into how positive experiences can potentially have a more lasting impact on our well-being.

### **Is being grateful similar or related to savoring?**

Being grateful and savoring are definitely related concepts, but with some subtle differences:

#### **Gratitude:**

- **Focus:** Gratitude is about appreciating what you already have, both positive experiences and possessions.
- **Emotion:** It's an emotion of thankfulness and recognition of value.
- **Action:** Gratitude can be expressed verbally, through actions, or simply through internal reflection.

#### **Savoring:**

- **Focus:** Savoring is about actively focusing on and maximizing the enjoyment of a positive experience in the moment.
- **Emotion:** It's about intensifying the positive feelings associated with the experience.
- **Action:** Savoring involves slowing down, paying attention to details, and mentally replaying or reliving the experience.

Here's an analogy: Imagine a delicious meal.

- **Gratitude:** Being grateful for the meal acknowledges you have food, appreciate the effort to prepare it, and feel fortunate.
- **Savoring:** Savoring the meal involves focusing on the taste, texture, aroma, and the company you're with, fully appreciating each delicious bite.

Both gratitude and savoring can enhance your well-being. Gratitude fosters a sense of contentment and appreciation for your life, while savoring helps you derive more joy from positive experiences. They can work together:

- **Gratitude can lead to savoring:** Appreciating something you have can motivate you to savor it more fully.
- **Savoring can lead to gratitude:** By truly enjoying a positive experience, you might feel more grateful for it.

In conclusion, gratitude and savoring are complementary practices that can enrich your life. By practicing both, you can cultivate a more positive outlook and appreciate the good things in your life.

**List 10 examples of each**

## 10 Examples of Gratitude:

1. **Verbal:** Thanking a friend for their help with a project.
2. **Action:** Bringing a small gift to your co-worker for covering your shift.
3. **Internal:** Feeling grateful for your good health after recovering from an illness.
4. **Material Possessions:** Appreciating the comfort and warmth of your favorite blanket.
5. **Experiences:** Expressing thankfulness for a beautiful sunset you witnessed.
6. **Relationships:** Feeling grateful for the love and support of your family.
7. **Challenges:** Viewing a difficult situation as an opportunity for growth and expressing gratitude for the lessons learned.
8. **Simple Things:** Appreciating the convenience of having clean running water.
9. **Freedoms:** Feeling grateful for the freedom to pursue your hobbies and interests.
10. **Personal Qualities:** Recognizing and appreciating your strengths and talents.

## 10 Examples of Savoring:

1. **Meal:** Taking slow, mindful bites, appreciating the flavors and textures of each ingredient.



2. **Success:** Mentally replaying the moments leading up to a goal achievement and basking in the feeling of accomplishment.
3. **Nature:** Taking a walk and focusing on the sights and sounds of nature, like the scent of pine needles or the chirping of birds.
4. **Music:** Listening attentively to a favorite song, paying close attention to the melody and lyrics.
5. **Achievement:** Sharing your success with a loved one and reliving the excitement of the moment together.
6. **Human Connection:** Savoring a heartfelt conversation with a friend, fully present and engaged in the moment.
7. **Creative Process:** Fully immersing yourself in the joy of creating something, whether it's writing, painting, or playing music.
8. **Travel:** Taking photos and journaling about your experiences to revisit them later and relive the joy of discovery.
9. **Positive Emotions:** Allowing yourself to fully experience positive emotions like joy, love, or peace without worrying about them fading.
10. **Sensory Details:** Focusing on the sensory details of a positive experience, like the warmth of the sun on your skin or the feeling of cool grass beneath your feet.