You know stuff about money that I don't, and vice versa. You go through life with different beliefs, goals, and forecasts, than I do. That's not because one of us is smarter than the other, or has better information. It's because we've had different lives shaped by different and equally persuasive experiences.

Your personal experiences with money make up maybe 0.00000001% of what's happened in the world, but maybe 80% of how you think the world works. So equally smart people can disagree about how and why recessions happen, how you should invest your money, what you should prioritize, how much risk you should take, and so on.

In his book on 1930s America, Frederick Lewis Allen wrote that the Great Depression "marked millions of Americans—inwardly—for the rest of their lives." But there was a range of experiences. Twenty-five years later, as he was running for president, John F. Kennedy was asked by a reporter what he remembered from the Depression. He remarked:

I have no first-hand knowledge of the Depression. My family had one of the great fortunes of the world and it was worth more than ever then. We had bigger houses, more servants, we traveled more. About the only thing that I saw directly was when my father hired some extra gardeners just to give them a job so they could eat. I really did not learn about the Depression until I read about it at Harvard.

This was a major point in the 1960 election. How, people thought, could someone with no understanding of the biggest economic story of the last generation be put in charge of the economy? It was, in many ways, overcome only by JFK's experience in World War II. That was the other most widespread emotional experience of the previous generation, and something his primary opponent, Hubert Humphrey, didn't have.

The challenge for us is that no amount of studying or open-mindedness can genuinely recreate the power of fear and uncertainty.

I can read about what it was like to lose everything during the Great Depression. But I don't have the emotional scars of those who actually experienced it. And the person who lived through it can't fathom why someone like me could come across as complacent about things like owning stocks. We see the world through a different lens.

Spreadsheets can model the historic frequency of big stock market declines. But they can't model the feeling of coming home, looking at your kids, and wondering if you've made a mistake that will impact their lives. Studying history makes you feel like you understand something. But until you've lived through it and personally felt its consequences, you may not understand it enough to change your behavior.

We all think we know how the world works. But we've all only experienced a tiny sliver of it.

As investor Michael Batnick says, "some lessons have to be experienced before they can be understood." We are all victims, in different ways, to that truth.

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In 2006 economists Ulrike Malmendier and Stefan Nagel from the National Bureau of Economic Research dug through 50 years of the Survey of Consumer Finances—a detailed look at what Americans do with their money.[4]

In theory people should make investment decisions based on their goals and the characteristics of the investment options available to them at the time.

But that’s not what people do.

The economists found that people’s lifetime investment decisions are heavily anchored to the experiences those investors had in their own generation—especially experiences early in their adult life.

If you grew up when inflation was high, you invested less of your money in bonds later in life compared to those who grew up when inflation was low. If you happened to grow up when the stock market was strong, you invested more of your money in stocks later in life compared to those who grew up when stocks were weak.

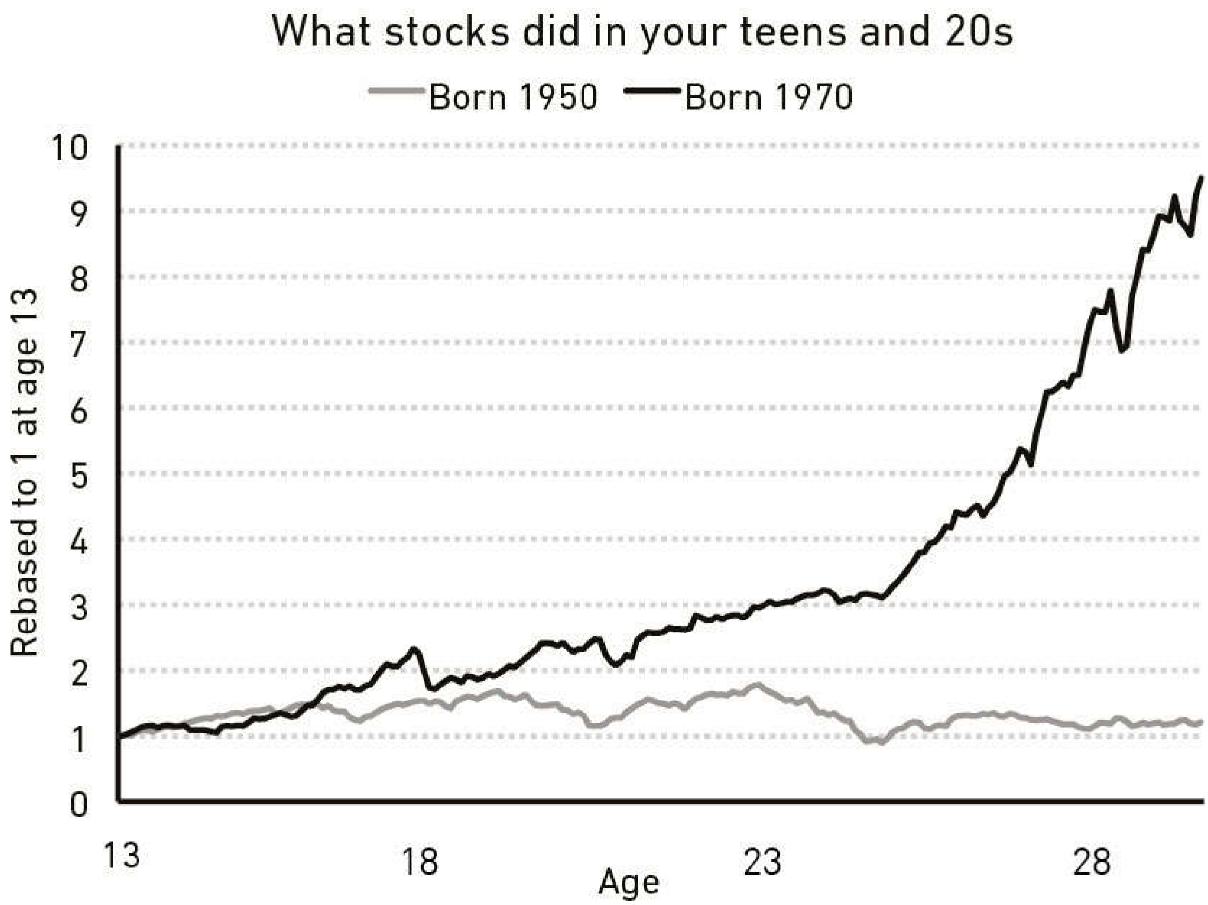
The economists wrote: “Our findings suggest that individual investors’ willingness to bear risk depends on personal history.”

Not intelligence, or education, or sophistication. Just the dumb luck of when and where you were born.

The Financial Times interviewed Bill Gross, the famed bond manager, in 2019. “Gross admits that he would probably not be where he is today if he had been born a decade earlier or later,” the piece said. Gross’s career coincided almost perfectly with a generational collapse in interest rates that gave bond prices a tailwind. That kind of thing doesn’t just affect the opportunities you come across; it affects what you think about those opportunities when they’re presented to you. To Gross, bonds were wealth-generating machines. To his father’s generation, who grew up with and endured higher inflation, they might be seen as wealth incinerators.

The differences in how people have experienced money are not small, even among those you might think are pretty similar.

Take stocks. If you were born in 1970, the S&P 500 increased almost 10-fold, adjusted for inflation, during your teens and 20s. That's an amazing return. If you were born in 1950, the market went literally nowhere in your teens and 20s adjusted for inflation. Two groups of people, separated by chance of their birth year, go through life with a completely different view on how the stock market works:



Or inflation. If you were born in 1960s America, inflation during your teens and 20s—your young, impressionable years when you're developing a base of knowledge about how the economy works—sent prices up more than threefold. That's a lot. You remember gas lines and getting paychecks that stretched noticeably less far than the ones before them. But if