how much is enough?
Most people feel they are good at managing money, but if this is true, why then is it that couples break up due to financial stress, executives on big incomes are unable to save, and that retirees lose their life savings through various schemes and scams?

What is it about money that causes otherwise sensible people to take risky chances and make poor decisions?

This booklet has been compiled to introduce you to a very important and in-depth topic – how much money is enough?

We reveal that it’s better to first focus on what will make us truly happy and then work out how much money we need to support that, rather than the other way around. By using this approach, we find we are also better prepared mentally to become more successful at investing.

The articles included in this booklet will challenge how you think about money, happiness and the way the human mind works. Each section covers a fresh topic, connecting together in the last chapter to reveal how you can be a successful investor and to offer an understanding of just how much is enough.

We are pleased to bring you some articles that have been taken from the best seller *How Much is Enough?* written by Arun Abey and Andrew Ford. The book provides a framework and the tools to help each reader improve their wealth and well-being and to answer the question posed by the title for themselves. For more information visit www.howmuchisenough.net

*“How Much is Enough?* will help you rethink how you live your life. It brings to life research in behavioural finance and psychology in a very practical way.”
Professor Shlomo Benartzi, UCLA

*“How Much is Enough?* is both thought provoking and ultimately uplifting – I will be permanently better off for having read it.”

*“How Much is Enough?* is the best book I have ever read on money, happiness, and the steps you can take to achieve your dreams. With simple explanations, easy-to-follow suggestions, and a gentle grace, the authors guide you along the path to greater self-understanding and enhanced well-being. Read it and you will live a happier life.”
Richard Peterson MD, Managing Partner, Market Psychology
chapters

making the most of our affluence
although society is getting richer – it’s not getting any happier

the madness of myopia
how short-term thinking can be an obstacle

mental traps that undermine investment success
why we struggle to make good investment decisions

opportunities and challenges in property investment
the risks associated with property investment and how we can manage them

the bridge of wellbeing
key elements that successfully link wealth and happiness

giving something back
how to benefit yourself and others by cultivating a more generous spirit

Arun Abey is a co-founder of and international strategic adviser to acsis, an independent financial services group. Arun is also Executive Chairman of the financial advisory group ipac and Andrew Ford is Communications Manager for the ipac group.
Wealth means different things to different people. To some, it is simply being financially secure or living a rich and rewarding life. To others, it means having all the material trappings of success that the modern world offers, or the status involved in being able to call oneself a millionaire.

People are now wealthier than ever, with an array of choices that were not available to our parents, let alone our grandparents. The opportunities to live an authentic life on our own terms are unprecedented. Yet it’s evident that, beyond the most basic level of income, as society grows richer, we’re not becoming any happier.

In recent years, affluence has had a transformative impact on the world and its new rich. However, an outward focus on material possessions has also brought with it a financial flu called ‘affluenza’. Tim Kasser, author of The High Price of Materialism, describes affluenza as a condition in which sufferers become addicted simply to having or consuming.

At a recent Forbes Global CEO Conference, Pierre-Emmanuel Taittinger, Head of Champagne Taittinger, remarked: “There are two attitudes today. The first one is that they (billionaires) like quick and instant pleasure. They are like Napoleon. They like to eat quickly, to enjoy a glass of champagne... and they go back immediately to their work. They have an entourage that likes to show off their money and buy music, paintings, maybe go into space. The real billionaires, however, are interested in work and making money, and generally they are lost as to how to use it.”

money tree
In the East, these trees are considered to bring good luck to those who place them in their homes or offices. As the Money Tree grows, it will continually sprout new stems of leaves that will unfold into five leaf stems.
Is it then possible to have too much of a good thing? Amazingly enough, on average, Americans now encounter 3,000 adverts every day informing them of what they can acquire. With such a variety of options and no clear framework for determining what type of spending will contribute to our life satisfaction, how can we hope to choose wisely?

Choice, and our ability to exercise it, is an important part of our freedom and enhances our sense of control. Psychologist Barry Schwartz has identified two key consumer types: maximisers and satisficers.

Maximisers spend hours, days and weeks wading through all possible choices before making a selection and then descend into regret when something better comes along. Satisficers stop searching once they have found something that serves their need, enjoying a more regret-free life with more time on their hands. While maximisers may end up with the best product, they are less satisfied in the long run. Chances are, you’ll be happier as a satisficer.

Understanding and living consistently with our personal values is another key to a practical rather than a slavish approach to possessions. Instead of asking, ‘how much money do I need to be happy?’, we should first ask ‘how can I be happy?’ and then determine the contribution that money can make to our lives.

Martin Seligman, Professor of Psychology at the University of Pennsylvania and one of the founders of the Positive Psychology movement, has developed a comprehensive understanding of what happiness really is. There are several routes to authentic happiness, he says, each one very different.

He distinguishes between pleasures (such as a good red wine) that tend to be momentary, and gratifications (such as painting or dancing) that evoke a sense of flow and are longer lasting. By organising your life for an abundance of both, you can enjoy the good life.

Gratifications are powerful because they draw on our personal strengths and engage us in activities that are challenging, requiring skill and concentration. Think of a child at play, in a perfect state of flow – it’s that feeling we are trying to recapture. Central to the good life is the idea of positive emotion, which makes us more expansive, tolerant and creative, enabling us to be more open to new ideas and experiences. Positive emotion builds up reserves we can draw on when threatened, or when an opportunity arises.

In this day and age, we should have the confidence to lead full and authentic lives – but first it’s important to look inwards and develop our own answers to the fundamental question, how much is enough?
While the human brain has evolved to help us make decisions under conditions of uncertainty, nothing could have prepared us for the complexity of the stock market. We are ill-equipped and exposed to emotions and mental biases that have the potential to destroy wealth faster than the worst bear market.

One insight that can make a big difference to long-term financial planning is that on average, shares have outperformed cash and fixed interest investments by around 9% annually. Barring extreme events, this basic relationship should continue to hold true. The return above the cash rate from shares is called equity risk premium, but we’ll call it The Prize. It is one of a handful of resilient forces in the world of investing.

Say you invest R50 000 today and received a 7% return for 30 years, compounded monthly. Ignoring inflation and taxes, and assuming you reinvest all income, after 30 years you would have R405 825.

Now, what if you could turn that R405 825 into more than a million rand? If you invest the same amount of money over the same period, but this time your average return is 9% higher (which equates to the lower end of the historical range of the equity risk premium in the USA). At the end of the 30 years you would come away with R5 885 839 and suddenly your retirement is a brighter proposition and your ability to make the most of life’s choices improves dramatically.

It’s no exaggeration to say that funding retirement aspirations is one of the biggest challenges in the developed world. With planning and foresight, most people can meet this challenge. Your future lifestyle will depend on how you want to live and how much money you have to finance your lifestyle.

“I have always preferred a bumpy 15% return to a smooth 12% return” Warren Buffett

“the madness of myopia”

A bamboo forest is hard to see through. There are 91 genera and about 1 000 species of bamboo. They are found in diverse climates, from cold mountains to hot tropical regions. Some of its members are giants, forming by far the largest members of the grass family.
A good financial adviser can give you a portfolio that is diversified across the asset classes, from shares to property, bonds and cash, and one that at least mirrors the long-term performance of these markets. The difference between success and failure is not how investment markets behave – we know they generally do well over the long term – but how you, as an investor, behave.

By investing in a quality, diversified portfolio of shares (available from any number of competent fund managers) it's actually quite easy to capture The Prize. Yet, the distractions for investors are becoming greater as volatility within individual stocks increase.

Research suggests that investors detest the way a loss makes them feel even more than they fear the loss itself. It appears the emotional impact of a loss, in particular the sense of regret, may have an equal or greater effect than the financial loss itself.

When we take investment risks, we should acknowledge that it involves accepting the possibility both of making a loss and of experiencing regret. We need to work against the brain’s response mechanism, which says it’s more important to get through today than to worry about the future. Risk-averse investors may avoid loss, but in doing so, they also lose the possibility of significant gain.

Why is The Prize so generous? Leading authorities on behavioural finance, Shlomo Benartzi and Richard Thaler put forward a convincing explanation, which they call the ‘myopic loss-aversion’. Presume you have the choice of investing in either of these two assets:

1. a risky asset expected to return 7% annually on average, but subject to all the ups and downs of the market
2. an asset that pays a guaranteed 1% annually

Which would you pick? For an investment over a single year, an allocation to the risky asset would be considered a gamble. However, over a five-year period (or longer), the risky asset would start to look attractive as the length of time would generally allow markets to recover from a fall.

Time is an important factor influencing investment decisions. Suppose that, even if you have invested for 30 years, you receive a report every six months from the manager of the risky asset showing you its price. Would these performance updates affect your decisions?

Research says that it would. If you don’t like what you see, you’ll sell (at least part of) the risky asset, despite its long-term prospects.

This is one of the reasons why The Prize from a sensible long-term share market investment is as high as it is – a fact that astute, emotionally strong investors can benefit from.
Our brains evolved in an environment where day-to-day survival was paramount. We therefore tend to lack perspective when faced with the rich and complex world of the 21st century, and in particular, we seem to struggle with making good decisions when it comes to the stock market.

One problem is that when faced with a situation of uncertainty, our decision-making is strongly influenced by mental shortcuts. Anchoring, the tendency to latch on to an initial piece of data against which we then judge all future information, is a key example. When we invest, we may become anchored to the current prices of assets and thus vulnerable to misjudgements about the future.

Anchoring also compounds other mental mistakes such as the tendency to be overconfident. In a rising share market, for example, we tend to assume that current stock prices are roughly fair value, and each new market high becomes an anchor against which subsequent highs are judged.

Anchoring works in other ways too, for example, when a company that has delivered poor performance in recent years announces some startlingly good news with a potentially large increase in earnings, most of us would probably underreact. The price anchor is so low that, instead of completely reassessing the company’s outlook, we are more inclined to consider the news in relation to our previous (negative) view of it.

The stock price anchor will tend to rise in increments as good news sinks in, hence the reason why equity research analysts usually raise their company earnings’ forecasts in small shifts. In these circumstances, competent fund managers and investors may be ahead of the market in identifying genuinely good news.

mental traps
that undermine investment success

mental traps that undermine investment success

venus fly trap

These insectivorous plants lure their prey using a sweet smelling nectar. When prey lands on the head of the fly trap and seeks the source of the nectar, it will touch one of the many trigger hairs located within the jaws, and once triggered, the trap snaps closed, trapping the victim.
Anchoring is worsened by the propensity for us, as investors, to be excessively confident of our abilities, particularly if we have enjoyed recent success. This may contribute to our tendency to try to DIY without the necessary skills and experience, make decisions too rapidly without sufficient analysis, fail to diversify portfolios sufficiently or trade investments too frequently.

Research shows that if we have done particularly well from investing in shares, we tend to move our activities online, trade stocks more frequently, speculate more and, as a result, achieve lower returns. In theory, trading through the internet should lower costs and lead to faster processing. But in reality, it leads us to trade too often as we can act quickly and easily in our overconfidence.

Some other common mental traps are:

**hyperbolic time discounting** – substantially discounting the value of future benefits compared to benefits today. Evolutionarily, there was little advantage to looking too far ahead and our modern culture reinforces an orientation towards instant gratification.

**myopic loss-aversion** – the suffering of more pain from the loss of a rand than from an equivalent gain. When we invest in the share market for the long term but measure our performance over the short term, the result is a spectacular failure to stay the course, missing out on the equity risk premium.

**herding** – this behaviour provided such a strong evolutionary advantage in the savannah that it is massively ingrained in us, even though in the modern world it can produce highly destructive outcomes when used inappropriately.

The key to guarding against these mental mistakes is to be properly prepared so that you can keep perspective during the inevitable fluctuations in the stock market, while those around you are losing theirs. During volatile times, money moves from weak to strong hands. Mastering your mind is the key to ensuring that you will be one of the few to have strong hands.

**tips for being prepared:**
- have the confidence and discipline to act when the opportunity arises.
- make investment decisions within an overall plan and seek professional advice. Do your research on good financial planners. This will assist with issues of overconfidence and anchoring.

**tips from Warren Buffett, the world’s most successful investor:**
- consider volatility as a friend that provides opportunities
- undertake rigorous analysis on companies within your circle of competencies before making decisions. This provides confidence and mental fortitude to see the fluctuations in markets as good rather than bad.
- have reasonable expectations of performance, remain patient and avoid the distractions of greed and peer pressure. Resilience is drawn from an array of disciplines including philosophy, psychology, economics and finance theory.
Share markets have generally produced higher investment returns than residential property over the long term. Theoretically then, if you rent a property and invest your money in quality shares, you should be wealthier than those who concentrate on paying off their homes. However, the discipline of meeting regular mortgage payments and gradually taking ownership of a tangible asset means that homeowners usually fare better financially than those who rent.

Beware though: a strong preference for property can lead to over-investment. Investing in residential property other than your family home is likely to result in higher risk and lower returns than investing in quality shares.

An economy in which business is performing well is likely to be one in which the property market is also growing. One of the main reasons that shares outperform property over long periods is that demand for property, in a market-based economy, is derived from the success of business. Thriving businesses create demand for commercial and residential property, both through their own expansion needs and through the attractive salaries they pay their staff, who often use the money to upgrade their properties.

Of course, the business cycle and the property market do not work in perfect harmony. There are periods of economic stagnation in which the property market enjoys a ‘catch up’ boom, and periods of recovery in which it goes through a down cycle.

douglas fir tree
This tree is one of the most sought after structural woods for property in the world. It is available in virtually any grade and size. Planed Douglas Fir seems to glow when a clear oil finish is applied. Douglas Fir, although very strong, has an Achilles Heel. It splits very easily along the grain. It is therefore necessary to design joinery in such way to avoid this characteristic.
common myths of property investment in every boom

- property values are not as volatile as share prices
- property prices never fall
- property prices might fall occasionally, but never as far as share prices
- property prices rise with the cost of living, so investment in property always keeps you ahead of inflation

On average, the risks of investing in property are understated and the returns are overstated. As a result, investors pour too much money into residential property, forcing prices higher than they would be if they accounted fully for the potential risks and returns investors are likely to experience.

Why then are property risks understated? This is mainly because property seems easy to understand so investors tend to have a perception of control. The truth is that property is able to elicit an emotional response unlike owning shares or bonds, which lack the sense of substance and permanence that attracts people to property.

Just as important, the pricing of residential property is infrequent and informal. Property investors never see red ink on a statement unless it is on the day of the sale. Also, most property investors never formally evaluate the performance of their investments at all. Imagine if you looked in a newspaper at the price of your home each day, just as you do with the price of your shares. Your attitude to risk would most likely be quite different.

Returns achieved from property are also generally overstated, which has the effect of further narrowing the risk/return trade-off for the asset. Indices that measure property market performance generally only capture the increase in the sale price of existing dwellings, but fail to take into account major developments in a nation’s housing stock.

Share investors can effectively ‘buy the market’ and participate in its long term performance because of the availability of accumulation indices that are net of costs incurred in achieving gains. Investors can’t ‘buy’ the return of the residential property market like this because the sales measures available are gross of costs, such as construction outlays.

In practical terms, investing in residential property has its own risks, not unlike investing in a single stock. While these risks can be mitigated through research into location, quality of property and so on, opportunities for broad diversification and protection of a residential property investment portfolio are more restricted.

The one main advantage of investing in residential property is that individual investors with time on their hands have a greater ability to add value to their investment. For many people, buying a family home is their one truly effective means of saving. But for the amateur investor who does not wish to become a property investor, investing in a residential property is likely to be expensive, more time consuming and riskier than investing in a well-managed, diversified share portfolio. And it will probably yield a lower return too.
The previous four sections looked at common ways that investors fail and the tactics to overcome mental mistakes. Now that you know what you need to do to become a successful investor, how do you sustain that success?

Sustained success requires a framework that enables you to understand the role of money in your life, and the choices you make to support the life you desire.

We call this framework our **Bridge of Wellbeing** and the pillars that underpin it are:

- understanding and defining your values and goals
- deploying financial strategies that use your resources in a way that is consistent with your values and goals
- developing your investment strategy

A sound financial strategy is an important part of enjoying the life you choose to live, and investments are an essential part of most financial strategies. The process of developing and implementing a personal financial framework is called lifestyle financial planning.

**Understanding your values and goals**

The reality is that many of us spend too little time thinking about what would make us happy and a disproportionate amount of time and effort chasing goals that don’t bring the satisfaction we seek. When setting goals, it’s important to look forward, not back. Suspend reality and the limitations of the past and think about the things to which you genuinely aspire.

**Japanese garden**

For centuries, the Japanese have used gardens to bring a sense of well-being, serenity and nature into their crowded lives. While Japanese gardens are inspired by nature, they do not grow naturally and require constant nurturing and care. The bridge is a central feature and symbolises the link between this world and paradise, leading one from everyday life to a calm, serene, reflective communion with nature.
Planning for security in retirement is one aspect of determining how much money is enough. The general rule of thumb is that once work stops, the kids leave home and expenses fall, most people find that they need something like 75% of their final working income to sustain a good lifestyle in retirement. Of course you can get by on less, but it’s worth aiming high.

**applying your resources to achieve your goals**
You can begin to work out how much money is enough by mapping out your financial resources today and in the future.

- identify your current income and expenditure by doing a budget
- estimate your income and expenditure in the medium term (3 years) and longer term (5-10 years)
- balance your current and future needs and goals

**developing your investment strategy**
To develop a sensible investment strategy, all you need is to understand four key investment principles and to get sound advice. Having a simple strategy that you understand, plus a sensible investment portfolio will hold you in good stead during periods when the markets are working against you.

A sound investment approach comes down to the four principles: quality, value, diversity and time. Investing in a diverse range of quality investments at prices that represent good value, and investing for sufficient time, will bring you the rewards you seek.

**quality:** the only way to identify quality companies is through rigorous analysis. Look for attributes that include sound longer-term earnings, good return on equity, capable management with a solid track record, a sound balance sheet and reliable core business franchises.

**value:** this refers to the quality and price. Some of the worst disasters have arisen from people paying too much for what are, essentially, quality assets. The key to assessing value and quality is to know whether an asset can produce an attractive return relative to its risk.

**diversification:** this is important because it provides access to a wide range of investment opportunities, rather than just one or two. It also provides insurance against inevitable mistakes in assessing value. Diversity involves having investments across different asset classes, countries and funds.

The ultimate test of a successful portfolio, however, comes with time.

Over long periods in the market, say five to ten years or more, virtually all strategies based on the above four principles have greater upside potential with less downside risk than chasing fads. Ultimately, crossing the Bridge of Wellbeing means integrating all aspects of your money and your life to help you answer that most important question: how much is enough?
American author Gore Vidal, a noted wit and social critic, once commented: “Every time a friend succeeds, I die a little.” This is not the most generous of comments, but the underlying truth hits home for almost all humanity. Yes, it kills us a little each time we learn that someone we know has done particularly well, invested more wisely or generally fared better than we have.

There is no doubt that others would benefit if each of us becomes more generous of spirit, but research suggests that the greatest beneficiaries may be ourselves. In recent years, psychologists have established that genuine happiness comes from giving, more so than from getting.

The African savannah is a strange place to search for an explanation for this, but this is where our thought patterns were conditioned for over 200,000 years with a focus on day-to-day survival. Survival was enhanced by co-operating within the tribe, so a certain amount of generosity brought an evolutionary advantage. To be left behind by your own tribe was death, what mattered was how your tribe fared overall.

It’s interesting to note that the success of people distant from us doesn’t trigger much emotion. It’s our peer group that affects us: will their success cause them to leave us behind? On the savannah, this could mean physical death. In the modern world, it can lead to emotional decay.

What then stops us from being more generous with others and bringing more meaning to our lives? It appears that our brains are not very good at guiding us towards the sense of lasting well-being that we get from helping someone (compared to the transient sense of well-being we get by adding to our designer wardrobes). Unfortunately, it’s something we need to learn.

Trees are vital to the existence and well-being of our environment. Not only do they improve the quality of the air we breathe, but they also provide food and shelter for humans and wildlife. Planting a tree is one of the easiest ways to conserve the environment, to offset our carbon footprint, and make up for the damage we have caused the planet and ourselves through the destruction of forests over the centuries.
Simply writing a cheque to a charity that you may not know much about doesn’t seem to provide lasting well-being either. It’s giving something with meaning and purpose that seems to really make a difference.

Take the example of Bill Gates. Anyone observing Gates as he built Microsoft into one of the world’s most successful companies would have no doubt that he was fully engaged in what he was doing and derived tremendous satisfaction from it. But it wasn’t enough.

Some years ago, he was shocked to discover how little was being done to treat diseases, especially malaria, in poor countries. As he did more reading and research, including visiting some of these countries, he developed a huge passion to solve the problem. He also developed an interest in tackling the educational disadvantages of the underprivileged.

Gates decided to donate most of his fortune, his time, his skill and his formidable creative energy to these causes.

Those who know him observe that he has never been more engaged or passionate, not even during his time in building Microsoft. He has also persuaded his long-standing friend, Warren Buffett, the world’s second-richest person, to divert his fortune to help fund the programmes.

But what’s even greater is when a relatively poor person helps one of his peers to stand on his shoulders and escape to a new and better life, without any reward for himself. Parents do this, but otherwise such examples of unconditional giving are rare.

so where can you start?
You could visit the websites of organisations such as Oxfam or Opportunity International, specialists in providing small commercial loans to poor entrepreneurs. You can do interesting things like buy a poor family a goat or help to fund one of Opportunity’s community projects.

If you plan to do this as a gift for a friend, spend a bit of time reading about the impact that a gift like this has on the recipient and ask the organisation to send you more information and case studies if need be.

Think about how happy you think this gift will make the recipient. When you tell your friend about the gift in his or her name, bring its value to life – share with them what the life of the recipient is like and what a difference the gift will make.

Keep on the mailing list of the charity and monitor its progress together with your friend. A month after the gift is given, both parties invariably report higher well-being from the choice of this gift than from a typical material item. By becoming more generous of spirit, you can increase your own sense of well-being as well as the well-being of the people around you.

sharing your story
We are collecting case studies on meaningful giving to encourage learning and a spirit of generosity. We invite you to share your experiences at www.howmuchisenough.net
who is acsis

acsis is an independent financial services group that guides clients along their journeys in achieving lasting financial well-being.

Our trusted advice empowers individuals and institutions to understand their financial options. This enables them to make the right choices on the development and implementation of their financial and investment strategies, based on their unique needs and goals.

Our financial planning and investment management philosophy, founded by ipac, is based on a sound, robust framework underpinned by ongoing research and international best practice. ipac is a global leader in the field of financial planning and investment advice.

We own the licence to ipac in South Africa exclusively. ipac is owned by AXA, one of the world’s top three financial services companies. This strategic partnership provides us with a unique blend of local substance and strength with global resources.

At acsis, we employ forward-thinking people who are shareholders in the business. They all have a strong commitment and passion for financial planning and sound investment advice. With varied expertise and diverse tertiary backgrounds, they offer a quality of service unique in the financial services industry.

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