MONEY AND HAPPINESS

ADAM GROSSMAN, CFA

Dear Reader,

Thank you for your interest in *Money and Happiness.*

Does money buy happiness? Conventional wisdom says no—but is that really case? It turns out the answer isn't a simple yes or no. Fortunately, this is an area that has been extensively studied by academic researchers. In this ebook, we'll examine this research and identify practical solutions that can help build a happier relationship between you and your money.

I hope you find this information helpful, and please contact me at any time with questions.

Best regards,

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INTRODUCTION

Clay Cockrell has an unusual job. In his words, he's a psychotherapist treating the "1% of the 1%" in New York City. From this vantage point, Cockrell has gained unique insights into the lives of the extremely wealthy. And what conclusions does he draw about money and happiness? "If you have an enemy," Cockrell says, "go buy them a lottery ticket because, on the off chance that they win, their life is going to be really messed up."

This observation fits well with the aphorism that, "money doesn't buy happiness." And certainly there has been a growing body of research supporting this view. Lots of professional athletes run into financial distress despite earning millions. Lottery winners, ironically, end up seeming like a particularly unlucky lot. Even the neighbors of lottery winners end up worse off.

But those who aren't wealthy are quick to rebut the claim that money doesn't buy happiness. A lack of money carries its own problems.

So where does this leave us, if both too much and too little money can both be so problematic?

DOES MONEY BUY HAPPINESS?

In researching this question, I wasn't surprised to learn that the single most popular class in the 318-year history of Yale University is called "Psychology and the Good Life." The topic: happiness and how to achieve it. Each semester, more than a thousand students enroll. What this suggests is that most people's ultimate goal isn't to accumulate the most dollars; it's to accumulate maximum happiness.

Does this mean that there is no connection at all between money and happiness? Far from it. It's just that the relationship is complex. Here's what the research says:

Money does indeed buy happiness—but only to an extent. If you earn $40,000, you'll definitely feel happier if you get a raise. But those benefits top out more quickly than you might expect—around $75,000, or a bit higher today, including inflation. So people who earn $500,000 are indeed happier than those who earn $50,000, but not ten times happier. And the same applies to retirees: Those who have $1 million in the bank are certainly happier than those with $100,000, but the benefits of wealth level off as well.

The lesson: You certainly should work and save, but beware of what's known as the "arrival fallacy." This is the natural tendency to say to one's self, "I'll be happy when________." Clay Cockrell describes one patient who had $500 million but really wanted to get to $1 billion in order to feel truly secure. That's an extreme case, but you see the point. We would all like a few more dollars, but the evidence shows that, unless you're truly destitute, it probably won't help. And while you might find this conclusion discouraging, my view is that it should be comforting. It means that the road to greater happiness doesn't necessarily require more money.

HOW YOU SPEND YOUR MONEY

How you spend your money is far more important than how much you have. According to retirement researcher Michael Finke, the best way to spend your money is in ways that bring you greater socialization. There is no one-size-fits all formula for achieving this. Some examples:

- Invest in friendships, even if it means traveling to see old friends. That's money well spent.
- Spending time with grandchildren also increases happiness.
- While Finke wouldn't recommend buying an expensive toy like an antique car, he points out that the litmus test should be socialization. If you drive the car by yourself, it does no good, but if it brings you into contact with other classic car enthusiasts, that could be beneficial.

IT'S NOT ALWAYS THE NUMBER OF DOLLARS; IT'S THE FORM IT TAKES

In retirement, guaranteed income may be more valuable than a higher income. According to a happiness survey by Towers Watson, workers with pensions, annuities or other reliable income sources experience lower levels of anxiety than those who rely entirely on their investment portfolios during retirement, regardless of the size of the portfolio. This is an extremely important point. In many cases, people make financial decisions only through the lens of maximizing wealth. But what this study shows is that maximizing peace of mind is actually a more important goal.

How can you structure your finances to achieve greater peace of mind? There are a number of ways, and often they run contrary to conventional wisdom:

- Annuities, for example, have a bad reputation due to their fees, complexity and inherent longevity gamble. But if you want a secure retirement, a low-cost annuity might not be such a bad idea.
- By the same token, many investors would prefer to maintain higher allocations to stocks instead of earning thin yields in the bond market. But if you don't need to be taking additional stock market risk, maybe it makes sense to take a more defensive posture. In other words, don't worry about forgoing potential upside in the stock market. Instead, focus on the increased peace of mind you'll achieve in the bond market.

CONCLUSION

Many years ago, I knew an investor who preferred to keep $1 million in his checking account at all times. While conventional wisdom would say this was irrational, I always felt that it made perfect sense. You alone are the best judge of what will help you sleep at night.

NEXT STEPS

- **Looking to learn more?** Visit Mayport's website to download other ebooks in this series.
- **To discuss how these principles apply to your own portfolio,** you can schedule a call with Mayport principal Adam Grossman.
- **For a complimentary analysis of your portfolio,** please get in touch.

ABOUT THE AUTHOR

ADAM M. GROSSMAN, CFA

Adam Grossman is the founder of Mayport Wealth Management. Adam founded Mayport with the goal of providing comprehensive service at a fair price. Specifically, this means that Mayport charges simple, fixed fees, rather than the typical 1%-of-assets fees that most firms charge.

Adam is a graduate of Williams College and holds an MBA from the Sloan School at MIT. He is a Chartered Financial Analyst and a member of the CFA Institute. Adam has several years of experience working with high net worth individual and families to help plan for a safe and secure financial future.

If you would like to discuss your individual needs, please contact Adam at adam.grossman@mayport.com or schedule a call at your convenience.