Publication: Woman Around Twon
Date: February 28, 2014
Author: Merry Sheils

Does Money Buy Happiness?

Many people believe it does. A much older (and recently deceased friend) used to say that "Money doesn't buy happiness—it merely helps unhappiness." Donna Skeels Cygan's book, The Joy of Financial Security, makes a case that while money may not help us be happy, putting a plan in place will give us peace of mind. And that may make us happy.

While the book has lots of good and practical pieces of information and advice, the first part is, by far, the most compelling. There is lots of research—beginning with a study of 4000 sets of twins born in Minnesota between 1936 and 1955. That study's key takeaway is that we control only 40% of our happiness equation. The other two components are dictated by genetics, or what we call nature, 50%, and environment, or the nuture aspect, 10%. So, while we can still blame our parents, we have the power to do a lot to make ourselves happier.

finance bookCygan discusses Adaptation Theory, and its thesis that despite returning to a happiness baseline, we can take concrete steps to increase the level of happiness in our lives. She even addresses the complexities of neural science and how the brain works—and while that may or may not be of interest, it sets the stage for what follows. Her theme throughout the book is that focusing on the part you can control can bring an element of contentment—a primary ingredient of happiness. It's not what we are used to seeing in the financial pages.

The second part pinpoints specific happiness strategies. It's a cross between a treatise and a workbook, and there are some interesting exercises. One is to recall early financial experiences from childhood. When I faithfully followed her dictate, I was not surprised to understand why I chose a career in finance.

Other of her suggestions are simply good common sense. Avoiding isolation dispels loneliness—something most unhappy people will admit to feeling. Another technique is flow. She attributes it to psychologist Mihaly Csikzentmihalyi, who defines flow as "the psychological state that accompanies highly engaging activities". In layman's terms, that means keep busy doing things you enjoy. According to him, "Happiness is a condition that must be prepared for, cultivated, and defended privately by each person."

Having a spiritual component in one's life is another tool—and goes beyond attending religious services, and the social support they may furnish, to encompass experiencing nature or humanity.

Being grateful can be a powerful happiness motivator, because it forces one not to take things for granted. She quotes psychologist Tal Ben-Shahar, "When we appreciate the good, the good appreciates."

At the end of each chapter, Cygan includes helpful ideas and an action plan—sub headed "Invest in Yourself". My favorite among all the devices that Cygan suggests, however, is to keep a journal. Like any writer, I've kept one for years, and it is a powerful outlet for thoughts, emotions, hopes and dreams. Committing problems and challenges to the written word is not only an exercise in discipline, but it also puts them in a manageable context. Once they are out of your head and on the page, they may not seem so daunting. And rereading pages several months later is a wonderful way to measure progress—in and of itself something that contributes to happiness.

On to the book's final third—gaining financial security. Cygan offers practical suggestions on developing a net worth statement and examining spending patterns. She cautions her readers to differentiate between needs and wants—and how to tell the difference. One tip that makes sense, and that I've already begun doing, is to pay cash. Her research shows that people who pay by credit card (which we may do to accumulate points and air miles) end up spending between 12%-18% more. That same 12% in your savings and investment account throughout key earning years adds up—especially when it can compound at current rates of return.

Cygan gives one of the best explanations of risk—and she clearly categorizes it more closely to loss. Her logic is easy to comprehend. She uses the Great Recession, predicated on the credit disaster that occurred, culminating with the September 15, 2008 bankruptcy of Lehman Brothers, and extended through March 9, 2009. The stock market dropped 42% during that period. How did you feel? If you were distressed, as many investors were, then you may have a strong aversion to loss. If, on the other hand, you remained calm, and were certain your portfolio would recover, then you probably have a greater preponderance for risk. Research shows, however, that most people have greater pain associated with losing money than they have joy about making it.

We've written before about volatility—and the general definition in financial terms is based on standard deviation. A quick refresher for anyone who slept through statistics (as I did): standard deviation is the calculation of variance around a mean of returns. If, for example, stocks have a standard deviation of 20, and the expected return is 10%, it means that in roughly two thirds of the time, the yield will be either a positive 30% (10%+20%) or a negative 10% (10%-20%). Why Cygan's rendition is interesting is that if your portfolio return happens to exceed the return by 10%, and you make 30% on your money that year, you probably don't get too concerned. But if it falls 10% into negative territory, you do. And with good reason. If your account of $100,000 declines by 10%, you have $90,000 left. The next year, you have to make 11% just to get back to your original investment, and an additional 10% to meet your portfolio's expected return. That means a total return of 21%. It could take some time to recoup the loss and be back in positive territory. Although recent stock market returns have perhaps given us a sense that low returns are yesterday's news, prudence says that past is not prologue. Markets move in cycles—they go up and they come down. And none of us knows when.

Cygan's point is that risk really equates to loss. If you cannot withstand the risk of loss, you will need to invest in assets that carry much less volatility, such as fixed income, or stocks with dividends, for example. But it also means that your portfolio probably will not benefit from higher returns, especially in today's historically low interest rate environment. Potentially higher returns are why investors choose equities. But, it's an investment—not a guarantee.

She also explains the difference in investment management compensation arrangements, and points out that contrary to what one may think, just because an advisor charges a fee, rather than commissions, it doesn't necessarily mean there is no conflict of interest. For example, suppose a client seeks advice on whether to purchase a house for $1 Million or to rent, instead. The fee-only advisor, who may charge a percentage based on assets under management (AUM in financial speak), may guide the client to rent so that the $1 Million purchase price of the contemplated property remains within his purview and therefore equates to higher fees for him.

She includes a Fiduciary Pledge that she encourages readers to demand that their advisor sign. If the advisor refuses, it may be a safe bet that he is not one, something that should engender caution, since fiduciaries are held to a higher standard and must put customer interests first. Although today's highly regulated environment may make it difficult to get anyone to sign anything, it makes sense to ask for it.

Cygan presents basic material on investments that is a useful reminder of what one may expect with each asset class. She includes asset allocation, recognized as the most important contributor to portfolio performance (except in the aforementioned 2008-2009 crisis when all assets crashed).

She sums it all up with a chapter on change—defining (and memorializing in writing) what constitutes happiness and financial security for you. Then she charts an action plan, supported by habits and rituals that will encourage your success in achieving it. Change is never easy, but she lays out a path that can make it more so. She ends with an exercise on celebration—not often found in a book on finances. But it goes hand in hand with happiness

See more at: http://www.womanaroundtown.com/sections/reading-around/does-money-buy-happiness#sthash.SaGmzRmo.dpuf