

# INVESTMENT REPORT



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## MONEY CAN MAKE YOU HAPPY

By Brenthurst Wealth Team

Oscar Wilde, the Irish writer and poet, once said: There is only one class in the community that thinks more about money than the rich, and that is the poor. This is just one of many quotes about money and its importance in society.

There is the famous quote by Al Pacino as Tony Montana in Scarface when he says: "In this country, you gotta make the money first. Then when you get the money, you get the power. Then when you get the power, then you get the women." Cuba Gooding Jr made Jerry Maquire synonymous with "Show me the Money!" and who doesn't remember Gordon Gekko's ode to greed in Wall Street?

**"The point is, ladies and gentleman, that greed, for lack of a better word, is good. Greed is right, greed works. Greed clarifies, cuts through, and captures the essence of the evolutionary spirit. Greed, in all of its forms; Greed for life, for money, for love, knowledge has marked the upward surge of mankind."** But what does science say about money? Does it really make you happier?

When researching the link between happiness and money Richard Easterlin wrote in 1974 his seminal work on the correlation between happiness and income levels.

"Does economic growth improve the human lot?" He created the Easterlin Paradox showing empirically that increasing average income did not raise average wellbeing. His premise was that having more money, or a higher

income, did not necessarily make you happier, but having more money compared to someone else did indeed increase your level of happiness.

Easterlin's research thus said that the absolute income levels are not as important as relative income when it comes to subjective wellbeing or happiness.

This does not paint a pretty picture of the human psyche, does it? You don't need much, as long as it is more than the person next to you in order to compare & feel relatively good about yourself – that is all that matters.

In the last couple of years, however, more and more research has been done on the topic, trying to test Easterlin's Paradox to see if the focus should indeed be relative income and whether absolute income isn't what really matters.

Ruut Veenhoven and Floris Vergunst of the Erasmus University in Rotterdam used the World Database of Happiness to test Easterlin's hypothesis and found that an **increase in economic growth does go with greater happiness.**

"As we have seen, 1% economic growth was followed by a rise in average happiness in the next year of 0.00335."

"Economic growth in nations does tend to go with rising happiness. Though there are cases where happiness remains stable in spite of economic growth, these are exceptions rather than the rule."

### In this issue

UPCOMING SEMINARS: **BOOK NOW**

PTA SEMINAR: 04 JUNE 2013  
JHB SEMINAR: 05 JUNE 2013  
CPT SEMINAR: 11 JUNE 2013

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Global  
Markets  
AND SA ECONOMY

In a working paper published on the topic of behavioural economics Daniel Sacks, Betsey Stevenson and Justin Wolfers also dispute Easterlin's findings. Simply put: They argue that the more money you have, the happier you are. And they also don't find a saturation point. Therefore – there is no point where you have enough money so that even more money won't make you happier.

“We find that wellbeing rises with income, whether we compare people in a single country and year, whether we look across countries, or whether we look at economic growth for a given country.

Through these comparisons we show that richer people report higher wellbeing than poorer people; that people in richer countries, on average, experience greater wellbeing than people in poorer countries; and that economic growth and growth in well-being are clearly related,” they write.

## WHAT IS HAPPINESS?

Happiness can be defined as a mental or emotional state of wellbeing, characterised by positive or pleasant emotions ranging from contentment to intense joy.

Well-known quotes on the topic give some insight on what exactly this elusive state of wellbeing is and how it can be achieved.

Abraham Lincoln said **“PEOPLE ARE JUST AS HAPPY AS THEY MAKE UP THEIR MINDS TO BE”**.

Mahatma Ghandi proposed that it is when **“WHAT YOU THINK, WHAT YOU SAY AND WHAT YOU DO ARE IN HARMONY”**...and the fourteenth Dalai Lama believed that it is **“NOT SOMETHING READY-MADE, BUT SOMETHING THAT CAME FROM YOUR OWN ACTIONS”**.

These thought-leaders clearly believed that happiness was something more than just another item on a consumerist checklist that can be purchased.

It cannot, however, be disputed that wealthy people don't just have better toys (according to scientists Elizabeth Dunn, Daniel Gilbert & Timothy Wilson in a 2011 article for ScienceDirect), they also have “better nutrition and better medical care, more free time and

## WHAT MAKES YOU HAPPY?

In the Science Direct article Dunn, Gilbert and Wilson try and explain why money doesn't necessarily make all people happy as **people spend their money on the wrong things**.

Using the example of how effective forecasting can fail, they state that people wrongly predict what will make them happy, how happy it will make them and how long that happiness will last.

Effective forecasting means the following: People predict what the hedonistic consequences will be of future

So much for those of us who tried to console ourselves with the thought that money can't buy happiness.

The three scientists use data from Europe, Japan and the United States that show that as income levels increase, people report that their subjective evaluation of personal happiness increases – with the exception of the US, which is quite interesting.

Sacks, Stevenson & Wolfers propose that this could be because the level of income inequality in that country is also creeping up. Therefore there might be some people with more money, who should therefore be happier, but they make out an ever shrinking percentage of the country and thus the average level of happiness is going down.

It is, however, also true that if you ask many extremely wealthy people whether they are happy, that some of them will answer in the negative. If money can buy happiness, why doesn't it always?

more meaningful labour – more of just about every ingredient in the recipe for a HAPPY LIFE”.

“And yet, they aren't that much happier than those who have less. If money can buy happiness, then why doesn't it?” these scientists ask.

**Their answer: While money is an opportunity for happiness it is an opportunity that people routinely squander because the things they think will make them happy (and on which they spend their money) does not actually make a happier person.**

You could also argue that there is a difference between being rich and being wealthy.

Some may argue that wealthy people have enough resources to last generations, while a rich person might only have enough to fund his or her own lifestyle and not those of their lineage.

Or you could look at it more holistically and say that being rich could mean having a lot of money, while being wealthy includes other resources like good relationships, love and quality of life.

actions – they believe they know what pleasure they will get from certain actions that will happen in the future.

The problem is, say the scientists, that when you make these predictions in the here and now, your circumstances and context is different than the circumstances and context in which those future actions will happen.

So what you feel will make you happy in the future, might not in fact have that result because your context has changed by then.

**USING THIS AS BACKGROUND DUNN, GILBERT AND WILSON ARGUE THAT THERE ARE SOME PRINCIPLES THAT WILL ENSURE THAT YOU ARE HAPPIER WITH THE AMOUNT OF MONEY YOU HAVE TO SPEND. SOME OF THESE ARE:**

### **1) BUY EXPERIENCES INSTEAD OF THINGS**

**Instead of retail therapy, the researchers suggest that people are often happier when they spend their money on experiences rather than on things.**

“Experiences are good; but why are they better than things? One reason is that we adapt to things so quickly. After devoting days to selecting the perfect hardwood floor to install in a new condo, homebuyers find their once beloved Brazilian cherry floors quickly become nothing more than the unnoticed ground beneath their feet. In contrast, their memory of seeing a baby cheetah at dawn on an African safari continues to provide delight,” they write. Another reason is that people anticipate and remember experiences more than things.

### **2) HELP OTHERS INSTEAD OF YOURSELF**

The research suggests that because humans are the most social animals on the planet, the quality of our social relationships is a strong determinant of our happiness. **“Because of this, almost anything we do to improve our connections with others tends to improve our happiness as well – and that includes spending money.”**

### **3) BUY MANY SMALL PLEASURES INSTEAD OF A FEW BIG ONES**

Simply put the researchers state that as we adapt so quickly to changes, it is better to indulge in a variety of frequent, small pleasures, rather than pouring money into large purchases.

### **4) BUY LESS INSURANCE**

**“If the bad news is that we adapt to good things, the good news is that we adapt to bad things as well.”** They state that businesses often trade on the ignorance of this fact by offering various forms of insurance against unhappiness – cover in case something bad happens (which we would actually adapt to quickly).

### **5) PAY NOW AND CONSUME LATER**

In a country where especially unsecured credit extension is currently in the spotlight, this is an interesting principle to consider.

The research shows that the shift toward immediate enjoyment and delayed payment represents a fundamental change in our economic system that undermines wellbeing in two ways.

The first is that it leads people to engage in short-sighted behaviour – people rack up debt and don't provide for retirement. The second is that it eliminates anticipation, diminishing the happiness experienced when anticipated results are achieved.

### **6) BEWARE OF COMPARISON-SHOPPING**

The Internet has made comparison-shopping very easy. Before you decide to buy an item, you can look up reviews and compare products before deciding on the one suitable for you – or more accurately, the one that you desire most.

While there are obviously benefits to this, research suggests that comparison-shopping can alter the “psychological context” in which decisions are made. **“Comparison shopping may distract consumers from attributes of a product that will be important for their happiness, focusing their attention on attributes that distinguish the available options,” the researchers write.**

### **7) BEING WEALTHY MAKES THINGS EASIER, BUT BE SMART ABOUT IT**

After decades where Easterlin's Paradox was the influential work on whether more money equals more happiness, new research now clearly show that the wealthier you are, the likelier it is that you consider yourself happy.

Having money obviously precludes the likelihood for hardship and suffering. **It is, however, clear that the level of happiness (depending on your definition of happy of course) depends on what and how you decide to spend your money.**

# UPCOMING SEMINARS: CRACKING THE RETIREMENT CODE AND THE MARKETS

## PRETORIA SEMINAR:

**Date:** 04 JUNE 2013  
**Time:** 16h00 to 17h45  
**Venue:** Waterkloof Golf Club, Johann Rissik Drive, Waterkloof, PTA  
**RSVP:** +27 12 347-8240 [yolandi@brenthurstwealth.co.za](mailto:yolandi@brenthurstwealth.co.za)  
**Presenters:** Magnus Heystek BRENTHURST, Paul Hansen & Melissa Dyer STANLIB

## JOHANNESBURG SEMINAR:

**Date:** 05 JUNE 2013  
**Time:** 16h00 to 17h45  
**Venue:** Stanlib JHB Office: Melrose Arch  
**RSVP:** +27 11 799 8100 [reception@brenthurstwealth.co.za](mailto:reception@brenthurstwealth.co.za)  
**Presenters:** Magnus Heystek BRENTHURST  
 Melissa Dyer and Keillen Ndlovu STANLIB

## CAPE TOWN SEMINAR:

**Date:** 11 JUNE 2013  
**Time:** 16h00 to 17h45  
**Venue:** Liberty Life, The Estuary Century Boulevard Century City  
**RSVP:** +27 21 914 9646 [ronelle@brenthurstwealth.co.za](mailto:ronelle@brenthurstwealth.co.za)  
**Presenters:** Magnus Heystek BRENTHURST  
 Keillen Ndlovu and Paul Hansen STANLIB

STOCK MARKETS HAVE RISEN TO RECORD HIGHS IN MANY PARTS OF THE WORLD AS THE US ECONOMY RECOVERS FROM RECESSION.

HOW MUCH MORE CAN MARKETS RISE OR CAN THERE BE A CORRECTION IN MARKETS IN THE NEAR FUTURE?

**LISTEN TO TOP FUND MANAGERS DISCUSS THIS ISSUE.**



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