Can Money Buy You Happiness?

"There are people who have money, and there are people who are rich."

- Coco Chanel

We've spilled a lot of ink over the years about the importance of saving and investing. In January, we looked at how staying lean and hungry would benefit both your business and your personal finances. We even suggested evaluating your expenses to make sure you were deriving maximum enjoyment from them. But do we really know how best to spend our money to increase our happiness? In the book *Happy Money*, psychologists Elizabeth Dunn and Michael Norton share the latest research on this exact topic. Here were their main tips:

1. **Buy experiences.** Big houses and fancy cars don't add measurably to prolonged happiness. They become normal life. Neither do new gadgets, as you adjust to those as well. The added happiness we reap from experiences is due to the way our brains work. With time, our memories only remember the good parts about an experience. They age well, whereas stuff doesn't. Experiences also tend to connect us more to others. Even difficult experiences (like a Tough Mudder or marathon) can leave residual happiness as they gives us interesting stories and lasting memories-- the more unique and linked to our sense of self, the better. As Roman philosopher Seneca remarked, "Things that were hard to bear are sweet to remember." Maybe it's because difficult experiences help us grow, and growth = happiness.

2. **Make it a treat.** Abundance is the enemy of appreciation. We derive more satisfaction from things that are seasonally available: candy corn, egg nog, the McRib. Surprisingly, commercial breaks make people enjoy TV programming more, due to the human predilection for noticing contrasts. The more you can make your indulgences into celebrated treats, the more happiness you'll get from them. Cheat day!

3. **Buy time.** Most of us aren't as busy as we feel. People in the US today actually spend 4 hours more per week doing leisure activities (and still put in the same number of hours at work) as their grandparents in the 1960s. Those 4 hours are thanks to household efficiency gains like washing machines, dishwashers, etc. Daily hassles exert a downward force on our happiness. Unless you enjoy vacuuming and mowing lawns, buy a Roomba and hire a gardener. Just make sure to substitute that newfound time wisely. Unfortunately, most have chosen more TV. The average American spends two months per year watching TV (God help us). Studies link viewing more than 30 minutes per day to decreased overall life satisfaction. Building social connections proves more fruitful for cultivating happiness. Kill your TV and get together with your friends. Volunteering your time for a cause you believe in can make you feel more time affluent. A long commute is hugely negative for happiness and should be avoided. The extra money and nicer house in the suburbs doesn't compensate you for the gained misery of a regular commute.

FARNAM STREET INVESTMENTS
1847 Iron Point Rd, Suite 180 Folsom, CA 95630
916.542.2008
www.farnam-street.com

4. **Pay now, consume later.** Although this advice goes squarely against the time value of money, the anticipation of something can provide as much happiness as the actual item or experience (see: Christmas or ahem, romantic activities). A forced delay has been shown to make chocolate taste measurably better. Humans are programmatically optimistic, so that vacation you book 3 months from now is going to be perfect in your head and a continual source of joy for the 90 days leading up to the trip. Always have something booked that you can look forward to. The opposite? A credit card where you consume now and pay later. Debt proves to be mentally taxing and a source of unhappiness. Avoid it.

5. **Invest in others.** Once you're above a certainty income level, spending money on others brings you more happiness than spending on yourself. One study even showed 2 year olds exhibit increased happiness when sharing goldfish crackers, especially when it was from their personal stash. We're wired as a survival instinct to share with each other. But obligatory sharing doesn't raise happiness (sorry Bernie). The stronger a connection you can build from your prosocial spending (like local causes or movements similar to donorschoose.org), the better.

These ideas can be mixed and matched for as little as $5. Buy a Starbucks gift card today, give it to a friend (#5) for a special date later this week (#4), and change the way they're spending their time (#3). Save up your indulgences for that week so you can order your favorite chocolate-caramel-whatever (#2) and make it a fun and memorable experience (#1). Maybe money can buy you happiness afterall...

Skin in the game?

"In my view, you set up the business in a way that is aligned with the customer, or you can set it up in odds with the customer. When you have the option, you should figure out a way to be in alignment. Sometimes that requires you to be more patient, so it's part and parcel with long-term thinking." - Jeff Bezos

Fun fact: according to Morningstar, here's the percentage breakdown of mutual fund managers with ZERO money in their own funds.
US stocks 47%
Foreign stocks 61%
Balanced 71%

Hard to believe, right? But correcting that absurdity is an ingredient in the secret sauce at FSI. We mirror all of our personal investments to match our clients. Our fortunes all move in lockstep together, fully aligned.

FARNAM STREET INVESTMENTS
1847 Iron Point Rd, Suite 180 Folsom, CA 95630
916.542.2008
www.farnam-street.com

What is a Safe Withdrawal Rate?

"The idea of a margin of safety, a Graham precept, will never be obsolete."
- Charlie Munger

It's the American dream to save up a nest egg big enough to support you in retirement. But how much can you afford to take out each year? We hear 5% often as the financial conventional wisdom, but does that hold up to statistical scrutiny? It turns out, not really.

There's a wrinkle to this story. Your success in being able to safely draw on your nest egg really depends on the current market valuation. If the market is expensive when you start withdrawals, you have a higher chance of outliving your money (because crashes are often right around the corner). One study by Ed Easterling found that historically (since 1900), a 4% draw was usually successful in keeping you from outliving your money. The only time you failed was when the market was in the most expensive quartile (as measured by P/E ratio), and even then you had a 79% chance of making it 30 years.

Figure 1. SWR Statistics By P/E Quartiles: 4% SWR, 30-Year Periods Since 1900

QUARTILES	STARTING P/E RANGE	SUCCESS RATE	AVERAGE ENDING $s	AVG YRS IF OUT OF $s
Top 25%	18.5 +	79%	$ 2,787,045	27.3
Second 25%	13.9 to 18.4	100%	$ 5,157,631	n/a
Third 25%	11.2 to 13.8	100%	$ 8,613,308	n/a
Bottom 25%	below 11.2	100%	$ 10,073,325	n/a
ALL PERIODS	14.6 avg	95%	$ 6,663,664	27.3

You wouldn't think an additional 1% draw would make a big difference, but it does. A 5% withdrawal rate greatly reduces your chances of your nest egg going the distance. Especially in an expensive market. From the most expensive quartile, you would have only been safe 47% of the time historically. Not good odds for a game of financial Russian Roulette!

Figure 2. SWR Statistics By P/E Quartiles: 5% SWR

QUARTILES	STARTING P/E RANGE	SUCCESS RATE	AVERAGE ENDING $s	AVG YRS IF OUT OF $s
Top 25%	18.5 +	47%	$ (850,676)	21.8
Second 25%	13.9 to 18.4	70%	$ 1,607,294	21.5
Third 25%	11.2 to 13.8	80%	$ 6,326,247	26.5
Bottom 25%	below 11.2	95%	$ 7,661,859	30.0
ALL PERIODS	14.6 avg	73%	$ 3,693,376	23.0

We're currently in one of those highest quartile market periods, so planning on a 5% withdrawal rate today is effectively a coin flip and not advisable. Being conservative like we are, we tell our clients we're comfortable with 3% (it never failed in the data set, no matter the market conditions). More than that and you'll have a hard time getting us to sign off. We don't want to promise our clients a "Corvette retirement" and they end up with a "Ford Pinto" lifestyle.

Bottom line: don't plan to withdraw too much, especially when the market is expensive like today.

Joanie Update

As many of you know, our Director of Client Relations and office spark plug, Joanie Berglund, suffered a stroke in late March. We're devastated, but the good news is she's already firmly on the road to recovery. The timetable is uncertain, but her fighting spirit and positive attitude will be key. We're all pulling for her so she can get back to work at the office. It's too quiet around here without her. :)

Quick Housekeeping Item

Part of being a registered investment advisor with the State of California means providing compliance updates and disclosures annually. Here's an official notice and where we keep the most up-to-date documents for our clients:
https://www.dropbox.com/sh/sp5mqetpcwrjc1b/AABxGZXC6vKI-AFosZam6xita?dl=0

As always, we're thankful to have such great partners in this wealth creation journey.

Jake & Lonnie

Performance since Jan 2008*

FSI (after all fees)	+51.1%
S&P 500 (w/ dividends)	+68.1%

* Based on auditable track record of our flagship fund The 5505 Fund formerly named RCM Partners Fund.