How to Talk to People About Money

Mar 29, 2018 by Morgan Housel

Clarence Hughes went to the dentist in 1931. His mouth was radiating pain. His dentist put him under crude anesthesia to ease the pain. When Clarence awoke hours later he had 16 fewer teeth and his tonsils removed.

Clarence died a week later from his surgery's complications. His wife sued the dentist, but not because the surgery went awry – every surgery risked death in 1931. Clarence, she said, never consented to the procedures in the first place, and wouldn't if he were asked.

The case wove through courts but went nowhere. Consent between doctor and patient wasn't black and white 1931. One court summed up

the idea that doctors require freedom to make the best medical decisions: "Without such, we could not enjoy the advancement of science."

For most of history the ethos of medicine was that the doctor's job was to fix the patient, and what the patient thought about the doctor's plans wasn't terribly relevant. Dr. Jay Katz wrote in his book *The Silent World Between Doctor and Patient*:

> *Doctors felt they were obligated to attend to their patients' physical and emotional needs and to do so on their own authority, without consulting with their patients about the decisions that needed to be made. The idea that patients may also be entitled to sharing the burdens of decisions with their doctors was never part of the ethos of medicine.*

This wasn't ego or malice. It was a belief in two points:

- Every patient wants to be cured.
- There is a right and universal way to cure them.

Not requiring patient consent in treatment plans makes sense if you believe in those two points.

But that's not how medicine works.

In the last 50 years medical schools subtly shifted teaching away from treating disease and toward treating patients. That meant laying out of

the odds of what was likely to work, then letting the patient decide the best path forward. This was partly driven by patient-protection laws, partly by Katz's influential book, which argued that patients have wildly different views about what's worth it in medicine, so their beliefs have to be taken into consideration. He wrote:

> *It is dangerous nonsense to assert that in the practice of their art and science physicians can rely on their benevolent intentions, their abilities to judge what is the right thing to do, or their capacities for conducting their rounds with humanity, patience, prudence and wisdom. It is not that easy. Medicine is a complex profession and the interactions between physicians and patients are also complex.*

The best example of this is the 2011 essay *How Doctors Die,* which showed that doctors chose different end-of-life treatments for themselves than they recommend for their patients.

"[Doctors] don't die like the rest of us," it wrote. "What's unusual about them is not how much treatment they get compared to most Americans, but how little. For all the time they spend fending off the deaths of others, they tend to be fairly serene when faced with death themselves. They know exactly what is going to happen, they know the choices, and they generally have access to any sort of medical care they could want. But they go gently." The doctor who spends her life treating cancer but chooses palliative care when her card is drawn.

There is no "right" treatment plan, even for patients who seem identical in every respect. People have different goals and different

tolerance for side effects. So once the patient is fully informed, the only accurate treatment plan is, "Whatever you want to do." Maximizing for how well they sleep at night, rather than the odds of "winning."

Which is exactly how you should approach talking to people about their money.

Daniel Kahneman told his financial advisor he didn't want to get rich. He just wanted to continue living like he had.

"She told me, 'I can't work with you,'" Kahneman wrote.

I asked Kahneman about the incident a few years ago. "She was very puzzled in the context of somebody coming to get financial advice and not trying to get richer," he said. "I'm not sure that I'm all that unusual. Many people retired on pensions and are perfectly satisfied with it and they are not desperate to have more."

But I can empathize with the advisor. The entire investment industry is centered around making the numbers go up. Not in a bad way – just the way medicine was 50 years ago, when it viewed the nobel mission of the profession as knocking out disease, full stop. The investment philosophy is a cousin of the same well-meaning but wrong ethos medicine used to have:

- Everyone wants to make money.

- There is a right and universal way to make it.

You see this in investment commentary.

"What should investors do now?"

"What's the best trade?"

"Why it's time to get out now."

Half of this stuff is drivel. But even the smart stuff rarely acknowledges who the advice is useful for. And we rarely recognize that most investment debates – debates that literally make markets – are just a reflection of people making different decisions not because they disagree with each other, but because they view investing with a different set of priorities.

If you're trying to maximize risk-adjusted returns you have no idea why someone would buy a 10-year Treasury bond with a 2% interest rate. But the investment probably makes perfect sense to Daniel Kahneman. Paying off your mortgage with a 3% tax-deductible interest rate is probably crazy on a spreadsheet but might be the right move if it helps you sleep at night. Trading 3X leveraged inverse ETFs is financial suicide for some and a cool game for others. Long-term investors who criticize day traders bet on football games because it's fun. People who scream at you for over-allocating into REITS buy six-bathroom homes for their four-person family. The flip side of Daniel

Kahneman is the billionaire who risks his valuable reputation to gain money he doesn't need. Have you been on Twitter? People see the world differently.

Two rational people the same age with the same finances may come to totally different conclusions about what's right for them, just as two people with the same cancer can pick radically different treatments. And just as medical textbooks can't summarize those decisions, finance textbooks can't either.

This isn't just about differences in risk tolerance.

People who work in finance underestimate that watching markets go up and down isn't intellectually stimulating for most regular people. It's a burden. And even if they can technically stomach investment risk, the added complexity robs bandwidth from other stuff they'd rather be doing. The opposite is true. Claiming your investment product is entertaining is usually the refuge of those who can't point to performance. But it's crazy to assume that many people don't find investing incredibly entertaining – so much so that they rationally do nutty stuff regardless of what it does to their returns.

Everyone giving investing advice – or even just sharing investing opinions – should keep top of mind how emotional money is and how different people are. If the appropriate path of cancer treatments isn't universal, man, don't pretend like your bond strategy is appropriate for everyone, even when it aligns with their time horizon and net worth.

The best way to talk to people about money is keeping the phrases, "What do you want to do?" or "Whatever works for you," loaded and ready to fire. You can explain to other people the history of what works and what hasn't while acknowledging their preference to sleep well at night over your definition of "winning."

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