Hi, everyone. This is Wayne Rivers at Performance Construction Advisors, where *We Build Better Contractors*.

This week I want to talk about a book review, *The Psychology of Money* by Morgan Housel. I read this on the way to the AGC Convention back in March, and I liked it quite a bit.

It's really well done in the sense that it's not a deep academic dive into money and asset allocation and the perfect balance, and all that stuff. It's really about, well, what it says. It is the psychology of money, how we think about money. And he says that how we think that other people think about money, the rational consumer, for example, making dispassionate decisions about how to spend and behave is very different from how they actually behave. And he gave a statistic that just blew me away. This was really something.

He said that 50% of all mutual fund managers, according to Morningstar, do not have one red cent of their own money in the funds that they manage. I was shocked and appalled by that. That would be like saying to a general contractor who wants to build a new office building, "I'm not going to build my own building. I don't have faith in my company, my product." I can't believe that they're not required to put some of their own money into the funds that they manage. I just couldn't believe it. The disconnect there is mind-boggling. He said that in his case, and he's a money manager, his entire net worth is tied up pretty much in three things, his home, his checking account, and a bunch of index funds. It's as simple as can be, and we'll get to that at the end. So, Housel himself behaves in a very rational, but a very conservative way with money.

He had a pretty good section about why the modern U.S. consumer thinks the way they do when it comes to the subject of money. And it really starts at the end of World War Two. There was a panic among the government. 14.5 people, men and women, were coming home from the theaters of war, 14.5 million unemployed people were going to descend upon this country, and they weren't going to build ships and fighter planes. Not the way they were anyway. What are they all going to do? Nobody had any idea how the economy was going to absorb 14 and a half million unemployed people. So, one of the things they did was they lowered interest rates. The economy boomed, partly because there was so much pent-up demand from the years of the Great Depression, which preceded the war, and then the war years themselves were very lean because everything was put into the war effort and there was no such thing basically as consumption in those days.

So as the people re-employed, productivity soared and the low interest rates cost people for the first time to start using credit to buy automobiles and homes and things like that, which spurred the economy forward. Now, in the '40s through the '60s, the gains were shared very equally among society. So, for example, I might go out and buy a Buick. If I'm a middle-class homeowner, I would buy a Buick. The wealthy doctor in another neighborhood might buy a Cadillac, but they weren't that far apart. The Buick might be 5,000 bucks and the Cadillac was 8,000 bucks. You could see your way to the Cadillac even if you were a middle-class consumer. The gains were very homogeneous among the population. The people that lived in small houses, modest houses, didn't really live all that differently from the people that lived in somewhat bigger houses. The days of the mansions of today were not quite here yet during that period of time.

So, the gains were shared equally. Inequality, he says, began to raise its head in the 1980s, and people in the 40th percentile would look at Lifestyles of the Rich and Famous was from TV show. And they would say, "Okay, I don't make that kind of money, but why can't I too have a Cadillac or a Mercedes? Why can't I too have a bigger home?" And the consumerism really began at that point. He says that the age of social comparison is what we have today where the internet allows us to instantly compare what we do, what we say, how we think, what we have with the 1%. And that's

not necessarily a good thing. Back to number two, we still have relatively low historical interest rates, so the consumerism is now on this flywheel with all this momentum and people individually are piling up debt as we are as a nation.

All these things contribute to the way that people think, the way they do about money. His advice as a professional money manager, work hard and save. I think this book might be a good one for your kids or your grandkids for the high potential people in your company. And he said one thing that really, really, really struck me. "There's only one way to get and stay wealthy. There's some combination thereof frugality and paranoia, frugality, saving, and paranoia. I am at risk to lose this money, the money I've worked so hard to earn." So, he's advocating what? He's advocating rainy day funds. He's advocating very conservative investments, in fact, he only uses stock index funds, and he is almost saying to run away from the industry that he works in, which is the money management industry.

He talks about money requiring a survival mindset and the long-term power of compounding. And so, it's a very good common-sensical book. It's not a hard read, it took me a couple of hours maybe, but I recommend it very highly. The Psychology of Money by Morgan Housel written in 2020. What do you think? I'd like to hear what you think. What are your views on money and paranoia and frugality and all these things? Let's hear from you.

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