

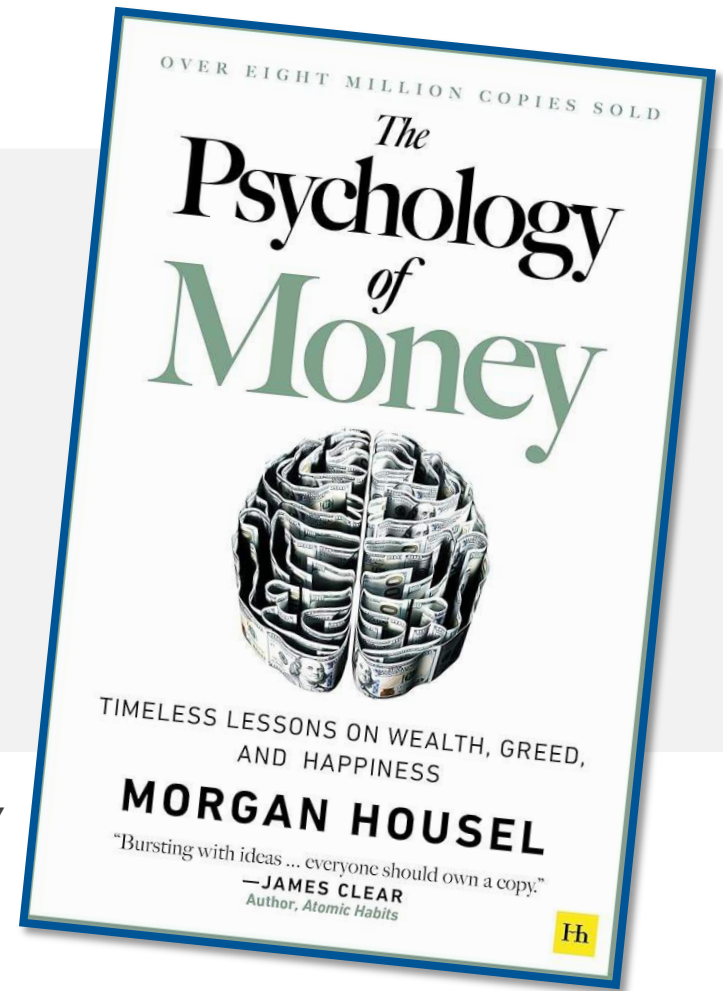
**The Psychology of Money:**  
**How Behavior Shapes  
Financial Choices**

Presented by:  
Max Rosenthal, CFP®



“Few people make financial decisions purely with a spreadsheet. They make them at the dinner table, or in a company meeting. Places where personal history, your own unique view of the world, ego, pride, marketing, and odd incentives are scrambled together into a narrative that works for you.”

- Morgan Housel in *The Psychology of Money*



# If investing were only about intelligence...

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why do highly educated people still  
make terrible **financial decisions**?



## The Janitor vs The Harvard Educated Executive



- Ronald Read's home in Vermont in 1960.
- A janitor at JC Penny's.
- Famously donated \$6M to a local hospital and library, and \$2M to stepkids upon his death in 2014.



- Richard Fuscone's home in 2010.
- An executive on Wall Street.
- Featured in the WSJ for his mansion going into foreclosure – sold for 75% less than the insurance value in 2014.

## The Janitor vs The Harvard Educated Executive Continued....

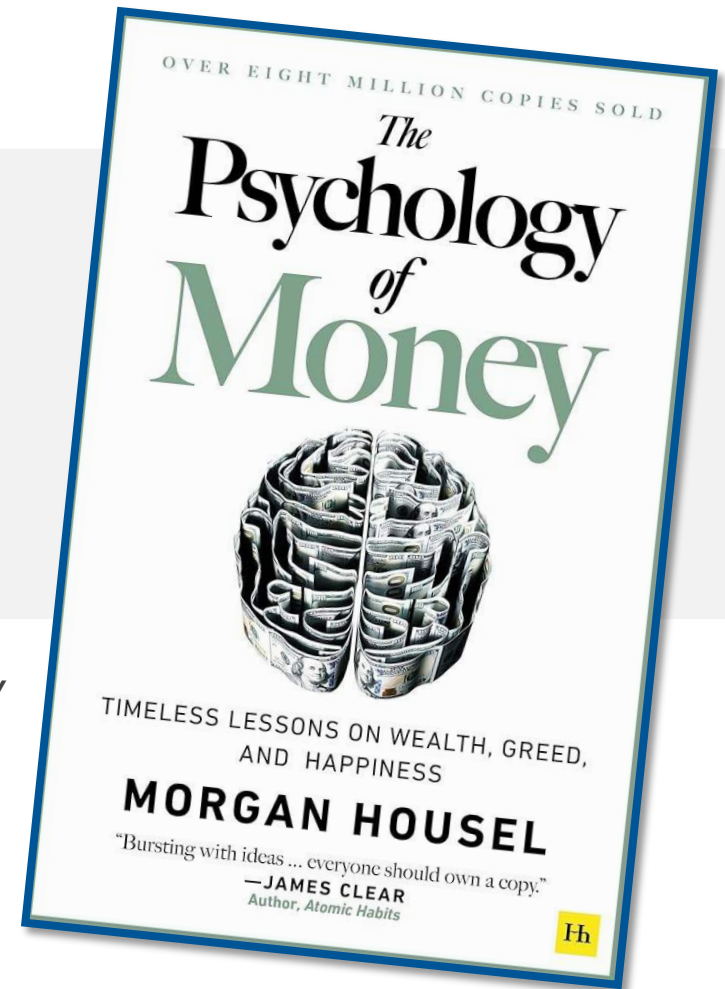
Finance is not like physics, which is guided by laws.

Finance is guided by behaviors.

To grasp why Richard Fuscone buried himself in debt buying and expanding his mansion, you don't need to study interest rates or economic forecasts, two subjects he would have been very knowledgeable in; ***you need to study the history of human nature...in Richard's case, the history of greed.***

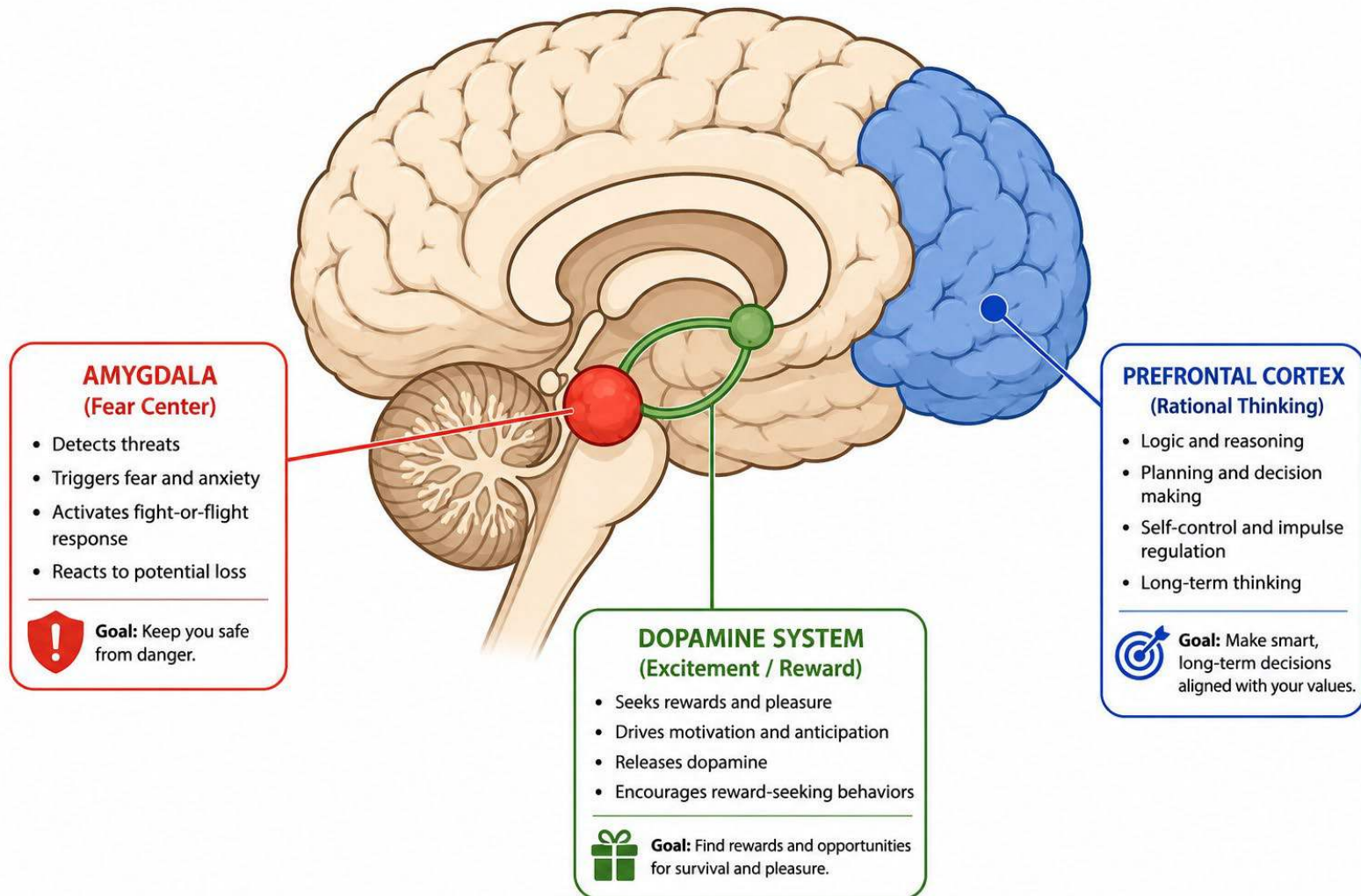
“...doing well with money has little to do with how smart you are and a lot to do with how you behave. **And behavior is hard to teach, even to really smart people.**”

- Morgan Housel in *The Psychology of Money*



# Is The Brain Hardwired For Good Investment Decisions?

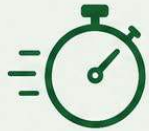
# Your Brain



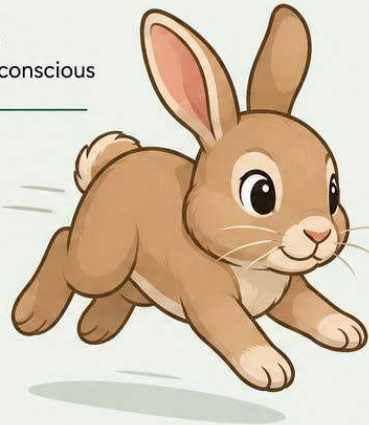
# The Two Thinking Systems

## SYSTEM 1

### FAST THINKING



Automatic  
Instant  
Effortless  
Often Unconscious



#### HOW IT WORKS

Uses shortcuts and heuristics based on past experience to make quick judgments.

#### BEST FOR

Everyday decisions, pattern recognition, and situations that feel familiar.

#### EXAMPLES



Grabbing a familiar product



Driving on autopilot



Trusting your gut feeling



Noticing danger instantly



FAST, EFFICIENT, AND CONSERVES MENTAL ENERGY

## SYSTEM 2

### SLOW THINKING



Deliberate  
Slower  
Effortful  
Conscious



#### HOW IT WORKS

Uses logic and analysis to evaluate information and consider consequences.

#### BEST FOR

Complex decisions, new situations, planning for the future, and avoiding mistakes.

#### EXAMPLES



Creating a budget



Comparing investment options



Planning for retirement



Deciding what book to read



SLOWER, MORE EFFORTFUL, BUT LEADS TO BETTER DECISIONS



GOOD MONEY DECISIONS COME FROM KNOWING WHEN TO TRUST SYSTEM 1—AND WHEN TO ENGAGE SYSTEM 2.



Use System 1 for speed.  
Use System 2 for what matters most.

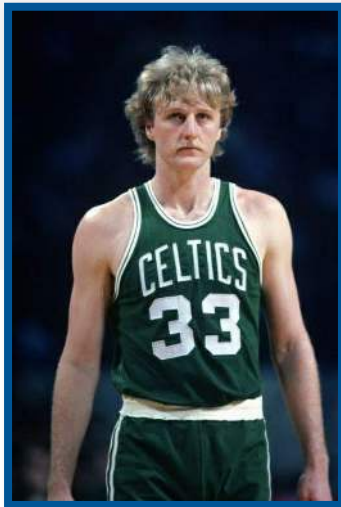
# Behavioral Biases

## Loss Aversion

People feel the pain of losses much more intensely than the pleasure of equivalent gains.

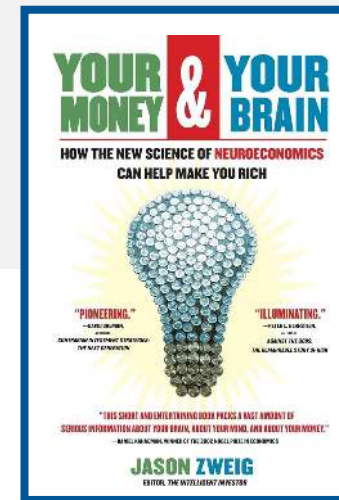
“I hate to lose more than I like to win.”

– Larry Bird



“Financial losses are processed in the same areas of the brain that respond to mortal danger.”

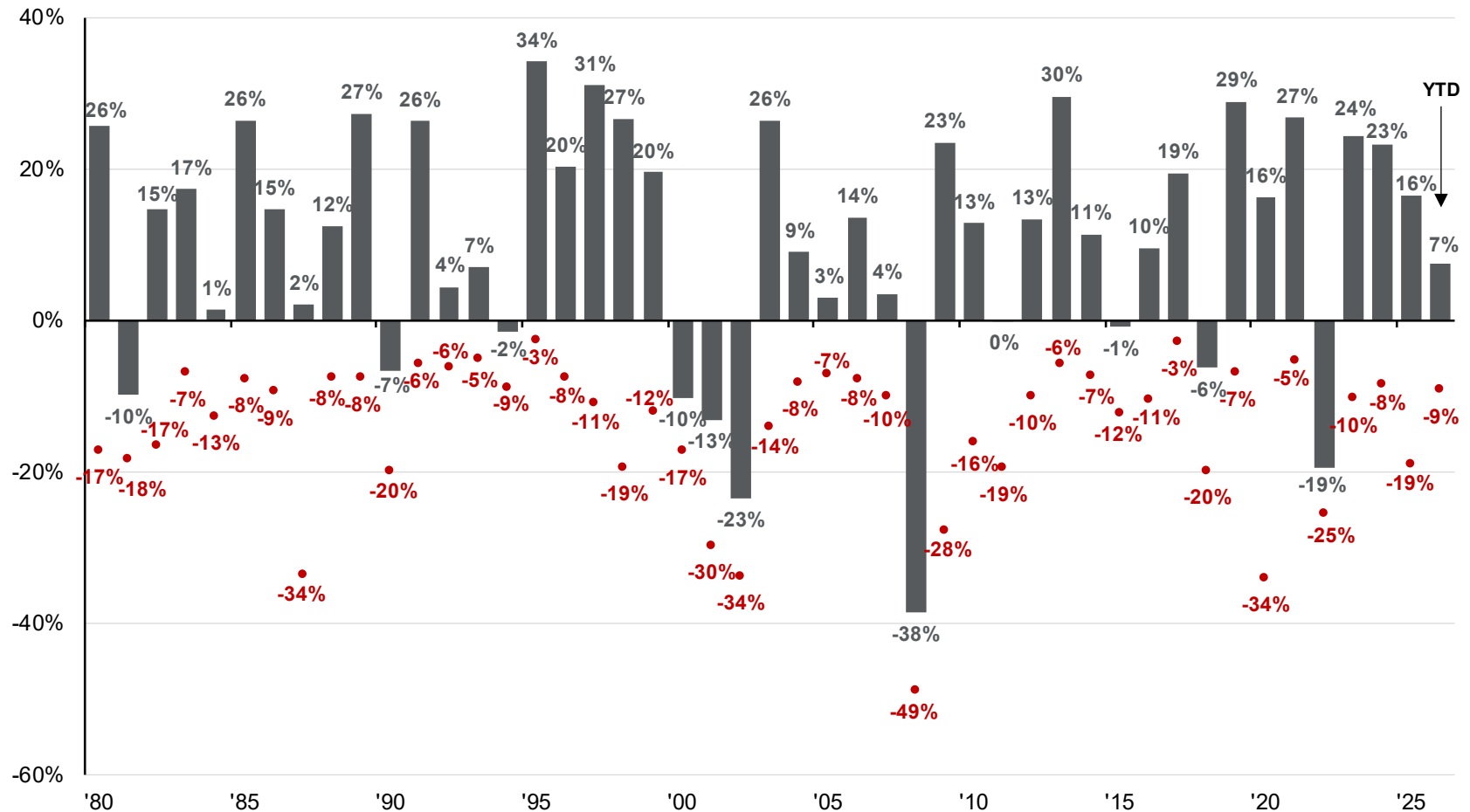
– *Your Money & Your Brain*



# Loss Aversion continued...

## S&P 500 intra-year declines vs. calendar year returns

Despite average intra-year drops of 14.2%, annual returns were positive in 35 of 46 years



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management. Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest peak-to-trough decline during the year. Returns shown are calendar year returns from 1980 to 2025, over which the average annual return was 10.7%. Past performance is no guarantee of future results. *Guide to the Markets – U.S.* Data are as of May 19, 2026.

## Illusion of Control

The tendency is to overestimate our ability to influence outcomes.

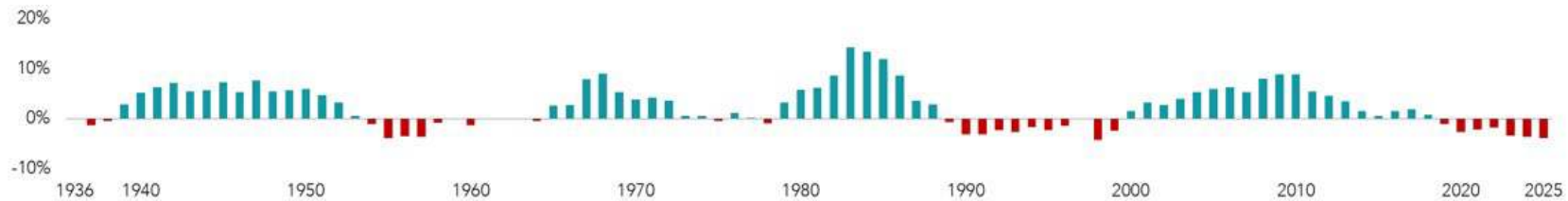
Controllables	Can't Control
Clarifying Goals	Stock Market Return
Costs	Inflation
Tax Impact	"Rainy Days"
Beneficiary	Politics
Asset Allocation	News Headlines
Identifying Time Horizon	Your Spouse

# Recency Bias

The tendency to place too much importance on recent events while ignoring longer-term history.

## Historical Observation of 10-Year Premiums:

Small Cap beat  
Large Cap



Value beat  
Growth



## Overconfidence

The tendency is to overestimate our abilities in general.

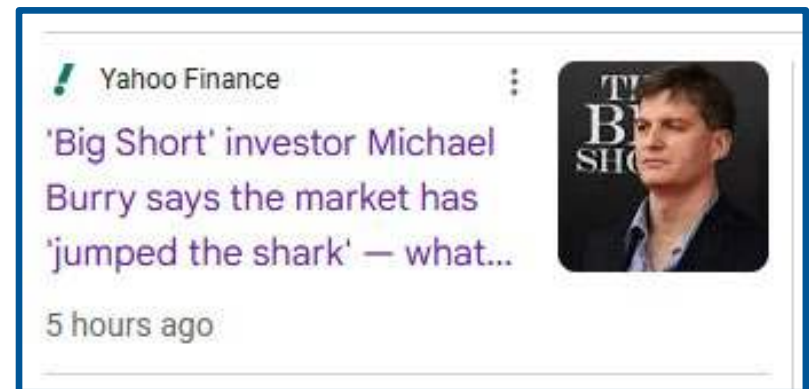


Many studies have shown that **majority of people** think they are above **average drivers**.

Of course, only 50% of people can be above average.

## Hindsight Bias

Investors believe they can time the market by referencing a time in the past when they “saw the market drop coming.”



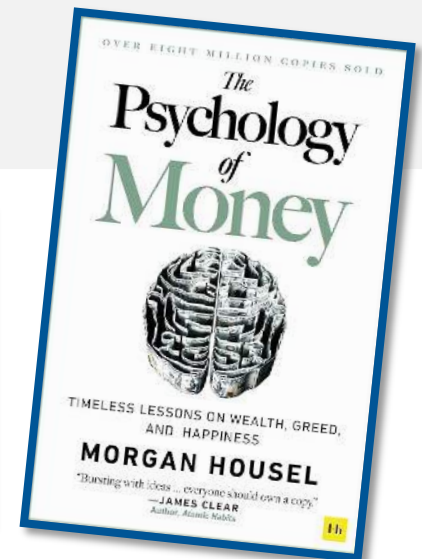
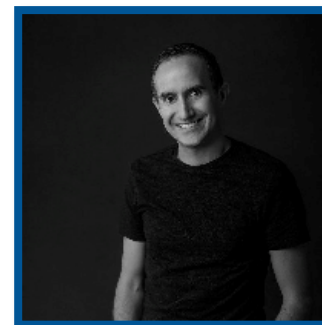
# Luck vs. Skill

“Years ago I asked economist Robert Shiller, who won the Nobel Prize in economics, “What do you want to know about investing that we can’t know?”

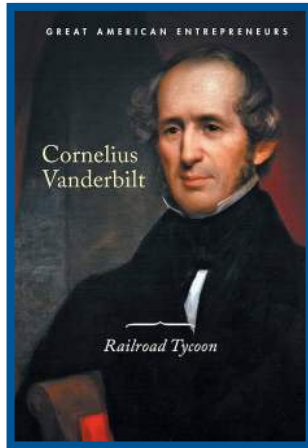
“The exact role of luck in successful outcomes,” he answered.

I love that response, because no one actually thinks luck doesn’t play a role in financial success. But since it’s hard to quantify luck and rude to suggest people’s success is owed to it, the default stance is often to implicitly ignore luck as a factor of success.”

- **Morgan Housel** in *The Psychology of Money*

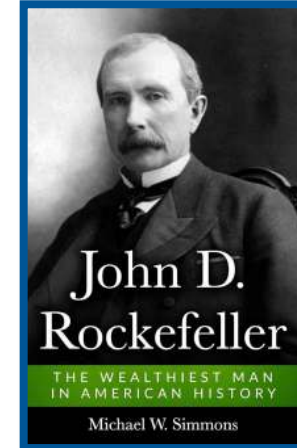


## Examples to Follow? Maybe not....



One of his business advisors leaned in to tell Vanderbilt that every transaction he agreed to broke the law.

“My God, John,” said Vanderbilt, “You don’t suppose you can run a railroad in accordance with the statutes of the State of New York, do you?”



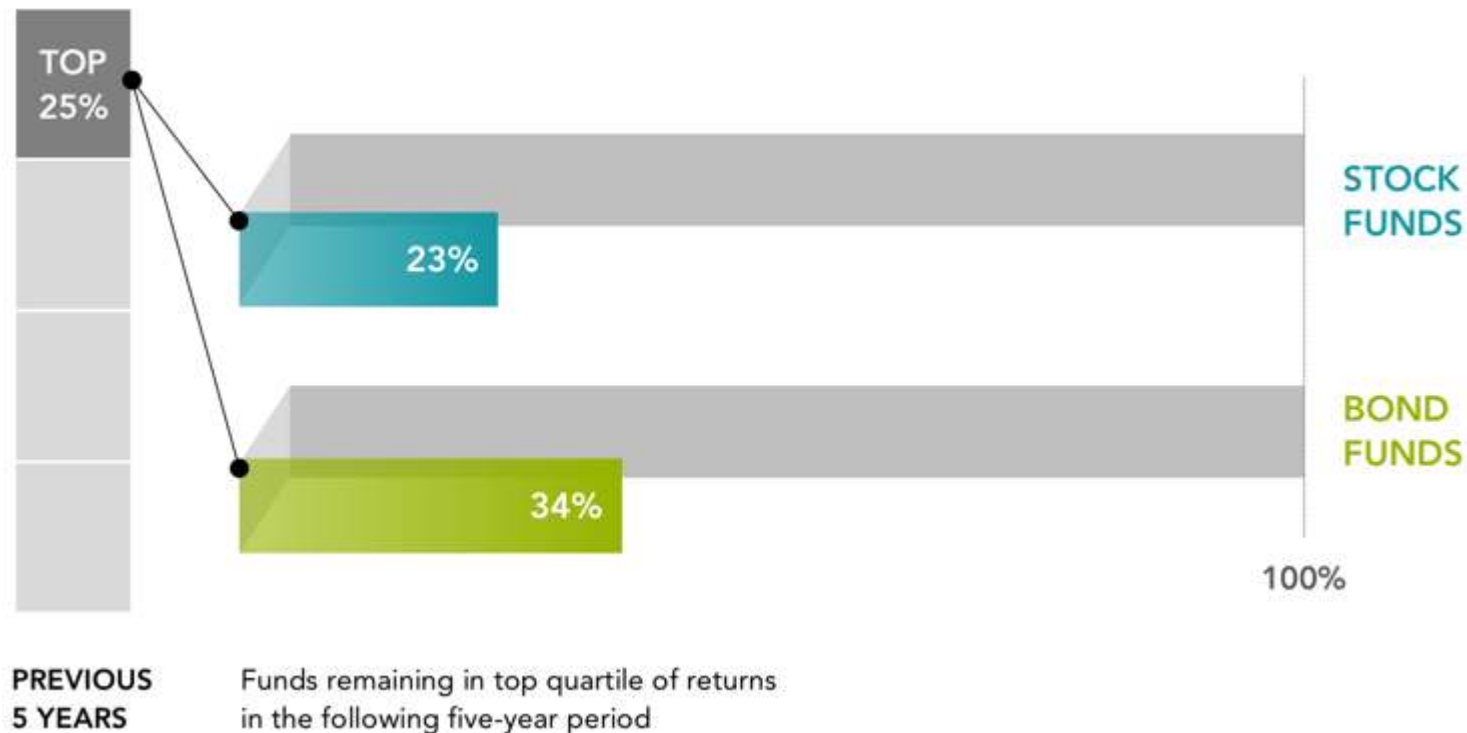
A judge once called his company “no better than a common thief.”

“What do I care about the law? Vanderbilt once said. “Ain’t I got the power?”

**“Focus less on specific individuals and case studies and more on broad patterns.”**

## Top Performers Rarely Hold Rank

Percentage of top-ranked fund that stayed on top, 2006-2025



# It Is Challenging to Beat the Market

Percentage of US Equity Funds *Underperforming* Their Benchmark

Fund Category	Comparison Index	1-Year (%)	3-year (%)	5-Year (%)	10-Year (%)	15-Year (%)	20-Year (%)
Large Cap Funds	S&P 500	78.78	66.84	88.96	90.43	93.15	95.01
Mid Cap Funds	S&P MC 400	46.02	72.48	59.79	92.74	90.00	94.35
Small Cap Funds	S&P SC 600	42.57	49.03	50.00	80.47	91.58	93.07
Real Estate Funds	S&P US REIT	83.58	88.61	97.44	84.04	90.10	91.14

**Wealth Is Invisible**

## The Millionaire Next Door

### Lives below their means

- “There are nearly three times as many households with investments of \$1 million or more living in homes valued at \$300,000 or less than that are living in homes valued at \$1 million or more.”
- They invest a minimum of 15% of their annual realized income before they pay for their lifestyle.

### Did not inherit any wealth

- “More than 80% of millionaires are first-generation millionaires. Most of them did not inherit any wealth.”

### Own productive assets like stocks, their own business or real estate.

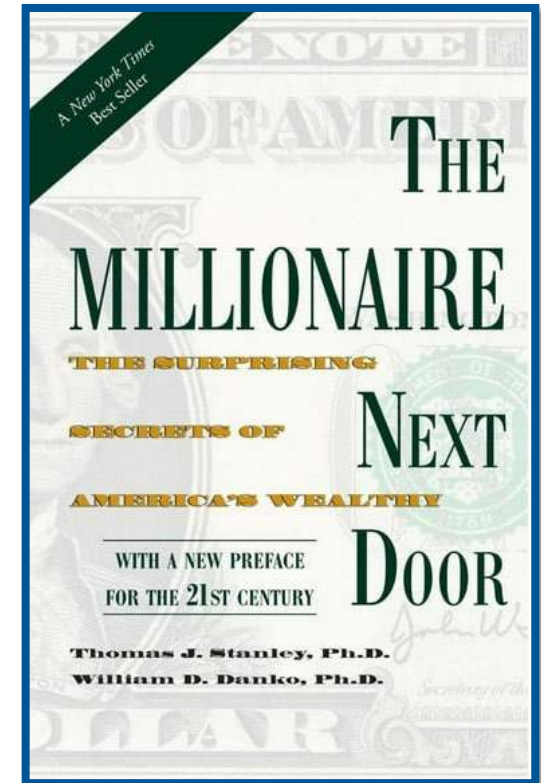
- “Nearly all (95%) of the millionaires we studied owned stocks.”

### Do not own a foreign luxury vehicle

- “Two of three purchasers or leasers of foreign luxury motor vehicles in this country are not millionaires.”

### Spend time planning their financial lives

- “There is a strong positive correlation between investment planning and wealth accumulation.”



# What Works?

## Identify the Right Risk

Investing in stocks entails risk



## Identify the Right Risk

Not investing in stocks entails risk



## Identify the Right Risk

Our definition of risk is Not meeting your financial goal.

If your financial goal is to build long-term wealth, or to create an income stream to last a normal retirement lifetime, then investing in stocks likely makes sense.



## Pop Quiz

### Since 1960

#### Consumer Price Index

11 Times

29.6 in 1960  
324.05 in 2025

#### Cash Dividend of the S&P 500

40 Times

\$1.98 in 1960  
\$78.92 in 2025

#### Principal Value of the S&P 500

118 Times

58.11 in 1960  
6,845.5 in 2025

Data as of 12/31/25.

Source for S&P 500 Earnings History: NYU Stern School of Business, Aswath Damodaran. Raw data from Bloomberg and S&P.

Source for Consumer Price Index: U.S. Bureau of Labor Statistics, as reported on rateinflation.com.

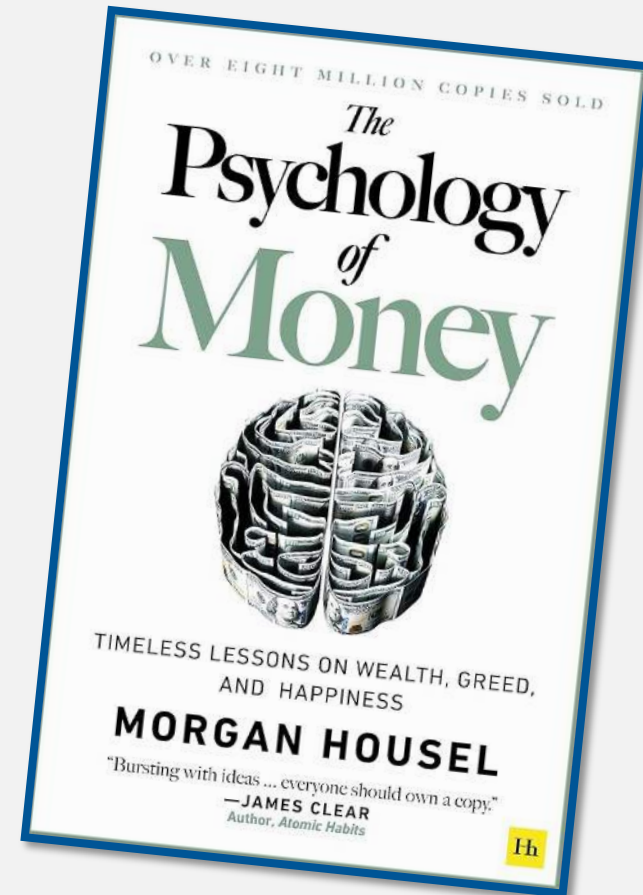
Index performance is not investable and does not reflect fees, taxes, or trading costs. Past performance is not a guarantee of future results.

“Beware taking financial cues from people playing a different game than you.”

“Optimism is the best bet for most people because the world tends to get better for most people most of the time.”

“Become OK with a lot of things going wrong. You can be wrong half the time and still make a fortune.”

“Worship “room for error.” A gap between what could happen in the future and what you need to happen in the future in order to do well is what gives you endurance, and **endurance is what makes compounding magic over time.**”



- Morgan Housel in *The Psychology of Money*

## Take It From The Experts



“The investor’s chief problem-and his worst enemy-is likely to be himself. In the end, how your investments behave is much less important than how you behave.”

“The best way to measure your investing success is not by whether you’re beating the market but by whether you’ve put in place a financial plan and a behavioral discipline that are likely to get you where you want to go.”

**Benjamin Graham**



“Far more money has been lost by investors trying to anticipate corrections, than lost in the corrections themselves.”

“The real key to making money in stocks is not to get scared out of them.”

**Peter Lynch**



“A market downturn doesn’t bother us. It is an opportunity to increase our ownership of great companies with great management at good prices.”

“The stock market is a device to transfer money from the impatient to the patient.”

**Warren Buffett**



# Q & A

## CONTACT US

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