Your Money or Your Life

I recently returned from a bucket-list trip to Kenya and Tanzania that turned out to be life-changing in several ways. First, seeing the huge variety of majestic animals on the African Savanna reminded me of the power of nature and the fact that we are in many ways guests in their kingdom and not the reverse. My more powerful and poignant realization had to do with the people of these two countries. Median annual income per capita in Tanzania and Kenya is $702 and $874, respectively. That means the average person lives on a little more than $2 per day which ranks around 150th out of a list of 190 countries. There is a great deal of variation in estimates of unemployment in these countries but some surveys

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By Bill Spitz, Principal

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suggest that it could be as high as 30% for young adults. This has spurred the development in both countries of what is known as the Boda boda industry in which poor individuals rent a motorbike by the day in order to provide transportation of individuals and goods. It is not uncommon to see as many as three passengers on the back of one of these vehicles and they often carry firewood, lumber, building materials, and water since many people do not have potable water in their homes forcing them to rely on communal wells. The Boda boda drivers hope to eke out $5 or $6 dollars a day in fares which nets out to $2 to $3 after paying the rental cost and purchasing gasoline. Official estimates are that there are 1.2 million Boda bodas in Kenya alone but the real number may be quite a bit higher. Not surprisingly, Boda bodas have become a major public health concern given the frequency of accidents. In every town, a large number of young males are parked on their motorbikes desperately looking for a fare.

We also visited Maasai villages in which people live in unventilated huts that are constructed of cow dung, and even houses located in towns are ramshackle. Nairobi has a slum called Kibera that may house as many as 750,000 people who live without adequate water, sanitation, electricity, and health care. Life expectancy in Kenya and Tanzania is 62.7 and 66.4 years, respectively, as compared to 77.2 in the U.S.

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Despite these grim statistics, the people we met in these countries were incredibly friendly, gracious, optimistic, and seemingly quite content. In fact, they were the nicest people I have encountered in my world travels. I contrast that with the U.S. in which median income per capita is $19,306, more than twenty-seven times that of Tanzania. Yet, the U.S. is bitterly divided and a large component of the population is angry and resentful.

What I saw in these countries motivated me to think hard about the relationship between wealth and happiness, our attitudes toward money, and what really constitutes wealth. As a financial type, my knowledge of psychology is limited so I did a good deal of research which forms the basis of this paper. Diversified Trust's clients, prospects, and friends are already people of means, and most have long-established personalities and values. So, while this paper should provide them with some intellectual stimulation, my fondest hope is that they will forward it to children and grandchildren who can change their lives by following the recommendations contained herein.

MONEY AND MENTAL HEALTH

Thousands of books provide advice on investing and Diversified Trust is in the business of helping individuals, families, and institutions intelligently manage their wealth. All of this effort begs the question of whether the accumulation of wealth makes us happy. The academic literature is replete with papers attempting to answer this important question. Unfortunately, all of the studies suffer from one problem which is that happiness is not easy to measure. Therefore, they typically rely on surveys in which a large number of people are asked about their lives including how often they experience emotions such as joy, anxiety, sadness, anger, stress, and affection. While these surveys are generally carefully structured to eliminate biases, they are necessarily highly subjective. Most studies focus on the relationship between happiness and annual income rather than on accumulated wealth. While some studies have produced conflicting results, the general sense is that financial success is correlated with emotional well-being, *but only up to a certain level.* In particular, those at the low end of the income scale enjoy improvement in emotional health with rising incomes. Even so, one survey found that an increase in income from $25,000 to $55,000 only resulted in a 9% increase in happiness. With regard to higher incomes, the seminal study was published by Nobel Prize winner Daniel Kahneman in 2010. He found that happiness did not increase beyond an annual income of $75,000. Accounting for overall growth in personal incomes since then, perhaps that number would equate to $125,000 today. A group of researchers (including Kahneman) revised their thinking in an article published in 2023 in the Proceedings of the National Academy of Sciences Journal. The new study found that happiness seems to plateau at an annual income of about $500,000. (Has our society become more focused on wealth?) I do not believe the actual number is important. The key point is that happiness and emotional well-being are determined by a variety of other life factors once a certain level of financial success is achieved.

"All of this effort begs the question of whether the accumulation of wealth makes us happy."

ENOUGH

During my trip to Africa, I did not think it appropriate to discuss financial circumstances with the people I met, but one volunteered "We do not have much, but it is enough." What an incredibly powerful statement!

"We do not have much, *but it is enough."*

Determining how much is enough is a critical step toward emotional well-being. Enough will be different for each person and it need not imply doing without. Setting a high target is perfectly reasonable and it may well provide a much-needed source of motivation. However, the key is to establish and stick with a goal. As my favorite financial writer, Morgan Housel, has stated, "The hardest financial skill is getting the goalpost to stop moving." What are the benefits of determining how much is enough?

- Setting a clear goal provides purpose and direction. And, achieving that goal creates a strong feeling of accomplishment.
- A sense of having enough reduces stress and anxiety and leads to a better balance in life. Not knowing how much is enough leads to constant striving for more.
- A feeling of sufficiency allows an individual to redirect energy towards more meaningful goals such as building relationships, contributing to the community, pursuing hobbies, and so on.
- Feeling that you have enough contributes to contentment, peace of mind, and happiness while fostering a strong sense of gratitude.
- Enough allows an individual to avoid what psychologists call the hedonic treadmill which is a phenomenon in which people continuously adapt to improvements in their standard of living leading to a perpetual desire for more.
- A sense of enough decreases the odds of excessive materialism in which possessions become the primary source of identity and happiness.

Financial planning is generally a highly technical exercise involving a lot of numbers that are fed into computer simulations that provide probabilities of reaching different financial goals. I hope this section makes it clear that there should also be a significant emotional component to planning. In addition to securing my financial future, how do I maximize contentment, peace, and emotional well-being?

ENVY-THE ENEMY OF ENOUGH

As one of the Seven Deadly Sins, envy is a particularly destructive human emotion. Many people want more simply because they are concerned that the other guy **has** more. The prevalence of social media makes this problem particularly acute today because we are all continuously exposed to the lifestyles and possessions of the rich and famous. Many people engage in conspicuous consumption because they believe that money bestows status, admiration, and social position. In contrast, a more thoughtful perspective is that humility, compassion, kindness, and empathy gain more respect than flashy displays of wealth. An insatiable appetite for more can lead to a myriad of problems including:

- Impulse spending, excessive debt, and potential financial ruin.
- Neglect of critical financial goals. Attempting to match the living standard of others may detract from a focus on saving and investing for a secure financial future.
- Envy in the workplace in pursuit of a promotion or higher salary can lead to negative behavior that actually jeopardizes career advancement, future income, and ultimately, financial security.
- Stress resulting from the fact that keeping up with others is a never-ending competition in which there is no winner.
- Problems with relationships. Studies show that those who are intensely focused on money tend to be less attuned to the social environment. Other studies find that those who are driven by money are frequently more self-centered and arrogant.
- Destructive investments. In pursuit of high investment returns that generate more wealth, some individuals take excessive and foolhardy risks that result in economic catastrophe. Once again, Morgan Housel put it beautifully when he said "There is no reason to risk what you have and need for what you don't have and don't need."
- In extremis, criminal activity. In 2020, I wrote a white paper titled *Angels and Demons—Highlighting the best and worst of the financial world.* It chronicled the cases of several very successful, wealthy, and highly respected individuals who turned to crime simply because they never had quite enough. Not only did they fail to get more, but they sacrificed their reputation and even their personal freedom.

While it is certainly tempting to admire the lifestyles of those who seem to be better off, the message is that every individual should determine how much is enough based on her own goals and values and then work as hard as possible to savor progress toward enough while banning envy in all of its pernicious forms.

WHAT REALLY CONSTITUTES WEALTH?

The true meaning of wealth extends beyond financial assets and possessions. Here is a partial list of what I will call "Life Assets" as opposed to material wealth:

- Health and well-being
- Meaningful relationships
- Knowledge and wisdom
- Contributions to society
- Emotional intelligence
- Gratitude, contentment, balance, and inner peace
- Purpose and passion

Being in control of your time *is the single most important potential benefit of wealth...*

These are all incredibly important, but my favorite definition of wealth is the ability to be in charge of one's own time. It is all about flexibility and control! In his 1981 book, The Sense of Wellbeing in America, Angus Campbell wrote "Having a strong sense of controlling one's life is a more dependable predictor of positive feelings of wellbeing than any of the objective conditions of life." Being in control of your time is the single most important potential benefit of wealth, and there is actually a term for this idea which is "time affluence." However, wealth does not guarantee control over time. Another study by Daniel Kahneman found that higher-income people spend more time on work, commuting, and other compulsory activities as compared to their counterparts in lower-income brackets. Therefore, decisions about money should really become decisions about time. Thinking about time rather than money spurs people to engage in activities that promote well-being such as socializing and volunteering. A particularly interesting study divided participants into two groups. One group was asked to think about their income on an annual basis while the other was asked to calculate their income on an hourly basis. Irrespective of income level, those who calculated their hourly income were less willing to engage in activities that were emotionally but not financially rewarding. They were highly impatient with unpaid activities such as quietly listening to music and less apt to engage in volunteer work.

There are a number of basic strategies to find more free time including prioritizing activities, increasing efficiency, and learning to say no. However, the next section provides a number of recommendations on techniques that maximize the satisfaction derived from personal spending and it includes several suggestions on how to "buy time."

HAPPY SPENDING

I have argued that wealth is about a great deal more than material possessions and have advocated for the concept of enough. However, I do not want to diminish the joy that can be associated with spending. After all, retail therapy is beneficial for many people. The key is to derive the maximum amount of pleasure possible from spending and to make choices that provide lasting value. Most of the recommendations that follow come from three excellent books:

Happy Money—The Science of Happier Spending by Elizabeth Dunn & Michael Norton

Mind Over Money by Claudia Hammond

The Psychology of Money by Morgan Housel

Inasmuch as this is not an academic paper, I have not included citations, but rest assured that their recommendations are based on literally hundreds of psychological studies and experiments.

We all thrive on stories, and our experiences give *us the ability to relate stories forever.*

1. Invest in experiences rather than things. First, possessions quickly become part of our daily landscape so they generally do not provide lasting satisfaction. In contrast, experiences generate durable value. We all thrive on stories, and our experiences give us the ability to relate to stories forever. Moreover, we tend to embellish our stories so they get even better with time! Experiences provide social connections and also represent a distinct statement as to who we are. Experiences generate a strong sense of nostalgia and offer lasting rather than temporary memories. Interestingly, studies show that the extra pleasure brought by experiences begins long before they actually take place due to the joy of anticipation. Finally, one poignant study found that 83% of those surveyed regretted not having purchased some experience whereas 83% did regret purchasing a material object they did not really need.

2. Give yourself small treats. As incomes rise, there is a strong tendency to immediately step up to luxury goods. While some luxury may be well-deserved, too much focus on high-end goods diminishes everyday pleasures. Researchers find that the degree to which people savor a simple experience is dependent on their income and wealth. Those with higher incomes indicate they take less pleasure from a simple, enjoyable experience than people on lower incomes. So, enjoy the simple pleasures!

3. Don't forget about the insidious impact of envy. When considering a purchase, make the decision based on the item in question and not on a comparison with the possessions of others.

4. Pay now, consume later. A great deal of the pleasure in purchasing a good or service lies in anticipation which promotes the idea of delaying consumption. This is a physical as well as emotional phenomenon. In one experiment, given the choice between immediately consuming a bar of chocolate or waiting thirty minutes to do so, those who delayed gratification derived significantly more pleasure from it. In contrast, the act of paying is quite painful often diminishing the overall experience. One solution to this problem is to consume now and pay later but that strategy can be financially irresponsible running the risk of accumulating excessive debt. So, the better solution is to pay now and then spend time relishing the upcoming treat!

5. Buy time. If you accept the premise that time affluence is the true measure of wealth, then "buying time" can be a particularly rewarding way to spend money. Some of the ways to purchase time involve using:

Outsourcing services (housecleaning, lawn care, etc.)

Meal delivery services

Transportation services (rather than driving yourself)

Online shopping

Home automation

Convenience Services (dry cleaning and grocery delivery, pet grooming, etc.)

6. Invest in others. Study after study finds that spending money on others is much more gratifying than spending it on yourself. In one experiment, people were given cash and told that they must either spend it on themselves or on someone else by the end of the day. Those who spent on others were overwhelmingly happier. Interestingly, this experiment

"Study after study find that spending money on others is much more gratifying than spending it on yourself."

was repeated in a very poor country in Africa with virtually identical results. Another survey found that people were particularly happy when they spent an unanticipated windfall on others rather than on themselves. A 2011 study found that even toddlers as young as two exhibited greater happiness when giving treats to others as compared to treating themselves. Remember the concept of time affluence? An interesting study found that those who gave up free time volunteering felt more time affluent. What is the explanation for all of this apparent generosity? Giving to others strengthens social bonds, triggers feelings of empathy and compassion, generates positive social reinforcement, and creates a sense of anticipation and excitement.

CHILDREN AND MONEY

...combine information on the nuts and bolts *of the financial world as well as a heavy dose of attitudes and values.*

We are often asked how to teach children the value of money. As it turns out, children are very aware of money at an early age. A study in Finland found that nursery school children understood that their parents earned money from working which was then used to purchase food and other items. They also understood the purpose of piggy banks, ATMs, and commercial banks. Children gain this knowledge from both overhearing parental conversations and from direct discussions with them on financial matters. However, children have a difficult time thinking in terms of a “rainy day” and are also hesitant to defer gratification. So, educating children should combine information on the nuts and bolts of the financial world as well as a heavy dose of attitudes and values. Hopefully, the sections on Enough, What Really Constitutes Wealth, and Happy Spending represent a good starting point on values. With regard to the nuts and bolts of finance, one recommendation is to create a quasi-real-world financial situation for children in which their allowance is divided into four components. First, they pay a 15% tax that goes into a pot that is spent for the good of the entire family based on the consensus of the group. Ten percent each must be allocated to charity and saving, and the child is then free to spend the remaining 65%. Finally, a study of 1,500 families found that students who were required to work in some way for their allowance were two times as likely to voluntarily give money to charity. The books referenced above contain other strategies for providing young people with education and good financial values.

EQUANIMITY

I have to admit that I have spent my entire career in the trenches of investing and have been guilty of not stepping back to think carefully about why we all work so hard to accumulate assets. My trip to Africa stimulated me to think about goals, values, and behavior as compared to inflation, interest rates, returns, and all of the other numbers that are the typical fodder of financial types. While I do not apologize for working hard at investing, I now realize that it is all about mental well-being, contentment, security, and peace—in other words, equanimity.

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