

THE PSYCHOLOGY OF MONEY by *Morgan Housel*

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About The Author

Morgan Housel is a partner at The Collaborative Fund. His book *The Psychology of Money* has sold over two million copies and has been translated into 52 languages. He is a two-time winner of the Best in Business Award from the Society of American Business Editors and Writers, winner of the New York Times Sidney Award, and a two-time finalist for the Gerald Loeb Award for Distinguished Business and Financial Journalism. He serves on the board of management at Market.

Review

The Psychology of Money by Morgan Housel is a fascinating and thought-provoking exploration of the intricate relationship between money and human psychology. In this book, the author digs into how money affects our feelings, emotions, and behaviours, and how these factors shape our financial decisions and outcomes.

One of the greatest edges the book has is its ability to help readers understand how their attitudes towards money are shaped through psychological factors, and how these attitudes can have significant consequences on their financial well-being. In this book, Morgan shares 19 stories exploring the strange way people think about money and observing the other factors which make them think like that.

This book begins with the story of Richard and Ronald, and by contrasting their stories, the author establishes the central theme of the book: 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 for the smartest people.

One thing that is discussed in every single chapter is The Magic of Compounding, for compounding the only rule that works is to shut up and wait, and it's so true for money. Warren Buffet's net worth at age 30 was 9.3 million dollars which accumulated and compounded so much that at age 60 his net worth was more than 80 billion dollars. His skill is investing but his secret is time. And the book shares the concept of compounding in a very contrasting way.

Luck and Risks are an inseparable part of the stock market. No one knows where the market will go. They are the reality that every outcome in life is guided by forces other than individual

efforts. Just like every Bill Gates, there is a Kent Evans who was just as skilled and driven but ended up on the other side of live roulette'. And that's just how life works. I always thought that luck has no importance in our lives, and the one who works the hardest is the one who will rise to the top. But in reality, nothing is as simple as it seems. Sometimes in life, bad decisions have a positive outcome and (good and experienced decisions) make others fall.

Whenever we see a guy in a Benz we always consider his car as his meter of wealth. Why so? Because it is human psychology that we believe in what we see and are doubtful of what we cannot see. But in reality, owning or renting a Benz can only make you rich but never. Make you wealthy! Richness is the money you have spent on stuff around you but, Wealth is that financial asset that hasn't been converted into stuff you see.

Investment decisions are typically taught as a Math based field, where historic data plays an important role in the decision making. But in the real-world people don't make decisions on spread sheets, people make decisions on their emotions, their ego, pride, and their unique worldview, which all get jumbled together. The book gives us chances to win and take advantage of the long tail, by reducing the ego and waiting for the best opportunity which only comes when you save, save and save!

One of my favourite lessons from the book is what is the purpose of earning money? What is it that you are earning money for? How much money do I need to live a life of comfort? What does it take to earn that much money? These are the questions that I ask myself but never had answers to. In the book, Morgan Housel shares that the true intrinsic value of money is to give you control over your time. Wow!

Whenever people say that they want to be a millionaire, they don't mean that they want to grow their money. In essence, what they are saying is that they want to earn millions and spend millions on luxury goods. If their motive for earning money is to spend they will be a part of a treadmill that will never stop. But if you are earning money, with the true essence, you can buy time with money. In my opinion, this is the true intrinsic value of money.

Is there a reason why so many wealthy investors sign their bankruptcy papers after adding up a few million dollars to their bank account? I was very curious why some people even after having a net worth of millions of dollars ended up having 0 dollars in their bank account. Why is it so? The book explains very well that there is a difference between *getting* wealthy and *staying* wealthy. Getting wealthy is easy but holding that money for a long time so that it could compound itself in the future is very hard, especially when you see that in the short run

your stocks are losing their value.

Strengths and Weakness

One of the major strengths of the book is that every single chapter starts with a story of two opposite characters who do something crazy with their money and on that basis (how they behave with their money), the author draws multiple conclusions which compound in the following chapters.

I like how the author described the most important and counterintuitive features of the psychology of money in a very crisp and refined manner. He captivated me with his writing style, he draws broad patterns of human psychology from a wide variety of disciplines such as medicine, arts, industry, and politics, and merges them with the psychology of money.

Recommendation and Final Thoughts

The book is not the one that will fill you up with investment strategies or methods. Instead, this book talks broadly about people's relationship with money. It is short and simple, yet explores massive ideas that require significant thought and consideration. It gives you a lot to think about before investing, saving, and spending. You can finish this book in a week, unlike other books that are too lengthy.