

# Quality Asset Management

*Grow Your Wealth with Peace of Mind*

## Can Money buy Happiness?

*By Gil Hanoch, June, 2011*

Many people believe that if they had plenty of money, they would be happy in life. Yet, so many wealthy people are no happier than when they had only modest means. This article provides a potential explanation, followed by ideas for using money to increase happiness.

### When does Money not buy Happiness?

Despite the benefits of money, people often do not become much happier thanks to money. I believe that it is the result of their narrow focus on the most known benefit of money: material pleasures. Examples include buying nice cars, clothes, eating in nice restaurants, and owning a home, yacht or a private jet. When you use your money mostly for material pleasures, the following happens:

1. **The excitement fades.** Compare your first ride in a nice car you bought to your daily commute to work a year after you bought it. Your mood that day is much more likely to affect your happiness during the ride than the nice car.
2. **The expense stays.** While you are likely to be only modestly happier thanks to the repeated material pleasure, the upkeep never goes away. Furthermore, when it is time to replace your car (to continue the example above), you are not likely to feel comfortable downgrading. This is because the pain of downgrading is greater than the pleasure of upgrading.
3. **Your financial risk grows.** Now that your ongoing expenses grew for the long run, your financial risk is higher. Since you did not use your money to substantially increase your savings, if you lose your source of income, you are in trouble. Replacing a \$1M/year job is far more difficult than replacing a minimum-wage job.
4. **Your freedom declines.** The need for high income to sustain the material pleasures you got used to, reduces your freedom. Now you are wedded to your job, even if you are unhappy with it.
5. **You have no extra free time.** At best, you are stuck working the same amount in the long run. At worst, after the excitement from a material purchase fades, you seek other purchases. The need for further purchases can become an addiction – a very expensive one – that requires working harder and longer, leaving you with less free time.

### How to Use Money for Happiness

If you can follow a number of principles, you can significantly increase your odds of becoming happier as you accumulate more money:

1. **Set an ultimate goal of sustained happiness, rather than simply making more money.** Keep looking for what makes you happy in life in a sustainable way and pursue that. Make sure that money is not specified as the goal –it is only a means to goals. This will allow you to go against the statistics, and be much happier thanks to the extra money.
2. **Live below your financial means, and keep growing your investments compared to spending.** When your income grows, don't increase your spending until **after** saving from your higher income. Spend according to your increased savings, not increased income. This ensures that you are no more dependent on income from work than before the raise, and allows for growing happiness in all areas listed below.
3. **Continue growing your spending very slowly, until it can be sustained from your investments alone.** Your investment advisor should be able to provide you with a withdrawal

rate that is likely to allow the portfolio to keep growing despite extreme market declines (often in the range of 3%-4%). If you spend \$100k per year and the sustainable withdrawal rate is 4%, keep the spending from growing much until your portfolio crosses \$2.5M (or a higher amount if you increased your spending).

4. **Once your investments can sustain your spending, you can increase your spending in proportion with the growth of your investments.** At this point, you can enjoy the increased happiness through spending on material pleasures, without sacrificing free time, financial security, family connections, and all other ways in which money can provide happiness.

### **Money can make life nicer in many non-material ways**

Here are some ways to make life very nice using money, beyond material pleasures.

1. **Get protection from the unexpected.** Cash reserves can be a lifesaver between jobs or when your business is hurt due to economic declines. They also help in case of an expensive repair or healthcare expense.
2. **Free up time for retirement.** If you are able to save and invest your money responsibly, you can grow it at a high rate over the years, getting an unbelievable reward for delaying your gratification. For a hypothetical example, if you manage to save \$100,000 by age 35, and keep that amount for retirement at age 65 in a globally diversified stock investment generating 15% per year (a rate that was surpassed using simulated investments of globally diversified stock portfolios), you get rewarded with growth to \$6.6M, or \$3M after discounting the amount by annual inflation of 3%. This amount is likely to provide income to cover all of your expenses forever. At that point, you can use your time for whatever makes you happiest.
3. **Free up time gradually during life.** Retirement doesn't have to be a transition from working full time to not working at all. Once you accumulate substantial savings, you can work less and start depending on small & sustainable withdrawals from your investments. For example, if your portfolio allows for sustainable 4% withdrawals, you can start living off of, say 2%-3%, leaving some cushion for unexpected expenses + allowing the money to keep growing for the day you would want or need to work even less or stop working completely.
4. **Choose the job you enjoy most.** The more money you have, the less you depend on work to cover your ongoing expenses, and the more freedom you have to choose the job you like, even if it provides a lower pay.
5. **Strengthen family connections.** If you work less, or at a job you like more, you can become a more pleasant and balanced person that has more tolerance and time for family life. This can lead to an improved marriage, and a better connection with your children, parents and friends.
6. **Show appreciation.** When you pay someone for a product or a service, you can feel good about showing appreciation for what they do.
7. **Do less of what you don't like to do.** Many chores in life can be outsourced for a fee. The more money you have, the more of these chores you can pay others to do. Examples include: cleaning, gardening, cooking, doing laundry, preparing taxes, and doing simple home repairs.
8. **Simplify shopping.** The more money you have, the nicer you can make your shopping experience. You can seek the exact products you want, as opposed to focusing on the cheapest ones, making the decision process quicker and more enjoyable. In addition, you can hire professionals you appreciate most, as opposed to the cheapest ones.

### **Summary**

Money makes life easier, and provides security, flexibility and freedom. By deferring most material purchases until after security, flexibility and freedom are achieved, you can turn your wealth into enormous happiness.

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