

# FINANCIAL POST

Saturday, January 23, 2010

## Money can't buy happiness. Really.

Michael Nairne, *Serious Money*



David Moir, Reuters Files

Is this man happy? A survey tracking happiness amongst the mega-wealthy found that 37% of Forbes 400 respondents reported being less happy than the average American. Donald Trump came in at 158 on the Forbes' 2009 list.

Money can't buy you love, but it also doesn't buy much happiness. At least, that is what psychologists studying the causes of happiness have found. Money is important for meeting basic needs such as food and a roof over one's head, but once these needs are satisfied, more money doesn't necessarily lead to higher levels of happiness.

One study of lottery winners, for example, found that after the initial euphoria of winning had worn off, individuals gradually reverted to their normal levels of happiness. In my practice, the same thing happens when business owners cash out. For many, there is an immediate sense of liberation, but this inevitably fades. The challenge becomes how to fill a day that was once jam-packed with meetings, deadlines and emails.

For some people, more money is a headache. One survey of high-net-worth investors by PNC Advisors found that nearly one-third of respondents with \$10-million or more agreed that having lots of money brings more problems than it solves. Worries ranged from not spoiling their children to how to take care of aging parents or how to make charitable-giving decisions. Although more wealth clearly reduced stress about financial security, a sizeable minority also worried about outliving their money. A lack of planning compounded these worries.

Mega-wealth is also not a guarantee of happiness. In a survey of the Forbes 400 wealthiest Americans and a comparative non-wealthy group, the ultra-wealthy respondents were only modestly happier. Surprisingly, 37% of the Forbes 400 respondents reported less happiness than the average non-wealthy American. One respondent of enormous self-made wealth mentioned he could not recall one happy day in his life.

Although family, friends, religion and health were mentioned as sources of happiness by most respondents, the wealthy were more likely to mention self-esteem and self-actualization. Looking at the Forbes 400 billionaires whom I have met, their passion for competing and growing their businesses is clearly a major *raison d'être* in their lives.

Psychologists have found that happiness with one's wealth is relative. People compare their economic status to others in their social group. In one study, a group of MBAs were asked whether they'd rather make \$100,000 a year when their work colleagues made \$120,000, or make \$90,000 when everyone around them made \$70,000. The majority chose the lesser salary if everyone in the company knew about the discrepancy. If the salaries were confidential, about half chose the \$100,000 salary. As H.L. Mencken quipped, "Wealth is any income that is at least \$100 a year more than the income of one's wife's sister's husband."

People's happiness with their current financial situation is also relative to their previous level of wealth. In fact, behavioural finance experts have found that losses are twice as painful as gains are pleasurable and thus, material declines in wealth can be initially devastating to emotional well-being. Hence, serious investors focus on risk first. They also take a longer-term, multi-year view of their wealth and avoid simply measuring their current net worth against the last bull market high.

There is one area where money can contribute to happiness. People are likely to be happier when they give money to others or to charity than when they spend it on themselves. For many wealthy families, philanthropy becomes a central element of their wealth planning, not only to give back to the community but also in recognition of the greater happiness that comes with giving.

*-Michael Nairne, CFP, RFP, CFA, is the president of Tacita Capital Inc., a private family office and investment counselling firm in Toronto.*