Fishing for Happiness

"Money can't buy you happiness, but it helps you look for it in a lot more places."

\- Milton Berle

One morning an American businessman was strolling along the docks of a small fishing village when he came across a fisherman with a boat full of fish. He asked the fisherman, "How long did it take you to catch those?" The fisherman replied, "Not too long." The businessman asked, "What will you do now?" The fisherman replied, "I will sell my fish, then go home, have lunch with my family, and play with my kids. In the evening I will go into town and sip wine and play guitar with my friends." The businessman replied, "I can help you make far more out of your business! If you just work a bit longer you can use the extra money to buy more boats. Then you can hire others to catch more fish for you, and you can sell those fish directly to the distributors and your profits will be huge!" The fisherman replied, "What then, sir?" "Well," said the businessman, "then you can sell your company for millions of dollars and retire!" The fisherman replied, "What then, sir?" "Well," the businessman said, "then you can spend your time having lunch with your family, playing with your kids, and going into town in the evening to sip wine and play guitar with your friends." After a brief pause, the fisherman replied, "But sir, is that not what I am doing now?"

We are all familiar with the romantic notion that money cannot buy happiness. But to what extent is that actually true? Even the wise fisherman in our story needed *some* money. And although it might be equally romantic to wish for a world without money, unless you intend to make your own clothes, build your own home, and grow or catch your own food, you do need a basic level of income just to provide the bare necessities of life.

Perhaps it is more accurate to claim that money *can* buy happiness, *but only up to a certain point*. The idea is that the happiness derived from money is subject to the decidedly un-romantic economic theory known as the "law of diminishing returns". This law states that additional units of an input (money in this case) will yield progressively less incremental output (happiness in this case). In other words, the more money you have, the less happiness you will get by accumulating even more money.

This idea is intuitively appealing. It seems obvious that finding a $100 bill on the ground brings far more happiness to a starving artist than it does to a billionaire. And it is supported by a significant body of empirical evidence. In a now-famous survey conducted by economists Daniel Kahneman and Angus Deaton, the authors concluded that an increase in income leads to an increase in happiness up to an income of around $75,000 per year (in 2010 dollars), after which *there is no reported increase in happiness at all*. Those with incomes well above $75,000 reported slightly higher "life satisfaction," which may derive from the additional status and conveniences of wealth, but this does not translate into an increase in reported happiness.

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Empirical evidence also suggests that how you use your money is just as important to happiness as the absolute amount of money you have. According to Harvard professor Daniel Gilbert, spending money on experiences rather than material goods, spending on others rather than oneself, and spending on many small pleasures rather than a few large ones all contributed to higher overall happiness. Buying jewelry or cars for yourself probably will not elevate your happiness for very long, but charitable donations and short, frequent vacations likely will.

These findings have implications for your investment portfolio as well. If you feel that you are happy with your current level of wealth and income, and you have managed to save enough to maintain a comfortable lifestyle in retirement, you may not need to take a huge amount of risk in the stock market, real estate, or other investments in order to maintain your optimal level of happiness. If a significant financial loss would hurt your happiness far more than a significant gain would help, your investment approach should emphasize loss minimization rather than wealth maximization.

As the fisherman in our story clearly understands, risking the things you need in order to buy things you do not need will not make you happier, and it might even make you miserable. Ensuring that you always have enough wealth to enjoy the simple things is far more important than taking a lot of risk in an attempt to rise high above that level. And if you focus on preserving what you already have, you might even be able to retire earlier and go fishing.

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