The Happiness Curve
January 2020

"It ain't what you don't know that gets you into trouble. It's what you know for sure that just ain't so." – Mark Twain

Investing

As we begin another year and another decade, it's helpful to remember this quote. In hindsight, some years investing seemed easy because everyone made money. 2019 was that type of year. It wasn't about good fundamental planning or investing, but rather how much you had in the stock market and really nothing more than that. If people started thinking they have the short-term figured out and this is easy, Twain would say trouble is around the corner.

No one knows for sure how 2020 or the decade of the 20's will play out.Guessing short-term investment returns has proven to be a poor process. Remember why you are invested in the first place:

- You have no current use for all the excess cash
- You would like to be paid later for giving up current use
- You need to access the funds at a later time for future goal
- Timing of that future use and cash amount needed will determine your investments

If the stock market returns 20%+ in the current year, then theoretically you are closer to your goal faster than originally planned and can maybe take some risk off sooner.The other strategy would be for new invested money to go into more bonds to even out the change.This is the essence of rebalancing. When stocks have done well, sell stocks and buy bonds. Resist the temptation of trying to outsmart the stock market. Stick to the original plan.

Nobel Prize winning physicist Richard Feynam[1] says the first principle is that you must not fool yourself and you are the easiest to fool. In really good or really bad times, I believe this to be even more true. It is difficult to resist the temptation of comparing your returns to random chatter. During good times, there will be plenty of people praising their investment prowess and showing speculatively high returns. When bad times come (they will come at some point), there will be an entire new crowd praising their greatness and returns. These crowds rarely overlap!

Investing for reasons previously discussed usually means you are better off not being a part of either crowd. Steady returns over many years has a wonderful compounding effect. Compounding returns over many years is an investor's best friend. Plus, investing should be about accomplishing your goals, not winning cocktail party investor stories.

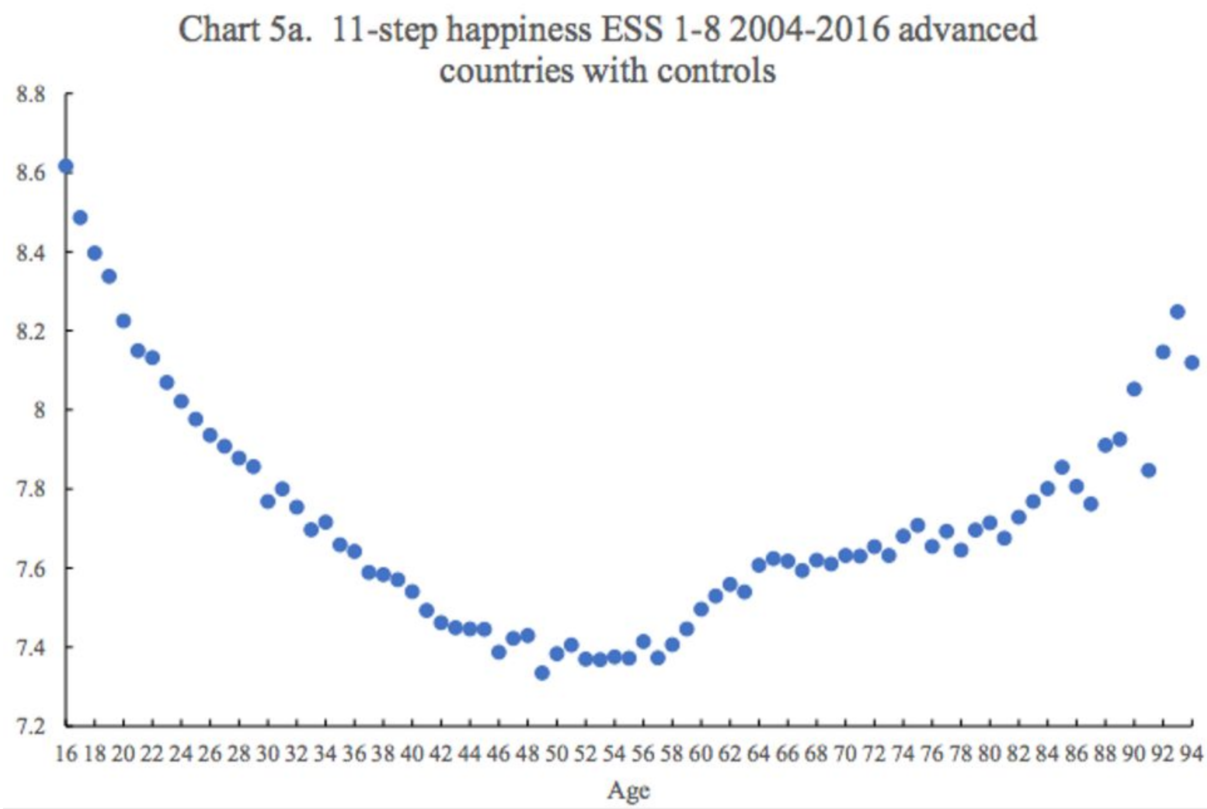
The Happiness Curve

One research paper that caught my eye this month was a study on happiness. Below is a chart from the paper. The conclusion is that our life satisfaction changes over time. Generally,

[1] Maybe some recall he was commissioned to investigate the explosion of the Challenger space shuttle. His explanation of the problems has interesting correlations to investing. Here's an interesting interview he gave. https://www.youtube.com/watch?v=4kpDg7MjHps&t=423s

satisfaction starts high in our teenage years and then falls until about age 50. Then the curve begins to trend back up. The curve exhibits many assumptions and generalizations, but interesting observations, nonetheless. Apparently for those over 50, life just keeps getting happier with each passing day!

I broke the news to my parents and they seemed generally surprised I had good news for them. Tomorrow they are going to be happier than they are today. Just the thought alone can brighten a person's day. Try it on a friend and see how it works.



[2]

Takeaway

Stock market and bond market returns in the short-term are largely unknown. In years after large stock market returns, the human tendency is to want either more or less stocks. However, assuming your personal goals have not changed, the recommended strategy is usually to have about the same and not overreact either way. This means rebalance to your original target, not change the target.

Finally, for those over age 50, get ready for an increasingly happy New Year!

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[2] IS HAPPINESS U-SHAPED EVERYWHERE? AGE AND SUBJECTIVE WELL-BEING IN 132 COUNTRIES David G. Blanchflower