"Happiness and financial decisions"

By Tommy Williams, CFP®

We're off to a slow start. December is usually the best month of the year for the stock market. It has been since 1950, according to Randall Forsyth of Barron's, but not so far this year.

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Two issues made investors particularly uncomfortable last week which helped trigger a sell-off that pushed major U.S. stock indices lower.

1. Fading optimism about an easing of trade tensions with China. It looked like the relationship between the United States and China might thaw, and Americans were feeling pretty optimistic about a trade truce. In fact, markets had moved higher Monday in anticipation. Unfortunately, on the same day that Presidents Trump and Xi Jinping shared a cordial dinner, the chief financial officer of a major Chinese telecommunications firm was arrested at the request of the United States. The Economist reported, *"[The company] is a pillar of the Chinese economy – and Ms. Meng is the founder's daughter. The fate of the trade talks could hinge on her encounter with the law."* It does however (as of now) appear that a US/China trade war cease fire is in place. Stay tuned.

2. A section of the yield curve inverted. Normally, Treasury yields are higher for longer maturities of bonds than for shorter maturities of bonds. Last week, yields on three-year and five-year bonds inverted, meaning yields for three-year bonds were higher than those for five-year bonds. Ben Levisohn of Barron's explained:

"Usually when people talk about an inversion, they're talking about the difference between two-year and 10-year Treasuries, or three-month and 10-year Treasuries, which have been useful, though not perfect, predictors of recessions and bear markets. Last week, though, everyone was talking about the three-year and the five-year Treasury inverting – something that usually doesn't get much notice…And for good reason."

Historically, these maturities have inverted seven times. In one instance, the country was already in recession. On the other six occasions, recession didn't occur for more than two years. Barron's reported the Standard & Poor's 500 Index gained an average of 20 percent over the 24-month periods following these inversions.

Investors' negative response to last week's news may have been overdone. Financial Times reported European and Asian markets firmed up a bit Friday "…as buyers stepped back in after some savage falls on Thursday." It seems that it was another great week for roller coaster lovers.

ABOUT TIME AND MONEY. Well, it is the holiday season which precedes New Year's resolutions, so perhaps a diversion in discussion is in order. Elizabeth Dunn, associate psychology professor at the University of British Columbia in Vancouver, Canada, and Michael Norton, associate marketing professor at Harvard Business School, have been studying whether people should spend money differently. Their goal is to figure out how to get the most happiness for the dollars spent. In Happy Money: The Science of Happier Spending, they explained their experiments:

"…We started doling out money to strangers. But there was a catch: rather than letting them spend it however they wanted, we made them spend it how we wanted…changing the way people spent their money altered their happiness over the course of the day. And we saw this effect even when people spent as little as $5…Shifting from buying stuff to buying experiences, and from spending on yourself to spending on others, can have a dramatic impact on happiness."

In addition, buying time can improve happiness. How do you buy time? By paying someone else to do tasks you don't like to do – cleaning, grocery shopping, home maintenance, and other tasks. This can relieve time pressure and free up time to do what you really want to do – and that can make you happier.

The authors suggest individuals ask a simple question before making any purchase: How will this purchase change the way I use my time? Make sure the answer aligns with the goal of having an abundance of time. Now isn't that more interesting than yield curve inversions or trade tensions?

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