

The Psychology of Money review

A book by Morgan Housel

Good financial instincts, a less reliable explanation of why they work

The Behavioral Scientist

Evidence assessed through 15 September 2026

OVERALL RATING

64%

An editorial assessment, not a percentage of truth.

Scientific Accuracy	58%
Reference Accuracy	58%
Practical Value	75%

The verdict: Morgan Housel has some good advice: live below your means, leave room for bad luck, and stop treating investing as a competition to look clever. The trouble starts when he tries to explain what matters most in building wealth or making people happy. Those claims are less reliable than much of his advice. Read this book for help thinking through your choices, not for a complete financial plan or the last word on the science of financial success.

These ratings reflect our assessment under our scoring method. They are not percentages of the book that are true, or estimates of your chances of investing successfully. How we research and score these reviews

18 min read

What a janitor and a finance executive can tell us about money

In the introduction to *The Psychology of Money*, Morgan Housel tells the story of Ronald Read, a janitor and gas-station attendant who built a fortune. He compares Read with Richard Fuscone, a highly educated former finance executive who borrowed heavily and went bankrupt. Read had no professional background in finance. Fuscone had advanced credentials and years of experience. ¹

You can know a lot about money and still make bad decisions. You can also build wealth without a career in finance. Read and Fuscone illustrate both points. But their stories can't tell us whether behavior generally matters more than knowledge, intelligence, income, opportunity, or luck. To answer that question, we would need more than two people whose lives turned out very differently.

This is a recurring problem in *The Psychology of Money*. Housel gets you to notice something worth thinking about, then sometimes asks the example to explain more than it can. It's one thing to show that a factor matters. It's another to show that it matters most.

Still, he gets something right that advice about the perfect portfolio can miss: a real person has to live with it. An investment strategy can look great in a spreadsheet and be a terrible fit for someone who needs the money soon, finds the losses intolerable, or sells at the worst possible moment. Housel returns to this problem in "Getting Wealthy vs. Staying Wealthy," "Reasonable > Rational," and "Room for Error." He's not simply telling you to ignore your feelings. He's asking you to account for them when you make a plan. ²

The review focuses on three of the book's main claims. First, behavior matters more than technical expertise in financial success. Second, staying invested and surviving setbacks let you benefit from compounding—earning returns on earlier returns—which Housel presents as the most powerful way to improve investment results. Third, control over your time is money's most dependable route to happiness. Where does the evidence support Housel, and where does he go too far? ³

Behavior matters. So does income.

In "No One's Crazy," Housel asks you to consider how someone else's experience with money might differ from yours. If you grew up with high inflation, you may think about money differently from someone who grew up with stable prices. If you watched your family's business collapse, you may view risk differently from someone whose investments have mostly risen. You can understand why people make different choices without agreeing with every choice they make.

Housel cites Ulrike Malmendier and Stefan Nagel's research on how economic experiences relate to financial risk-taking. The researchers found links between the market returns people had lived through and whether they owned stocks or were willing to take financial risks. That supports his point: people bring their experience with them when they make decisions about money. ⁴

But Housel goes further. He dismisses intelligence, education, and sophistication in favor of when and where someone happened to be born. The study doesn't establish that. Suppose people with different market experiences also differ in income or education. Their investment choices could reflect those differences as well as their experience. The researchers used statistical adjustments to ask whether the relationship between experience and risk-taking remained after accounting for measured differences such as income, assets, age and education. Taking those characteristics into account does not mean they are unimportant.

Nor does an adjustment turn this into an experiment or remove every possible alternative explanation. The researchers were mainly studying risk-taking and stock ownership, not how much wealth someone eventually built. Taking more risk is not the same thing as becoming financially secure. This study cannot, on its own, tell us whether behavior or financial knowledge contributes more to financial success.

There's another problem with treating knowledge and behavior as competing explanations: learning about money can change how you behave. A large review of financial-education studies by Tim Kaiser and colleagues, available as a working paper in 2020, found that these programs improved both knowledge and financial behavior on average.⁵

The size of the effect on behavior is now disputed. A review can give an overly favorable impression if studies reporting benefits are more likely to be published than studies finding little benefit or harm. That problem is called publication bias: the research available to read may not fairly represent all the research that was done.

In a later manuscript, Daniel Fernandes, John Lynch Jr., and Lena Kim estimated how much this could affect the financial-education results. Their model allows publication chances to depend both on whether a result favors the program and on whether it crosses the usual statistical cutoff for evidence against no effect. The statistical test asks how surprising the data would be under a model in which the program has no effect. A favorable result and an unfavorable result need not have the same chance of publication even if both cross that cutoff. With this adjustment, the authors estimated much smaller behavioral benefits. That estimate depends on their model of how research gets published; it is not a direct count of unpublished results. This is a different analysis of existing research, not a new set of experiments, a retraction, or a settled demonstration that financial education does nothing.

So education may help, but researchers disagree about how much it changes financial behavior on average. Neither result settles Housel's comparison between technical knowledge and behavior. And even if a financial-education program works, that doesn't tell us what someone will gain from reading this particular book.

The distinction becomes more practical in "Save Money." Housel says that building wealth has little to do with income or investment returns and much to do with your savings rate—the share of your income you set aside rather than spend. He also says you cannot build wealth without a high savings rate. That's a much bigger claim than saying that spending less leaves more money to invest.⁶

Suppose one person earns \$40,000 after tax and saves 20% of it. That's \$8,000 a year. A second person earns \$200,000 after tax and saves 10%, or \$20,000. The second person saves more dollars despite saving a smaller share of their income. But the first person also spends much less, so a smaller investment portfolio could cover their expenses. These are different questions: how much money are you accumulating, and how much would you need to support the way you live? Your savings rate helps answer the second. It doesn't make income unimportant to the first. ⁷

Housel recognizes part of this. He often talks about saving in relation to what you need, not just the size of your bank balance. Cutting a recurring expense can help twice: you have more money to save now, and you need less to support yourself later. That's a good reason to pay attention to spending.

He also makes two qualifications that matter. The opening of "Save Money" applies to people above a certain income level. And he allows for comfort, entertainment, and enrichment—not just bare survival. The problem is that he never clearly explains where those worthwhile expenses end and spending driven by ego begins. Childcare, disability-related costs, family obligations, and experiences you genuinely value aren't necessarily attempts to impress anyone. His advice makes more sense as a warning against raising your spending with every pay increase than as a general explanation of why people spend beyond a loosely defined threshold. ⁸

What is actually preventing someone from saving? For a high earner whose spending rises with every raise, Housel may have identified the right problem. For someone whose necessary expenses already use up their income, earning more or getting support may matter more. Those people need different advice. Treating both situations as a test of restraint makes it harder to see what would help.

The best part of the book: being able to stay invested

A strategy can be good on paper and still fail you if you can't stick with it. This is where Housel is most useful.

Start with compounding. Suppose you invest \$10,000 and earn a constant 5% a year, leaving all the gains invested. In the first year, you earn \$500. In the second, you earn 5% on \$10,500, so the gain is \$525. The extra \$25 comes from earning a return on the previous year's gain. Keep going under those same assumptions and the investment grows to about \$43,219 after 30 years, before taxes and costs. That's not a prediction of market returns. It shows why leaving gains invested can matter: each year's return has a larger amount to work on. Take money out, pay avoidable costs, or lose some of the original investment, and you change what can accumulate. ⁹

Of course, an actual investment doesn't promise you that steady 5%. Even if its dollar value rises, it can leave you able to buy less if prices rise faster. A company can also go out of business. You might need the money while the investment is still down. Giving an investment more time can help, but it doesn't turn a bad asset into a good one.

Housel knows this. “Tails, You Win” discusses permanent company losses. “Room for Error” allows for future returns below historical averages. “All Together Now” says time cannot neutralize luck and risk. In “Confessions,” he describes low-cost US and international stock-index funds, which aim to track a group of stocks rather than pick which ones will do best. He explicitly says indexing will not always work and is not for everyone. His advice is to be patient with a plan that accounts for risk, not to hold on to any investment forever.¹⁰

Several parts of that advice have good support. William Sharpe’s comparison starts with two ways to invest in the same stock market. In his setup, a passive investor owns a small version of the whole market, with each company represented according to its share of the market’s value. An active investor chooses a different mix. The passive investor aims to follow the market; the active investor usually hopes to beat it.

Why must their average returns match before costs? Imagine the passive investors together own 10% of every stock in that market. The active investors, taken together, own the other 90% of every stock. Both groups therefore own the same mix overall, even though individual active investors hold very different portfolios. Over the same period, the groups must earn the same return per dollar before costs. An individual active investor can do better or worse. But if the active group pays more in fees and trading costs, it has less left afterward, on average. That is the cost argument—not a claim that every active investor must lose.

Research on individual brokerage accounts gives us another reason to question whether doing more will get us better results. The households trading most often earned lower returns after costs during the period studied. This was a study of account records, not a randomized experiment. It links more trading with lower returns, but doesn’t establish why those households traded as they did.¹¹

There’s also a reason to spread your investments across many companies. Hendrik Bessembinder compared the wealth generated by US stocks with what the invested money could have earned in Treasury bills—short-term US government debt. To see what that comparison means, imagine \$100 growing to \$150 in stocks while the same \$100 would have grown to \$110 in Treasury bills. The amount above that alternative is \$40, not the entire \$50 stock-market gain. These are illustrative numbers, not his study’s results.

In Bessembinder’s historical calculation, a small share of companies accounted for the stock market’s net wealth above that alternative. Gains beyond the Treasury-bill comparison and shortfalls below it are counted together. This does not mean every other company lost money or that the exceptional companies produced every dollar of market returns. It means a few very successful investments contributed enormously to the overall result. Owning a broad range of companies gives you a way to include potential winners without having to identify them all beforehand.¹²

This helps explain Housel’s advice about tolerating disappointments. A diversified portfolio can do well even when some of its holdings do poorly. If you treat each losing investment as a reason to change the entire plan, you may make changes you don’t need to make.

None of this establishes his stronger claim that increasing your time horizon—the length of time you plan to leave money invested—is the single most powerful way to improve investment results. If most of your money is in a few investments, or you are paying high fees, changing what you own or reducing the costs may matter more. If you need the money next year, deciding to think long term doesn't move that deadline. Research using a broader international history of returns also gives us reason not to assume that favorable long-run US results guarantee future returns after inflation.¹³

Still, Housel brings patience, survival, costs, diversification, and uncertainty together in a useful way. Choosing an investment that could work over the long run is only part of the job. You also need to be able to hold it through losses without putting money you need sooner at risk.

Some of the numbers need correcting

Other problems are easier to pin down. They concern what a statistic means or whether a calculation works, not which financial philosophy you prefer.

Take the lottery example. Housel puts low-income households' reported lottery spending beside a claim that 40% of Americans cannot produce \$400 in an emergency. He then describes the two groups as largely the same people. But the Federal Reserve survey makes a different distinction: some people would pay with cash or its equivalent; others would borrow, sell something, or be unable to pay. Not everyone in that second group is unable to raise the money. And separate figures about lottery spending and emergency expenses don't tell us whether the same individuals appear in both groups.¹⁴

Why does this matter? Put those numbers together as Housel does, and you can end up with a story about how people got into financial trouble that neither survey actually tested. His purpose is sympathetic: he wants readers to understand why a lottery ticket might appeal to someone with little money, without endorsing the purchase. But that doesn't establish the connection between the two groups.

There's a different issue with the failed-stock example. J.P. Morgan's 2014 report examined stocks that had belonged to the Russell 3000, a broad US stock index. About 40% suffered what the report called a catastrophic decline: a fall of at least 70% from a peak, with limited recovery afterward. A stock did not have to reach zero, and the company did not have to go bankrupt, to count. In "Getting Wealthy vs. Staying Wealthy," Housel describes the finding as companies losing effectively all their value. "Tails, You Win" gives a more reasonable description of severe losses, but also illustrates the category with a company being completely wiped out. That chapter can be read more narrowly: four in ten suffered severe losses, not necessarily total ones. Still, the example makes it too easy to confuse losing most of an investment with losing all of it. The report distinguishes the two.¹⁵

The report also classified 7% of stocks as exceptional winners. That tells us how many stocks qualified for the label, not what share of the index's return they produced. The classification, by itself, doesn't show that effectively all index returns came from those stocks, as Housel claims. Both

this report and Bessembinder's research support his larger point that a small number of investments can contribute a great deal to the overall result. We can make that point without treating different measures as interchangeable.

The example of leverage—using borrowed money to invest—in “Reasonable > Rational” contains a clearer mistake. Housel describes two-to-one leverage as borrowing two dollars for every dollar of your own, then says a 50% market decline wipes out the account. Try the arithmetic. You put in \$100 and borrow \$200, so you have \$300 invested. If that falls by one-third, you have \$200 left—exactly what you owe, before interest or other complications. Your own money is gone. To get the 50% wipeout he describes, you would instead start with \$100 of your own and \$100 borrowed, for \$200 invested.¹⁶

These details need fixing: the leverage calculation, the description of the survey, and the distinctions between different measures of stock performance. That doesn't overturn the advice to save or avoid risks you can't survive. It does mean we shouldn't assume the supporting details are right just because we agree with the lesson.

What can money do for your happiness?

“Freedom” gives you a good reason to care about money you haven't spent. Savings can let you turn down bad work, wait for a better opportunity, or deal with an unexpected expense without losing all your options. Housel makes that freedom seem more worth pursuing than an impressive bank balance for its own sake. It's one of the most appealing parts of the book.¹⁷

Independence may be one of the things you value most. Whether it generally does more for people's happiness than other uses of money is a different question.

He quotes research by Angus Campbell in which people's sense of control was a more dependable predictor of well-being than the external circumstances Campbell examined. In other words, knowing how much control people felt they had helped explain differences in their reported well-being. It was not a test in which researchers gave people more control and measured the benefit.

There is also a difference between feeling in control of your life and having more hours to use as you wish. You could have a busy schedule that you chose and still feel in control. Or you could have plenty of free time but little say over the parts of life that matter to you. These are illustrations, not findings from Campbell's study. They show why we cannot simply substitute “free time” for what he measured. His finding does not establish that using money to gain time and independence improves well-being more than other worthwhile uses of that money. That is the stronger claim Housel is making.¹⁸

Some research tests a more specific question. In a 2017 study, Ashley Whillans and colleagues gave working adults \$40 to spend on something that would save them time one weekend, and another \$40 to spend on an item they wanted to own on another weekend. Each person therefore tried both kinds of spending. Participants reported better mood on the day of the time-saving purchase.¹⁹

But it was a small experiment about short-term purchases, not a test of permanent financial independence. A later survey by Iris Lok and Elizabeth Dunn found a small positive relationship between buying time and well-being in a much larger group of US loan applicants. The relationship was also present among people living paycheck to paycheck and did not clearly differ by income. This was not a repeat of the earlier experiment: the researchers surveyed people rather than assigning purchases. People who choose to pay for time-saving help may differ from those who do not in other ways that affect their well-being. The survey therefore cannot tell us whether buying time caused the difference. And finding no clear difference between income groups does not prove that the benefit is equal for those groups.²⁰

A study of Swedish lottery players helps with a different question: can more wealth improve your life for years afterward? Researchers surveyed players between five and 22 years after the relevant draws. They did not simply compare winners with people who never played. They compared players whose different prize amounts had been determined at random within the same lottery groups. This gave them a way to examine the effect of receiving more money, rather than merely the differences between people who chose to play and people who did not.

The survey asked separately about satisfaction with life, overall happiness, and mental health. Those are related questions, but they are not identical measures. Larger prizes increased the ratings people gave their satisfaction with life. The estimated effects on their happiness and mental-health ratings were smaller and too uncertain to distinguish clearly from no effect. That does not establish that the effects were exactly zero, or that wealth improved life satisfaction without any possible benefit to happiness or mental health.²¹

The result supports a lasting benefit from additional wealth. It doesn't tell us whether that benefit came from more free time, greater security, spending more, or some other change. Nor does it tell us which use of money generally contributes most to well-being. Those are the questions we would need to answer to support Housel's stronger claim.

Think about a choice you might actually face. Paying someone to do a task you dislike could free up several hours this week. Saving that money could give you more freedom to turn down work later. If money is tight, paying for the help could also leave you with less set aside for an emergency. Housel is useful here because he gets you to consider what your time is worth. The book doesn't tell you how to balance relief now against security later.

His discussion of status has a similar problem. In "Man in the Car Paradox," he draws on his work as a valet to argue that people admire the car while barely noticing its owner. He may have observed that, but the observation doesn't tell us how often people generally respond that way. Experiments using luxury clothing labels tested whether people wearing them could get more favorable responses to requests, including requests for donations. The original researchers reported benefits from the luxury labels. A separate research team repeated and extended parts of the work but did not reproduce important effects on complying with requests or donating. The findings are mixed.²²

Separate studies by Stephen Garcia and colleagues support a more specific version of Housel's warning. People expected status signals to attract friends, while prospective friends preferred less showy signals. But being treated favorably and being wanted as a friend are different things. These studies also don't directly test his explanation of the car example: that observers mainly imagine owning the car themselves rather than admire its owner.

The more modest warning is useful: don't assume an expensive possession will get you the respect you want. Appearing wealthy, attracting attention, getting favorable treatment, and being liked aren't the same outcome. Housel also allows that nice possessions can be enjoyable. And in "You & Me," he gives a practical exception: a young lawyer may benefit professionally from maintaining an appearance that serves no similar purpose for Housel as a writer. Asking what a purchase is for makes sense. The broader claim in "Save Money"—that spending beyond a relatively low level of materialism is mostly ego—still needs evidence showing how often that explanation is right.

The book's warning about stories applies to its own stories, too

In "Luck & Risk," Housel tells readers not to turn a few successful lives into a recipe. Look for broad patterns, he says, rather than copying extreme winners. That's a good way to read his book, too. A story can help you understand how something could happen without showing how often it happens or how much it explains.²³

In "When You'll Believe Anything," he imagines an alien comparing the economy before and after the financial crisis. The buildings, knowledge, and tools are still there. What changed, he says, was the story people believed.

He has a point: factories and equipment don't have to be destroyed for an economy to deteriorate. And he does describe what could happen next. Falling confidence in housing could lead to defaults, bank losses, reduced lending, and layoffs. What he hasn't shown is that a changed story started the process or deserves the overriding importance he gives it.²⁴

Research on household debt, housing losses, and spending doesn't settle that question either. It documents how financial losses and debt can affect consumption, but it does not by itself tell us whether changing beliefs began the process. Housel's alien story makes one possible explanation easy to follow. It doesn't establish that this was the main explanation of the crisis.

The postscript is more careful about what it leaves out. Housel presents his history of the American consumer as selective, connecting postwar prosperity, inequality, expectations, and borrowing. He acknowledges omissions and allows for more than one cause of political reactions. Read it as his interpretation of how those events fit together, not proof that one chain of causes explains them all. And remember that its descriptions of current conditions refer to the period when he wrote the book, not necessarily the economy you live in now.²⁵

“You’ll Change” raises another question: how well can you predict the person you’ll become? Housel draws on research into the end-of-history illusion—the tendency to recognize how much you’ve changed while underestimating how much you’ll change in the future. The original researchers compared people describing changes over the previous ten years with people ten years younger predicting changes over the next ten. This let them compare remembered and expected changes over the same period of life. They were not simply waiting ten years to check those same people’s forecasts. Because memories can be unreliable, they also checked their argument against a separate study that had measured personality at two points in time. The evidence therefore wasn’t limited to what people remembered about themselves.²⁶

Later research asked a more direct question about life satisfaction: how much did people expect their ratings of their lives to change, and how much did those same people’s ratings actually change when they were surveyed again? Holly Harris and Michael Busseri compared forecasts for ten years ahead with ratings collected roughly nine years later. Life satisfaction here means people’s assessment of how their life is going, not a measure of their personality.

The original end-of-history researchers, Jordi Quoidbach and colleagues, then reanalyzed data from the same long-running study. They compared the size of the changes people predicted with the size of the changes that later occurred. Both increases and decreases counted as change. Averaged across people, the actual changes were larger than the predicted ones.

Busseri and Harris’s reply confirmed that average pattern in their sample. But they also counted the people who had predicted too little change. Only about 36% had done so. The rest had predicted the correct amount of change or more change than they experienced. The average result and the count were answering different questions.²⁷

Here’s a hypothetical example of how both can be true. Imagine five people who all expect their life-satisfaction rating to stay the same. Four are right. The fifth person’s rating changes by five points. Add the changes and divide by five people: the average change is one point, above the zero they predicted. Yet only one person underestimated the amount of change. These are made-up numbers, not the study’s results. They show why an average cannot tell us how many people got their prediction wrong.

Even predicting the right amount of change is not the same as knowing how your life will turn out. Someone could predict a two-point improvement and experience a two-point decline. They got the size of the change right but the direction wrong. Busseri and Harris argued that this distinction matters too.

These papers also analyzed overlapping data. They are several analyses of the same long-running study, not several independent tests with new groups of people. And their subject was life satisfaction, not the personality, values and preferences examined in the original research. The disagreement narrows what we can conclude about how people generally predict change; it does not show that the original personality findings were false.

Leaving room for changing goals is sensible. These studies help explain why. They don't tell you which of your commitments you'll later regret.

Who is this book most useful for?

If you have some money to save but keep comparing yourself with others, switching investment strategies, or confusing expensive possessions with financial security, Housel has a lot to offer. He asks you to avoid commitments that could leave you in trouble when things go wrong, stop depending on exceptional returns, and decide what would be enough before every raise becomes a reason to spend more. ²⁸

Those recommendations aren't useful just because they're simple. There are reasons behind them: the relationship between saving and spending, the costs of unnecessary trading, the importance of a small number of winning investments, and the need to consider when you will need your money. But easy to understand is not always easy to do. You can agree with every word about saving and still have nothing left after paying for necessities.

"Confessions" helps because Housel distinguishes his own preferences from advice for everyone else. In the book, he describes owning his home without a mortgage and holding roughly 20% of his assets outside the home in cash, while explicitly declining to recommend that cash allocation to others. If you copy the percentage because it helps him sleep at night, you've missed his point. ²⁹

These choices involve trade-offs. Cash gives you flexibility, but holding more of it can mean giving up higher returns you might earn elsewhere. Paying off a mortgage reduces debt and future payments, but can leave more of your money tied up in a home rather than readily available. Saving more can give you greater independence later while leaving less for worthwhile things now. The right balance depends on your resources, obligations, alternatives, and when you'll need the money. Housel recognizes enough of these differences to make the book more careful and useful than some of its strongest claims sound.

If you're dealing with debt you can't afford, too little income, an insurance decision, or money you'll need soon, you'll need information beyond this book. Housel is offering a way to think about money, not a complete set of instructions for each of those decisions.

Take his advice about preparing for setbacks seriously. Be more skeptical when he claims to have identified what matters most in wealth or happiness. You don't have to accept every billionaire story, historical number, or psychological claim to benefit from the practical ideas. You do need to know which parts have support and which don't.

The Psychology of Money can help you think more carefully about your financial choices. It shouldn't be the only source you use to make them.

Technical appendix: chapter assessments, claims, sources and scoring · Claims and sources

Book details and interests

Book reviewed: *The Psychology of Money*, Morgan Housel. Harriman House, 2020 ebook; ISBN 9780857197696. Book references use chapter names and identifiable passages, not another edition's page numbers.

Jason Hreha states that he has no personal, professional, or financial relationship with Morgan Housel or Harriman House, and no sponsorship connected to this book. His own book, *Real Change*, and behavioral-science services are relevant interests. Read the full book-specific disclosures and research limits.

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