Formerly, things used to be much easier. As soon as you got a good job, you stuck with it until you retired. At that time, your employer was responsible for things, usually paying out a fixed-sum pension connected to your old salary. Then, retirees could then rest and relax.

Over the past three or four decades, everything changed. The kind pension plans of previous years are long gone, and the present workers need to care for their own nest eggs. That entails playing an active part in how your pension pot is maintained and investing your savings.

This can be difficult–nevertheless, one wrong move in the turbulent financial markets can completely ruin your savings. Therefore, how should you manage your finances?

This is what we'll be discussing these book chapters as we take examine seasoned investor Brian Portnoy's holistic lead to money management.

Chapter 1 - The new common thing is financial insecurity, and our instincts hinder us from investing our money wisely.

Speaking from the past, pension plans are a really current invention. As a matter of fact, they just really became popular in the nineteenth century as specific societies became more financially secure.

But, nowadays, that age seems to be over. With financial insecurity ever more popular, pension plans are again becoming an uncommon thing.

The reason is that there's been a huge transformation in the manner pension plans are funded. Before the 1980s, employers basically stumped up a lot of the money to pay for their workers' retirements. But, nowadays, employees are required to pay this themselves. Now, in the United States, retirement is most usually self-funded with the 401(k) investment plans.

Statistics show this transformation in retirement funding. Between 1980 and now, the number of workers qualified for a complete company pension reduced from 62% to only 17%. On the contrary, the number of workers self-funding their retirement through 401(k) plans, increased from 12 to 71 percent.

Not surprisingly, this has formed a lot of insecurity. Consider a 2017 survey that was done by the Employee Benefit Research Institute. It discovered that less than one-quarter – only 18%– of all Americans expect a sufficient retirement.

However, this is the real circumstance: Our attempts to self-fund retirement are ruined by our instincts, which cause us to make poor investment choices.

Let's explain that. When there's an economic decline, we become less secure. Due to that, we start keeping money. Also, how can you do that when the economy stalls and stock prices fall? Right – you sell the stocks you have already and put off buying new stocks.

However, this isn't reasonable. Consider it in this manner: You don't just rush to your local supermarket when its prices increase; you wait for when there are sales. This is precisely the reasoning we have to apply to the financial market. The perfect time to purchase stocks is when prices are low – since, for instance, an economic crisis. Differently put, if you weren't purchasing cut-price stocks during the financial crisis that happened, you missed out! That's an error to evade the future.

However, Investment isn't the only way to bigger financial security. In the next chapters, we'll be looking at some of the tools you can utilize so as to set your finances in order.

Chapter 2 - We can't control all parts of our financial lives; however, we do possess an astonishing amount of agency.

Insecurity might be increasing; however, that doesn't entail we're doomed to monetary suffering. Fortunately, all of us have a powerful tool for fixing financial issues– and that is the human brain. The brain isn't all that powerful, and it can't solve all problems or make all of us financial tycoons. However, it does provide us some power.

Let's begin by taking a look at our brains' limits. In the psychologist and economist Daniel Kahnemann's book titled Thinking, Fast and Slow, he claims that our default cognitive setting is "fast thinking." This is a spontaneous reflex generated by situations in the world around us. For instance, while driving a car and notice a person dash into the road, it's fast thinking that allows you to automatically hit the brakes.

The reason is that our brains are always scanning our surroundings for dangers. When we come across threats, our responses are lightning-fast and mainly unconscious. That entails that we don't have power on "fast brain" – it basically decides for us. At times those are financial choices. If you've ever spent a big amount of cash that you don't have, probabilities are your fast brain was in control of the situation.

However, fast thinking isn't the lone setting on which the human brain works. As stated by Kahnemann, we also possess a "slow brain." This is in charge of rational thought and analyzing difficult data. This is the setting that makes us to, say, calculate the yearly returns on high-yielding savings accounts.

Therefore, what does our slow brain control? To answer that question, we have to take a look at a study conducted by social scientists Edward Deci and Richard Ryan in the year 2015 and published in the Encyclopedia of the Social and Behavioral Sciences. It claims that about 60% of our ability to make reasonable choices and be happy is determined by genes and situations.

That puts many of choices beyond our control; however, it also entails that a complete 40% of the choices we make over our lives are conscious decisions. If you make use of your slow brain to make those decisions, you'll be well on your path to financial happiness!

How can you that, you ask? Let's see in the following chapter.

Chapter 3 - The best method of risk management is to reduce your exposure to losses.

Blaise Pascal, the seventeenth-century French philosopher had a fascinating opinion on two of the largest questions of his day – God and faith. As stated by Pascal, the choice to believe or not believe in God is a bet, and this describes the reason it's better to have faith. If God is truly real, you get big rewards. If you believe; however, it turns out that he isn't real, you don't lose anything. Belief, meaning, is basically much less risky.

Therefore, how does this relate to money? Quite so much, really. Reducing risk isn't only a smart approach when it comes to belief – it's a great method of making financial choices as well.

Reasonable money management is essentially about striking the appropriate balance between risk and reward. The more you risk, the more you get to profit. However, risking everything also entails you might as well lose everything. You can notice how this functions by observing start-ups. When you win in this field, you win huge – just consider Google or Facebook. However, as the CEO of Trepoint, Bill Carmody identified in an article that was written in 2015, 96% of all start-ups created in the US over the last decade had gone ruined.

Staking everything on red obviously isn't a sustainable decision; however, you can't grow financially without taking some risks as well. Therefore, how should you tackle risk-taking? Simple: reduce your exposure to losses.

Consider the insurance industry. When you purchase a house, you're taking on financial risk. Houses are costly, nevertheless, and they can – and at times do – burn down. To evade losing all, you take out insurance on your house, hence minimizing the risk of financial destruction should in case the worst occurs.

The exact principle can be used in investment. Consider the world's most successful investors, such as Warren Buffett and Charlie Munger, and you'll see that all of them have a thing in common – they're obsessed with evading damage and limiting risks. Their great strength is that they wait till the odds are set in their favor before doing anything. By concentrating on risk avoidance, they make stakes that basically can't lose.

Chapter 4 - Begin preparing your finances by knowing your net worth and having financial goals.

Now that we've looked at general methods to handling your finances, it's now time to examine the specifics. Let's begin with a thing really few of us ever get around to doing –determining our own net worth.

This is very effective. Even better, it's very easy to do.

Firstly, you'll need to calculate the total of your entire assets – your house, car, retirement fund, savings, the value of each object in your home, and so forth. Put this in a column. Afterward, add up your debts in the second column. This will have everything such as mortgage, credit card debts, college loans, and car loans. The difference between the sum of these two columns is your net worth. Calculate this yearly to have an idea of how you're doing overtime.

Therefore, what is the reason why this is such a significant exercise? Well, as soon as you've got a precise synopsis of your present financial health, you can begin pondering on your financial goals.

Understanding what you're targeting is the essence of money management. Definitely, you can't usually predict what your needs will look like in the future; however, you can make some really decent guesses based on your present wants and needs.

Assuming you are already aware that you want to be able to put a $50,000 down payment on a $250,000 house in around five years, or you've calculated the amount of yearly income you'll require to live comfortably after you retire. As soon as you're clear about these aims, you can form a financial strategy to attain them. Check this yearly, and you'll be able to evaluate if you're on track or require to set a little bit more apart every month.

Chapter 5 - Gratitude is good for both your purse and your soul.

Financial health isn't only about balancing budgets and choosing the appropriate investments. As a matter of fact, it's only as significant to think about less-tangible things –such as practicing gratitude, for instance. Sound weird? Really, it makes lots of sense.

The really affluent people have more than only material riches – they're happy as well. Why is that so? According to Robert Emmons, a psychologist, and world-leading gratitude expert mentions, thankfulness is a vital element of happiness. Simply put, showing gratitude makes you feel good.

This is a thing you can learn. Emmons suggests two gratitude-boosting methods. First and foremost, take stock of all the things you already own. The issue here is that we usually want to compare ourselves to other people. Fight that temptation and basically think about your own progress, and you'll feel very grateful for your portion in life.

Secondly, it's important to know that where you are at the moment isn't down only to your skill and hard work – luck and the assistance of other people played their role as well. As stated by Kristin Layous, a psychologist, humility is a foundation for gratitude. That signifies learning to thank other people –may be in words or thoughts – is an essential catalyst for feelings of happiness and satisfaction.

However, gratitude does more than only transform your attitude– it changes the way you spend as well. When you're regularly watching over your neighbor's fence and jealously bothering about his new car, you're more likely to end up in a spending competition and spree on pointless luxuries of your own. That isn't financially reasonable– and that as well won't make you happy.

This is where gratitude comes to play. If you're thankful for the food you have, you don't require a gourmet meal. Likewise, if you're grateful for the friends you have already, you don't have to sway new friends by purchasing the current gadgets or following trends in fashion

It truly is that easy: gratitude is good for your soul and your wallet!

Chapter 6 - When it comes to financial choices, simple conquers complex all the time.

Before we discuss money, let's take a minute to go back during the 1840s. Our location is a maternity ward of a hospital in Vienna, Austria, where a doctor called Ignaz Semmelweis is thinking about a strange circumstance. The death rate among women delivering in his ward is one in ten. On the other hand, the death rate among the women during alleged "street births," is only one in 25. What was happening?

Semmelweis racked his brain for answers. Eventually, with the advantage of reflection, the solution became glaringly clear– it's safer to deliver a baby outside a hospital than to be delivered by a doctor who hasn't washed his hands. That is the message here: simple answers are frequently the right answers.

But, the human brain likes difficulty. The more options we have, the gladder we feel. It is not surprising– the option is synonymous with abundance, which in turn offers us a sense of security. This, by the way, explains the reason why Starbucks' massive coffee menu, with its whole size and ingredient options, is really famous.

Simplicity doesn't produce these responses. It's realistic and boring and makes our brains longing more stimulation. Given an option, we'd rather stare at a stunning painting that's been preoccupied in a busy café serving great food while a band performs than in a museum. Complexity sells.

However, making choices on this basis can be financially disastrous. This is the reason why it is beneficial– literally – to make things simple. For you to do that, all you have to do is keep these three direct rules in mind.

Firstly, purchase when costs are low and sell when the costs are high. Secondly, broaden your portfolio of assets, or – in average words– don't put your entire eggs in one basket. Lastly, stick to your decisions and don't move from one investment opportunity to the other one. This last rule isn't as self-explanatory as the first two; therefore let's explain it a bit.

Often times, when you invest, you'll either be loaning your money to a firm or stocks or purchasing shares in a firm. Say you're playing the long game; your best stake is to invest your money in stocks, which provide the maximum return on investment extending over numerous decades. Whereas, if you're doing a short-term investment, bonds are a safer decision. Remember this all you need to do now is pick a company you trust that has a good product!

Chapter 7 - Investing isn't an exact science, and good investors admit that they don't understand everything.

Finance is usually related to complex equations and algorithms that make hard market activities effortlessly knowable and predictable. Unluckily, this just isn't the manner investment functions.

As a matter of fact, investing isn't the exact science it's usually made out to be. Ironically, this is really a good thing – nevertheless, it entails that you don't need to be a genius in math with five PhDs to acquire money on the markets.

Consider one of the world's most successful investors named Charlie Munger. As stated by Munger, investors don't understand the exact results of investment choices– the best thing they can do is choose investments that have a high chance of yielding a good result.

Coming from an investor who made billions on the stock market, This might seem like wrong modesty; however, it's a sound method. If you wish to make reasonable investment decisions, you need to admit that you're playing a "game" that is mainly directed by chance. Remaining humble and truthful is your best stake if you wish to evade losses and make the appropriate decisions.

In practice, this entails that you have to accept to yourself that you don't know everything. This can be difficult, particularly if you're a high-profile investor with a lot of financial information at your disposal. However, in spite of the Hollywood depiction of hostile, arrogant traders duking it out on Wall Street, the best investors know that humility outdoes overconfidence.

What is the reason for that? Well, think of it in this manner. When you know that you can't predict all the results in the financial markets, you're very more likely to have the patience to abide by your investments and concentrate fully on portfolio diversification and risk management. That's a better method than basically hopping on the current trend and investing your entire money on the most hyped investment choice.

Chapter 8 - There is a foreseeable average return on stock investments; however, the variety of possible results is much wider.

If you ask your mother or your neighbor what type of return you can anticipate on your stocks and they'll probably mention an amount like ten percent. This shows the common sense knowledge of how an investment functions, and it's not a million miles from the reality: the return on the majority of the investments is very predictable.

For instance, as stated by the data gathered by the Ned Davis Research Group, the average annual return on investments in stocks is truly around ten percent. In the first two years of investment, average returns really increase a bit above that number as a result of swings in company performance. These usually have a higher effect over the short term than they do over the long term.

That signifies that we can depend on a ten percent return on our investments, right? Not really. This number omits something significant out of the picture – that is probabilities. Also, that results in false anticipations. Let's unpack this.

As a matter of fact, the range of likely investment results is unpredictable. Instead of a consistent ten percent return, you're very more likely to get a big number of highs and lows as rates go up and down. This is a thing that the average rate of return doesn't capture. Think of the United States stock market. Some years, it increases at an amazing rate– in current times, it’s increased by 167 percent! Then, there are sharp declines. The stock market has reduced by 67 percent in some years

Meaning, the range of positive and negative results, is big, particularly during the first years after investment. However, this is the good news: the more you abide by your investment, the more this range reduces. Eventually, in the long run, you’re looking at a range of between, say, for instance, zero and twenty percent, however, small losses can’t be excluded all the time.

The point here is that it’s significant not to get really happy by the early up-and-down fluctuations in your stock’s value. Give it a few decades, and there’s a strong probability that things will balance out.

The Geometry of Wealth: How to shape a life of money and meaning by Brian Portnoy Book Review

When we talk about finances, it’s significant to keep cal, and bear in mind that luck has a part to play the financial markets. Knowing this and remaining humble is a significant aspect of turning into a successful investor, which is essentially about minimizing risks and evading bad calls. As soon as you’ve accomplished that, you can pile the odds in your favor by investing in basic, trustworthy schemes, and abiding with your investments over the long term.

Broaden your investment portfolio.

As we’ve realized, luck has a huge role to play financial investment, because it’s not possible to be certain which companies will flourish and which will companies will crumble. If you anticipate an average ten percent return on your investment, and just invest in a company, you’re likely to see yourself in a problem if that company crumbles or underperforms. The alternative method? Simple: hedge your bets and extend your investment over various firms. If one of the stocks becomes bad, you’ve usually got a safety defense.

https://goodbooksummary.com/the-geometry-of-wealth-by-brian-portnoy-book-summary/