Book Review: Same as Ever, by Morgan Housel

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Marcelo: Welcome to the Empowered Investor Podcast. I'm joined today by my cohost, Jackson Matthews, and we're going to be doing a book review. But first of all, Jackson, how are you?

Jackson: I'm doing great today, Marcelo. Super excited to be back on the podcast. This is my second episode. It's going to be the first time where we're having this discussion one-on-one, though.

Marcelo: Yeah, it's interesting. It does change the format. Last time, the three of us did a book review with Lawrence joining us. So, the dynamic will be different, but we'll have a lot of fun. Today, we're going to talk about Morgan Housel’s second book, called *Same as Ever*. He goes through a series of events in the book, series of ideas that he thinks are the same as ever and are present throughout history.

The context may change, the historical context may change, but the behaviors are always present because it's human nature, right? Humans are prone to fear, to love, to want power, and to have greed and envy. He discusses these things and then puts them in a historical context. Today, we're going to break down some of those main ideas that we think are relevant for investors.

And Jackson, you're going to walk me through what you think are the most relevant for investors. We're going to go over them and then we'll have key takeaways that our clients and listeners and investors at large can draw from. So, let's go through the first one. What do you think is the most relevant one there?

Jackson: Yeah, Morgan Housel alludes to these pillars of behavior that humans have shown in the past 500 years and probably will show in the next 500 years because it's the same as ever. It's things that have dictated people's outcomes and behaviors. So, to start with the first one, it’s the role of envy and the role that it plays in people's decision-making, in people's psychology towards money, and how they basically shape their lives.

What Morgan Housel does in this book is he uses storytelling to take us through all these concepts. I think his storytelling actually builds upon his last book. I think it was even better than the last book. So, he takes us back to the 1950s to talk about the role of envy.

And so, the importance of the 1950s is when people from that generation who are older today look back on that time, they think of it as more of a golden age. And we ask ourselves, why? Why was the 1950s a golden age?

Marcelo: You hear a lot of people, right? You hear the expression all the time, like the olden times. "Oh, in old times, we used to have this, we used to have that." And people do have this nostalgia about that era.

Jackson: Yeah, and I think in a sense, it's because he talks about most families being able to support their whole family on a single parent's income, and they could afford a nice middle-class lifestyle.

But I don’t think that people were by any means better off, quote unquote. They had higher mortality rates, they had lower life expectancies, they had smaller houses for more occupants, and they spent more of their income on groceries. So why is it that people think the 1950s were a golden age?

Marcelo: Yeah, that’s so interesting, by the way.

Jackson: Yeah, and Morgan Housel goes further on to detail different incomes adjusted for inflation in different decades. So in 1955, like I said, this is adjusted for inflation, the median family income was $29,000. In 1965, it was $42,000. And in 2021, it was just above $70,000. So obviously, people are getting more money to be able to spend on their lifestyles and to increase their quality of life.

And so, we ask ourselves, where did these monetary gains come from? It didn’t come from increasing inputs and putting more hours into work. It came from higher productivity and more efficiency within the workforce. So, we ask ourselves now, why do people yearn for the '50s? And it comes back to this role of envy. I think it’s because people back then were less likely to experience high levels of envy as everyone was more or less on the same level. And so, he talks about wages being set during World War II by the National War Labor Board and they were setting flatter wages. And so, people were less likely to look at their neighbor and think, "Wow, I really need the car that he has. I really want to go on the vacation that he's going on," because most people actually had the same cars, and they went on the same camping trips. That was just the norm back then.

Marcelo: Don't even go back to the fifties. I remember growing up in the eighties and nineties, which is where I grew up. This was back in El Salvador, but you can tell me how your experience was different. In El Salvador, I remember what was considered middle class.

Nobody had granite counters or super nice, renovated houses. Regular trips were going to the beach or camping. Having a big SUV was a luxury, showing higher incomes.

And I feel like the role of envy there is that we have way more exposure to people's lifestyles now. Social media definitely doesn't help because, before, in the fifties, you had access only to your community, and that was it. If people had similar things, you didn't feel left out. You were less likely to do crazy things with money, like getting into debt or making bad decisions, because you were just exposed to your community, your town, your tribe.

Now, with social media, you get curated lifestyles exposed to you every single day, not only from the people you know but from celebrities and others. The bar has completely moved. Now a regular vacation is going to Europe. A normal car is like a big SUV that may cost you a lot of money month to month. If you have the income and the budget, go ahead and do it, but I feel like this envy aspect is way more present now because of the historical context we're living in. We're constantly exposed to news, social media, and people's lives.

Jackson: Yeah, Morgan Housel talked about the role that social media has played in envy. There's a quote in the book that social media is basically just a highlight reel. It takes everybody's accomplishments and their highlights and embellishes them and hides their negative traits because they don't choose to share that with the world. So, you go on social media, and all you're seeing are highlights. It's so easy to develop an envious point of view of your neighbor or your friend.

Going back to the fifties, as time passed, wealth inequality grew, and so did envy. Social media is basically just a steroid for envy.

Marcelo: Absolutely. That's a great way of putting it, actually. It has its great things, right? Like you can connect with people who you haven't seen in years. You can chat with your friends on a day-to-day basis, which people didn't have the ability to do in the past. But you also have the downfalls of what we're talking about. But okay, that's great. What's the takeaway here? How can we deal with this?

Jackson: Yeah, I think the takeaway is a quote that I'm sure many of you have heard before: "Comparison is the thief of joy." As Morgan Housel spoke about in his last book, and he also mentioned in this book, you need to learn how to get the goalposts to stop moving. You need to know when enough is enough and when to stop being envious of others.

Marcelo: And I think it's human nature, right? The first instinct that we have, because we're wired that way, is to think, "Oh, why can't I have that?" But being cognizant of it and being able to recognize it is the first step. At the end of the day, if you're able to do that, you will have a much better financial outcome. There is a great story in his previous book, not in this one, which I think embodies exactly what we're talking about. It was Joseph Heller, the author of the book *Catch-22*. They were at a cocktail party of a hedge fund manager. He was with another author—I can't remember the name, but the story is in the book and it's irrelevant to the point. The other author goes to Joseph Heller and says, "Doesn't it make you feel a bit uncomfortable that this hedge fund manager will make more money in a month than you will in all your book sales over a lifetime?" And Joseph Heller says, "I have something that he doesn't have enough." I feel like that just embodies exactly what we're talking about. Here you have a guy who's extremely successful, but he's managed to make the goalposts stop moving. And that's just a great story.

Jackson: Exactly. Good point.

Marcelo: All right. So, what's the next point, Jackson? What's the main takeaway that we have from the book?

Jackson: Another big theme in the book is how to manage expectations. To open this theme up, I have a quote here from Charlie Munger. Quick shout-out to Charlie Munger as he just passed away; he was a legend in this field and a very wise man. When asked, "You seem extremely happy and content. What's your secret to living a happy life?" Charlie Munger replied, "The first rule of a happy life is low expectations. If you have unrealistic expectations, you're going to be miserable your whole life." That's funny. Morgan Housel goes on to add to this quote, talking about wealth and happiness being a two-part equation.

I thought this was really interesting because it's true. The two-part equation is basically what you have and what you expect/need. When you realize that each part is equally important, the overwhelming attention we pay to getting more and the negligible attention we put on managing expectations makes little sense. So that's what Morgan Housel said in his book. And I think that's especially true when managing that side of the equation, which is expectations. Managing your expectations is one of the things that you have in your control. If you can wrap your mind around that, then you can essentially have a better outlook on life.

Marcelo: It's so powerful because even as we deal with anything in life, if you have high expectations and no control over the outcome, you're more likely to be disappointed. This is a funny story about marriage, but I got married through the Catholic church, right? So we had to do these marriage counseling courses, and the priest said, "I have never been married, but I know human nature. The key to a happy marriage is having low expectations." And it made me laugh because it's true. As you go through life, and even with portfolio returns, it's okay to expect something higher when you take higher risks, right? Like in a portfolio, I always tell clients, if you have a 100% equity portfolio versus something like 100% in bonds or fixed income that's super safe, of course, you can't expect a bond portfolio to return 20 percent every year. You have to know where the expectations are coming from. But if you expect that the portfolio will always surprise you, then you're always going to end up disappointed because the market is just unpredictable. You don't know where it's going to end every year. So even when people say we expect the portfolio to return 5 percent based on the risk you're taking, it doesn't mean that you're going to get 5 percent every year.

Jackson: Yeah.

Marcelo: But I think that's the role of the advisor, to verbalize that expectation.

Jackson: Yeah. Great point. Just to add on to finance and portfolio management, I think managing expectations is a great way to navigate this field. The question is not whether you will experience a shocking and rare world event in your lifetime; it's actually when you'll experience one. Morgan Housel talks about this. There's a quote in his book, "Save like a pessimist, invest like an optimist." Morgan Housel has an analogy in this book that I think is one of the more eye-opening ones. Here's his quote: "A 100-year event doesn't mean it happens every 100 years. It means there's about a 1 percent chance of it occurring in any given year. That seems low, but when there are hundreds of different, independent, 100-year events, what are the odds that one of them will occur in a given year? Pretty good." Humans don't naturally think of one-in-a-hundred-year events and stack multiple of them onto each other, but that's how the odds work. When you think of investing in your portfolio and trying to achieve your goals in the long run, this is really important because black swan events will happen in your lifetime. You need to be able to push through them without panic selling or exhibiting negative investor behavior. This way, you can benefit from long-term compounding, which is the eighth wonder of the world, according to Morgan Housel and Albert Einstein. Essentially, the question you have to ask is not how can I earn the highest returns, but what are the best returns I can sustain for the longest period of time? Being invested for that period is what will deliver the compounding magic.

Marcelo: Yeah, and I think that's the takeaway, right? At the end of the day, if you know these things like black swans—events that are unpredictable and change the course of history, like 9/11 or a pandemic—these things will happen. We can't forget, Jackson, that the world is billions of people interacting every single day. So your sample size for outcomes is huge, and that's what he means. You don't need very small samples for these big things to happen. They happen because you have millions and millions of things happening every single day. That's just the law of numbers, right? People think about evolution sometimes and wonder how certain things could happen. It's exactly that. It's millions and millions of outcomes over millions of years happening over and over. That's how we get evolution, that's how you get a black swan, and that's how you get a pandemic. So, when dealing with portfolios, financial plans, and people's retirement dreams, we need to give them a plan and a portfolio that, once we're setting it up, manages the expectations properly and helps them stay invested for the long term. This is everything, right? How do you get those returns? You get them by showing up in the market and staying invested. You don't get them by getting out and speculating or doing random things with the portfolio. It sounds like common sense, but so many people fall into that trap.

Jackson: Yes. Exactly.

Marcelo: All right. What's the next takeaway that we have from the book?

Jackson: The next theme we talk about, and we relate it back to what we do in portfolio management, is don't predict. We talk about the randomness and the odds of millions of different events and how it's so hard to predict outcomes because these events compound on each other. There are a couple of quotes we're going to talk about here, but the first one is: "The absurdity of past connections should humble your confidence in predicting future ones." As Marcelo just spoke about, there are millions of independent events that happen every single day. How can somebody predict the outcome of a global situation? It's impossible.

There's an example, a story in the book, about the Lusitania submarine that got its trip delayed by one day. On its travel, it got hit by a random torpedo. Because it got hit by this random torpedo, the U.S. decided to enter World War I. Now, there are a couple of random events that compounded on each other here, but the U.S. entering World War I is not an insignificant event. It literally changed the course of history. Small details, small outcomes can make a huge lasting effect on the rest of the world.

Marcelo: Yeah. It's crazy how one event can completely change the trajectory of history. Not to get too deep into this, but if you look at World War I, it definitely changed the trajectory of history. Even Winston Churchill said that World War II started when World War I ended. That's what created Germany into what it became during World War II.

Marcelo: And from then on, we can go through all the events, and that's how we end up in the world order that we have now. And just by delaying a boat, right? That's crazy.

Jackson: So I know you're probably wondering, okay, why are we talking about all this history? So we're going to relate it back to the markets, investing, and portfolio management. I did some research on the SPIVA reports, which stands for Standard and Poor's Indices versus Active. It's basically a report card that compares the returns of active managers to a standard index, which is a more passive way to invest. An index is a grouping of stocks that represents a segment of the market. This report card showed that 95 percent of Canadian investment managers underperformed the S&P/TSX Composite over the last five years.

Marcelo: So if I hired a Canadian portfolio manager, you're telling me that 95 percent underperformed the benchmark?

Jackson: Exactly. Over a five-year period.

Marcelo: Wow.

Jackson: We're talking about this because, as we just discussed, the compounding of millions of random events plays such a big part in future outcomes. It's hard to believe that any one person can predict a large global outcome and the trajectory of markets.

Marcelo: That's the wisdom of the crowds, right? The market collectively knows more than any single individual.

Jackson: Exactly. And so the theme we're talking about is to not predict. If professional money managers can't do it well, I don't think your brother-in-law, your neighbor, or your friend can do it much better. By the way, we're advising to tune out all kinds of predictions—both optimistic and pessimistic—because when you tune out the optimistic predictions that a stock is going to the moon, it sounds great, but it might be harder to tune out a pessimistic one. Here's a quote from the book: "Bad news gets more attention than good news because pessimism is seductive and feels more urgent than optimism."

To throw a bit of a statistic at this, one of the stories that Morgan Housel talks about in the book is about a 75-year-old who started working at 25. He has 50 years of experience as an economist. How many recessions have there been in the last 50 years? Seven. There have been seven times in his career that he's been able to measure his skills. So we're pretty much all left guessing. When someone says there's going to be a recession now, you should go to cash, it's not wise to listen to predictions in general, but to listen to one person over the whole investment market?

Marcelo: The interesting thing is that we're blinded by two things, right? We're blinded sometimes by our inner beliefs—we have behavioral biases, which we did a whole podcast on—and then we're lured by the shiny title of somebody's education sometimes, right? So when we hear economists from Harvard or Nobel Prize winners, it doesn't always work. We've had cases of institutions or investment management firms being run by these types of people, and they're part of that 95 percent that don't outperform the market. I know the numbers in the U.S. are similar. I know the numbers in international funds are similar because we get this SPIVA report for everything. So we know from evidence that it's extremely hard to predict. And I've said this many times: the market is a meat grinder of opinions. You have billions of people interacting every day, and the market only works because people are wrong and people are right. The whole point of the market is that some people have different opinions, and when stocks change hands, it's because two people have very different opinions about something. So to believe that one person will know exactly what will happen is just—it's a fool's errand. It's crazy. Okay, Jackson. So what's your takeaway for this theme?

Jackson: Yeah, I think this is an obvious one because we've been talking about it the whole time, but it's to not listen to anybody's predictions because nobody can predict significant outcomes consistently. They may have done it once in the past or twice in the past, but to adhere to a philosophy of just predicting—it's risky and not the prudent way to achieve your long-term goals.

Marcelo: Yeah. And especially now, we're entering this season of market predictions from every single bank and major institution. They are great reading for entertainment, but just keep it at that. Keep it as entertainment, I would say. So, I think I'll have a specific takeaway for this section. I've heard many times people say, "Oh, if we hit a recession, if we hit a market drawdown, how do we know that this time is different? What tells you that the economy will not just collapse?" And there's a great quote in the book and a great section that talks about when the magic happens. Morgan does a great job of talking about necessity being the mother of all inventions. A lot of the best inventions that the economy knows in the United States were invented during the Great Depression. The quote in the book goes something like this: "The biggest changes and the most important innovations don't happen when everyone is happy, and things are going well. They tend to occur during and after a terrible event." So, think about COVID—how quickly we came up with a vaccine. Think about people who just hustle and invent ways of doing things better. Go back to hunter-gatherers: the guy who said, "I'm going to go out hunting today and get food for everybody," when they've had four or five days without food. That's why capitalism works. That's why markets work.

Jackson: Yeah, and that's a good one, Marcelo. And I think when I hear that, there's somebody I think of specifically, and it's David Booth, the founder of Dimensional Fund Advisors. He's a huge advocate of human ingenuity. He says all the time, there's always going to be a market collapse, and there's always going to be a recovery. What gets us through that is human ingenuity. It has in the past, and it will in the future.

Marcelo: Yeah. So, knowing that, predicting is useless. Alright, so we're going to wrap up here. Jackson, I cannot help but think about what is "same as ever" for TMA, for Tulett, Matthews, and Associates. What do you think are the common themes that will be constant forever in our firm?

Jackson: Yeah. This is really about the pillars of our firm, the culture, and what we value. The first one is that we'll always be client centric.

Marcelo: Yeah, and that's huge because in this business, you can get caught up in rabbit holes—investment returns, markets, abstract concepts about money. It's easy to sometimes lose sight of what's important. But client-centric is the way we have defined the business. We make sure that clients are listened to, understood, and that they understand what they have in their portfolio. We spend a tremendous amount of time at the beginning trying to understand the person, their money values, and where they want to go. We don't get to any meetings, just talking about finances and numbers. And I think that's very important. That's the first point I came up with for what is "same as ever" for TMA.

Jackson: That's a great point. We have a couple of points here that will always be "same as ever" for TMA. I'll give another one and then let you give a couple because we both believe in them. The next one is that we'll always adhere to an evidence-based investment philosophy. When the firm started, they didn't just decide, "Oh yes, this is the philosophy we're going to choose." No, they wholeheartedly believed in it because the founders and the advisors at this firm believe it is the best way to invest.

Marcelo: Yeah, and at the end of the day, it's all based on evidence. That's the beauty of having a model where you are compensated by the client directly. You have the ability to choose a portfolio that you believe is the best for the client, and it's based on evidence. For us, that means relying on evidence that has to be robust, provable, and tested. That's something that will stay "same as ever" for us, I think.

Jackson: Yeah, exactly. So, Marcelo, how about you? Do you have any points that you think will be "same as ever"?

Marcelo: Yeah, the third one I would say is we will always play the long game. That means no market timing, no speculation. Staying invested because, obviously, everything we've talked about. It's one of the themes we always discuss with clients. Sometimes, when meeting a new client who hasn't been with us long, they say things like, "Oh, what will you do when there's a market recession?" We spend a lot of time explaining what the long game means in their plan. It's staying invested, focusing on asset allocation and planning. When that recession hits, if you have a 60/40 portfolio, you won't be moving anything because you've projected into 30-35 years and know that markets will do their thing—they'll move up and down. But staying in that mindset will always be "same as ever" for us. And the last one is, we will always diversify. We will never put everything in one market or one asset class. Diversification is almost the only free lunch we have in finance, and it's available for everybody. That means we'll always diversify internationally. We won't over-allocate in one market; we will be internationally diversified and across many asset classes. And I think that will stay "same as ever."

Jackson: Absolutely.

Marcelo: Alright, Jackson, thank you for joining us on this podcast. Hope to see you more often.

Jackson: Yeah, it was an amazing podcast. I'm super happy we did this, and I always love discussing books with you, Marcelo. You're a big reader. Alright, see you next time. Bye-bye.

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