

"Everyone can benefit from this wise and helpful guide to life well-being."

BURTON G. MALKIEL, author of *A Random Walk Down Wall Street*

A
WEALTH
OF
WELL-BEING

A HOLISTIC APPROACH
TO BEHAVIORAL FINANCE

MEIR STATMAN

WILEY

A *Wealth of Well-Being: A Holistic Approach to Behavioral Finance* explores how financial well-being can lead to life well-being through the third generation of behavioral finance, which broadens the lens of finance to see people as whole persons and show them in life well-being domains beyond finances, including family, friends, health, work, education, religion, and society. This book is unique in combining the scientific findings by scholars in finance, economics, law, medicine, psychology, and sociology with real-life stories that provide insights beyond adding “color” to otherwise dry scientific findings. It provides the underpinnings of the practice of financial well-being, addressing the relationship of day-to-day life to finances.

Moving on from standard finance, which describes people as “rational,” the first generation of behavioral finance describes people as “irrational,” the second generation of behavioral finance describes people as “normal,” while the third generation of behavioral finance also describes people as “normal,” but broadens its lens to see people as whole persons. It focuses on well-being as people’s primary want, clarifying tradeoffs within and between each life domain.

For financial advisors, financial planners, and investors, *A Wealth of Well-Being: A Holistic Approach to Behavioral Finance* is an important guidebook to the third generation of behavioral finance, ensuring that finances are integrated into lifestyle to achieve both financial and life well-being.



MEIR STATMAN is the Glenn Klimek Professor of Finance at Santa Clara University. He attempts to understand how investors and managers make financial decisions and how these decisions are reflected in financial markets. Meir’s research has been published in the *Journal of Finance* and many other journals.

More praise for *A Wealth of Well-Being*

“This book is full of relatable stories and real wisdom about the relationship between money and life. It infuses the often dry topic of finances with something all too rare: humanity.”

—Christine Benz,

Director of Personal Finance and Retirement Planning, Morningstar

“Statman, a renowned financial and behavioral scientist, takes aim beyond financial well-being—he targets *life* well-being. His arguments are smart, wise, practical—with the added advantage of being right! Statman weaves all of life domains into a whole—family, friends, health, work, education, religion, even society. Financial well-being is the start, but life well-being is the destination. I plan to buy *A Wealth of Well-Being* for my wife, kids, partners, and clients. This book will make you richer—richer in ways far more important than money.”

—Theodore R. Aronson,
Co-CEO AJOVista

“There are few people in the world better situated to help us make better decisions about our financial well-being than Professor Statman. He has already taught us what investors really want. Now, more importantly, he is teaching us how to make better decisions about our life well-being.”

—Barry L. Ritholtz,
Chairman and CIO of Ritholtz Wealth Management,
Host of *Masters in Business* podcast

“In gripping chapters on such subjects as parents and children, education, and even religion, Statman demonstrates both money’s importance and its limitations. Financial advisors will give better and more thoughtful advice, understanding the fundamental importance of family ties and attachments to the community.”

—George A. (Sandy) Mackenzie,
Author of *The Decline of the Traditional Pension*,
Founding Editor of *The Journal of Retirement*

“Few people understand the evolving nature of financial planning better than Meir Statman. Ultimately, it’s not about investing, or even about money; it’s about enabling us to live authentic and fulfilling lives that reflect who we are and what we value. That’s why, all over the world, financial planning is morphing into holistic life planning. Anyone wanting to succeed in this exciting new profession should read this inspirational book.”

—Robin Powell,
Journalist, Author, and Editor of *The Evidence-Based Investor*

“Aspects of well-being are not only explained, but are also then tied to life circumstances, making it easy to relate personally to the many stories told and learn from them. This is a wonderful book for ordinary people, never mind academics.”

—Don Ezra,
Former Co-chair, Global Consulting, Russell Investments,
Author of *Happiness* and *Life Two*

“I wish my parents had the opportunity to read *A Wealth of Well Being*; finances created stresses to other parts of their lives that were simply irreconcilable. Meir’s ability to take complex behavioral economic theory and distill it into practical life advice is second to none, with idea after idea to help readers create and improve their own model for personal well-being. *A Wealth of Well Being* should be required reading for all financial advisors.”

—Alex Potts,
President Emeritus, Buckingham Strategic Advisors

“As humans, we know that wealth and its quantitative nature underlies well-being, but we also know that well-being depends on the qualitative nature of family, friends, health, education, religion, and more. As financial professionals, however, we are tempted by our knowledge of math and modeling to focus on wealth and its quantitative nature. In *A Wealth of Well-Being*, Meir integrates quantitative and qualitative in a holistic approach, guiding us, even financial professionals, to reflect on our well-being and enhance it.”

—Eduardo Repetto,
CIO, Avantis Investors

“Targeted at both financial professionals and general readers, Statman’s book encourages a deeper understanding of how financial and life well-being are integrated in domains such as family, health, and education, guiding readers toward greater financial and life well-being in all its domains.”

—Robert Powell,
Editor-in-Chief of *Retirement Management Journal*,
Host of *Exceptional Advisor* podcast

“Yet again, Meir Statman has written a book that could well be called “revolutionary,” offering a holistic approach to behavioral finance. Clients will see themselves, their joys and sorrows, in the book’s many studies and life stories, and bind themselves more closely to their advisers.”

—Jean Brunel,
Managing Principal of Brunel Associates,
Author of *Goals-Based Wealth Management*

“Meir’s book is a must-read for those of us fascinated by the intersection of finance and psychology that is behavioral finance. His amazing insights continue to enlighten wealth advisors as he helps us guide clients to life well-being, beyond financial well-being.”

—H.E. “Rick” Pitcairn II,
Chief Global Strategist, Pitcairn

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Financial well-being comes when we can meet current and future financial obligations, absorb financial setbacks, and keep driving toward financial goals, such as adequate retirement income. Life well-being comes when we live satisfying lives, full of meaning and purpose. Yet financial well-being underlies life well-being. Life well-being is at the center of this book.	
Chapter 1: Financial, Social, Cultural, and Personal Capital	7
Life well-being is enhanced by four kinds of capital: financial, social, cultural, and personal. Each is associated with utilitarian, expressive, and emotional benefits, and each varies by social class. Financial capital consists of income and wealth. Social capital centers on social networks of people supporting one another by acceptance, trust, and cooperation. Cultural capital encompasses knowledge of the many aspects of the culture of a group, ease of interactions with fellow members of that group, and comfort of adherence to the group's values and practices. Personal capital includes physical and mental features, gender and sexual orientation, race, and nationality.	
Chapter 2: Financial Capital	19
We aspire to acquire income, wealth, and other financial capital because they enhance our financial and life well-being. We do that by education, enterprise, and hard work, becoming	

physicians, business owners, police officers, or plumbers. And we do that by spending, saving, and investing.

The domain of finances is crucial in well-being on its own. Moreover, the domain of finances is crucial because it underlies all other well-being domains. We need finances to support ourselves and our families. We need finances to maintain our own health and that of our families. We need finances to pay for education. We even need finances to experience and express our religion.

Chapter 3: Saving and Spending **35**

Life well-being is enhanced by a good balance between saving and spending now and in the future. In turn, well-being enhances that balance. Yet a good balance is hard to strike because it requires competent use of the mental tools of framing, mental accounting, and self-control. Deficient self-control can diminish our well-being if it turns us into impulsive spendthrifts. Yet excessive self-control can also diminish our well-being if it turns us into misers.

Chapter 4: Investing **51**

Good balance between saving and spending enhances well-being, but it is not enough. Wise investing, including wise investments and investment behavior, enhance well-being further. Foolish investments and investment behavior can fritter away substantial savings, diminishing well-being.

Wise investments and investment behavior can be simple. People, however, are susceptible to misinformation and a range of cognitive and emotional errors that mislead them into foolish investments and investment behavior.

Chapter 5: Dating and Marriage **61**

Links between marriage and well-being go both ways. High well-being enhances the likelihood of marriage, and marriage enhances well-being. People who get divorced are distinct not only in low well-being during marriage, but also in low well-being before marriage. Respect between spouses enhances well-being, and disrespect diminishes well-being more than respect enhances it.

Chapter 6: Widowhood and Divorce 81

Widowhood and divorce often diminish people's finances and well-being, but not always. Widows and widowers experience loss and grief in different ways, and communication with people who have not experienced widowhood is often awkward.

Divorced people experience lower well-being than married ones, but divorce does not necessarily diminish well-being. Indeed, divorce generally enhances well-being by dissolving unsatisfying marriages.

Chapter 7: Parents and Children 91

Parenting is expensive. Insufficient finances are prominent among reasons leading couples to remain childless.

Parents enhance the well-being of children by the utilitarian benefits of food, shelter, and education. Children reciprocate with utilitarian support as necessary when parents grow old, providing money and care in their parents' homes or their own. And parents and children enhance the well-being of one another by the expressive and emotional benefits of security, support, and love.

Chapter 8: Elderly Parents, Grandparents, Siblings, and Pets 115

Filial loyalty is practiced in the United States more than preached, evident is the prevalence of the "Sandwich Generation" of parents stressed financially and emotionally as they care for both young children and elderly parents. Grandparenting usually enhances well-being. The well-being of grandparents to at least one grandchild is higher than that of grand parents with no grandchildren.

Close sibling relationships in childhood enhance well-being long into middle age. Yet sibling relationships are often difficult, diminished by rivalry. Pets are family members to many pet owners, enhancing the well-being of those who describe themselves as pet parents, as others describe themselves as children's parents.

- Chapter 9: Friendship** 135
- Links between friendship and well-being have been observed in children, adolescents, young and middle-aged adults, and the elderly. These links have also been observed across cultures. Friendship extends to communities, large and small, and people who volunteer in their communities enjoy higher well-being than those who do not.
- Chapter 10: Health** 153
- Health costs money. Far too many people cannot afford health insurance, often postponing visits to physicians or hospitals until too late. People experiencing high well-being enjoy high perceived health, low self-reported pain, and low medical risks. Mental illness can devastate well-being. Indeed, mental illness is the biggest single predictor of low evaluative well-being.
- Chapter 11: Work** 169
- We derive utilitarian benefits from our work in earnings, but we also derive expressive and emotional benefits from our work in identity, meaning, community, dignity, and pride. Work enhances well-being and well-being enhances work prospects and income. People who work longer live longer, and high employee well-being leads to high employee productivity, high customer loyalty, low employee turnover, and ultimately, tangible benefits to employers in increased profitability.
- Chapter 12: Education** 197
- Education costs money in tuition and living expenses, but it enhances well-being by the utilitarian benefits of better employment and higher income, and by the expressive and emotional benefits of increased knowledge, lifelong friendships, and high social status. The expressive and emotional benefits of education were highlighted by their decline during the COVID-19 pandemic. In-person education at schools, face-to-face with classmates and teachers, enhances well-being by more than online education at home because it provides expressive and emotional benefits in addition to utilitarian ones.

Chapter 13: Religion	227
<p>Religiosity measured by frequency of attendance at religious gatherings enhances well-being by more than religiosity measured by private religious acts and beliefs, such as prayer. Members of many religious communities support one another with money and care when needs arise. When tragedy strikes, such as the sudden death of an infant, parents who attend religious gatherings receive support from fellow members, and that support restores well-being.</p>	
Chapter 14: Society	235
<p>Societies vary in well-being and governments vary in enhancing it, yet finances underlie what governments do. Government finances involve well-being trade-offs among citizens. Both liberals and conservatives care about fairness in income and wealth distribution, but their values are different, affecting government finances. Liberals tend to define <i>fairness</i> in terms of equality, favoring policies that redistribute income and wealth from the wealthy to those in need. Conservatives tend to define <i>fairness</i> in terms of equity, preferring that individuals and private organizations help those in need.</p>	
Chapter 15: Conclusion	263
<p>Few are fortunate enough to enjoy well-being in all its domains. Life well-being calls for applying well-being medicines from one domain to heal well-being injuries in another. Well-being medicine from an ample finances' domain can heal well-being injuries of a disabled child in the family domain. And volunteer contributions in the domain of work, helping families with disabled children, can heal well-being injuries further.</p>	
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About the Author

Meir Statman is the Glenn Kliniek Professor of Finance at Santa Clara University. His research focuses on behavioral finance. He describes people as “normal,” neither computer-like “rational,” nor bumbling “irrational,” and attempts to understand and explain how normal people make choices and how these choices affect their well-being.

Meir’s research has been published in the *Journal of Finance*, the *Journal of Financial Economics*, the *Review of Financial Studies*, the *Journal of Financial and Quantitative Analysis*, the *Financial Analysts Journal*, the *Journal of Portfolio Management*, and many other journals. The research has been supported by the National Science Foundation, the CFA Institute Research Foundation, and the Investment and Wealth Institute (IWI).

Meir is a member of the Advisory Board of the *Journal of Portfolio Management*, the *Journal of Wealth Management*, the *Journal of Retirement*, the *Journal of Investment Consulting*, and the *Journal of Behavioral and Experimental Finance*; an Associate Editor of the *Journal of Behavioral Finance* and the *Journal of Investment Management*; and a recipient of a Batterymarch Fellowship, a William F. Sharpe Best Paper Award, two Bernstein Fabozzi/Jacobs Levy Awards, a Davis Ethics Award, a Moskowitz Prize for best paper on socially responsible investing, a Matthew R. McArthur Industry Pioneer Award, three Baker IMCA Journal Awards, and three Graham and Dodd Awards. Meir was named as one of the 25 most influential people by *Investment Advisor* magazine. He consults with many investment companies and presents his work to academics and professionals in many forums in the United States and abroad.

Meir received his Ph.D. from Columbia University, and his B.A. and M.B.A. from the Hebrew University of Jerusalem.

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