



Christmas Edition

If it makes you happy

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“

This is our last report of the year and we want to use it to focus on what really matters in life instead of what has kept us busy year-round. So instead of analysing financial markets we discuss what makes us happy.

Merry Christmas and a Happy New Year 2019! ”

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It is the time to be merry

It is December and the final days of work in the year 2018 are ahead of us (or for some, already behind us) before we can relax, kick back and enjoy Christmas with our families. We hope all our readers had a happy and successful year 2018.

But the end of the year is also a time to reflect and, in this report, we want to do just that. But don't worry. We are not going to bother you with an analysis of the market and economic developments of the past year.

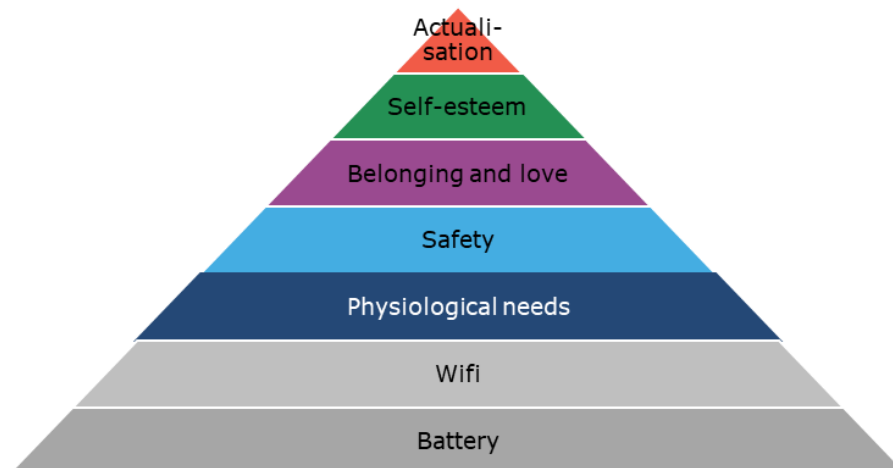
No, we want to reflect on happiness and what makes us happy. And as economists tend to do, we are going to do this with data and numbers. But we must warn you. The following pages are not going to be appropriate for children or the faint of heart because we are going to talk about sex, drugs and maybe even rock 'n' roll – but mostly sex and drugs.

So, let us dive into the field of "happiness economics" (yes that really exists) and see what it can teach us about "the good life".

Economists have used different approaches to define "happiness" or "well-being". One of the most basic approaches is to look for objective needs and how they are ranked relative to each other. The most popular approach to do this is Maslow's pyramid of needs which we have replicated in Fig. 1. Maslow's pyramid tries to rank individual needs from the most basic and most important at the bottom to the most aspirational on the top.

Traditionally, physiological needs like sufficient food and drink ranked as the foundation of all other needs, but as we show in Fig. 1 there might be more fundamental needs – at least for today's society. Once physiological needs are satisfied, safety needs like shelter need to be satisfied. Only once these needs are covered can we try to express ourselves, increase our self-esteem and achieve self-actualisation, where we feel "complete" as human beings.

Fig 1: Maslow's Pyramid of Needs – 21st century edition



Source: Fidante Partners.

The problem with this approach is that at least in developed countries, it is too basic because the vast majority of people have proper shelter and can live a life largely free of violence. Thus, we need to focus on the impact of the environment and our behaviour on the top three layers.

Money does not make you happy

The traditional approach of economists to measure happiness is to define it as personal utility. The idea is that the utility function of a person describes the individual preferences that can be satisfied by purchasing goods and services with a fungible medium of exchange, aka money.

For centuries, economists thought that if only one would be able to define the utility function properly, one would be able to predict what makes people happy. And that, on the other hand, would allow policymakers to create laws that enhance overall happiness in a society.

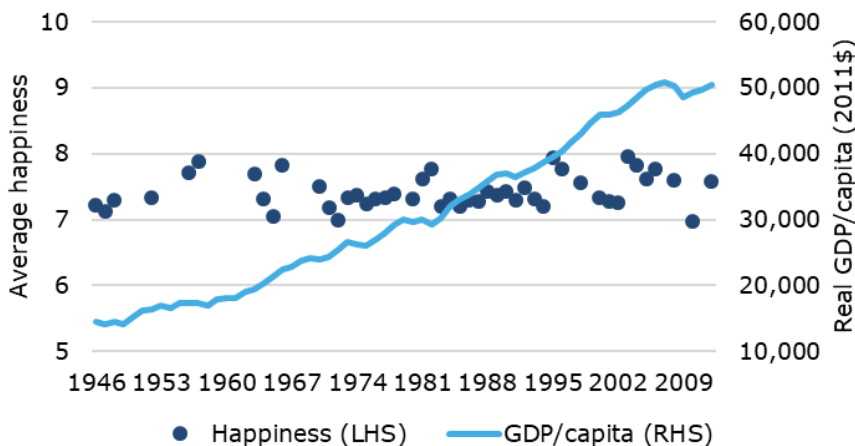
Unfortunately, in 1974 Richard Easterlin subjected this approach to a massive ice bucket challenge and the utility function essentially died of a heart attack. Fig. 2 shows the key chart from Easterlin’s paper that has become known as the “Easterlin Paradox”. It shows that people in the US did not get happier over time (happiness is measured here as a self-assessment on a scale of 0 – not happy at all – to 10 – super happy), even though real wealth (measured as real GDP per person) more than tripled between 1946 and 2012. In fact, happiness

and wealth seem to be completely uncorrelated.

Many studies on the relationship between happiness and wealth or income have been carried out in the decades since and the results are pretty clear. A rise in income does have a slightly positive effect on personal happiness, but it is so small that it is dwarfed by all the other factors we are going to discuss later in this report. More importantly, any increase in happiness as income rises is only temporary. People get used to a higher income and a higher standard of living very quickly, after which happiness declines to the same level as before. This is why lottery winners are not happier after they have won the lottery (and why people who suffer from a severe accident and become paralysed or lose limbs are not unhappier afterwards). The thought of winning the lottery might make us happy for a moment, but the actual experience gets “boring” pretty quickly.

However, there is one income effect that is important to understand. Relative income differences can have a significant negative effect on our happiness. If we live in a community where other people have more money than we do, this makes us unhappy. In a sense, showing off your wealth to other people (e.g. with your flashy new car or your expensive clothes) increases the chance of creating unhappiness in the people you meet. So don’t be a jerk and stop showing off your wealth.

Fig 2: Happiness and national income in the US



Source: World Values Survey, Penn World Tables, Fidante Partners.

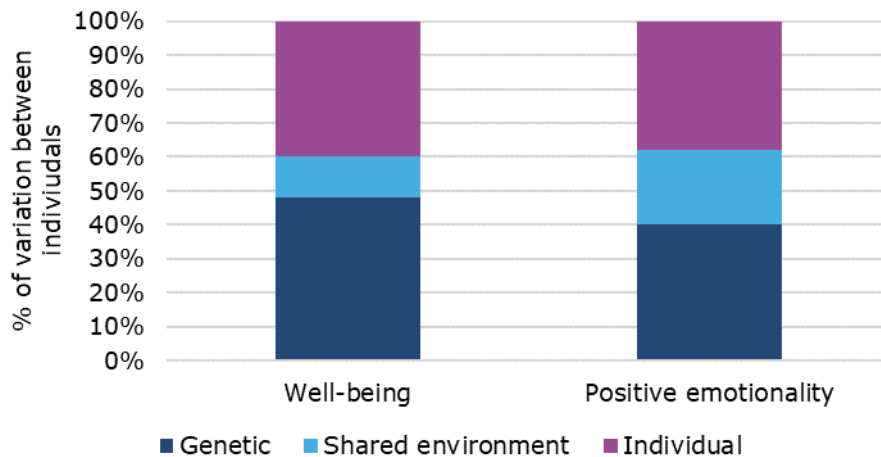
The bad news first

But what does make us happy? Unfortunately – or fortunately depending on your point of view – happiness is driven to a large extent by our genes. Fig. 3 shows a study of Swedish twins reared in the same households and in separate households. Sweden has the oldest and most comprehensive database of twins going back more than 100 years that allows researchers to track the whereabouts of every twin, triplet, etc. born in the country. In some rare cases, twins are adopted by different parents and then reared in two different households. These rare cases are lucky coincidences for researchers, because they allow them to disentangle the effect genes, the family environment and individual experiences have on personality and habits. Fig. 3 shows some of the results from the original twin study published in 1988. When it comes to personality traits like happiness and well-being, the study found that about half of the variation from one person to another is genetically determined, about one third of the variation is explained by individual life

experiences and about one sixth is determined by the shared environment during childhood.

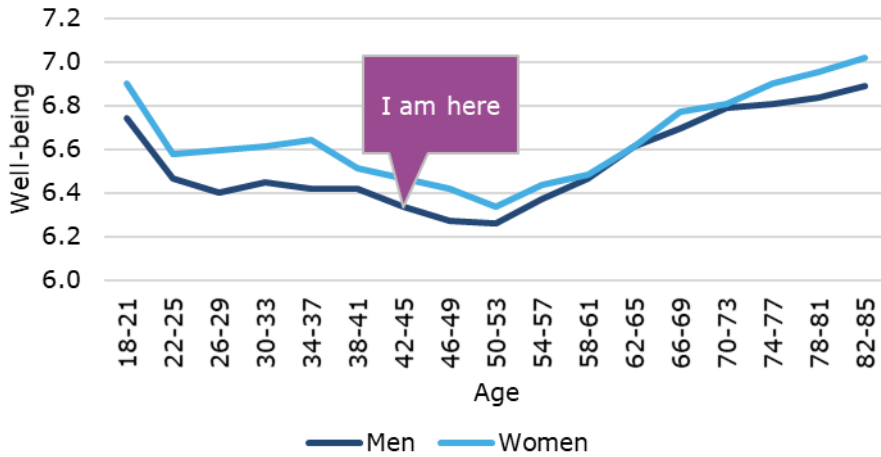
Another piece of bad news from the research into happiness is that happiness depends on our age. Young people tend to be happier than middle-aged people – presumably because they are too naïve to understand that life is an endless grind and, in the end, you die. Older people are also happier than middle-aged people because they can look back at their life’s work and be content with what they have achieved – or simply enjoy the fact that they are retired and don’t have to get up and commute to work anymore. Overall, personal happiness follows a U-shaped curve for both men and women and I have marked my position on the curve in Fig. 4 below. I am approaching the bottom of lifetime happiness because I am old enough to know that life’s a bitch but still too young to not give a damn... At least I know it will all get better, in ten years or so.

Fig 3: Variation in personality of Swedish people



Source: Tellegen et al. (1988), Fidante Partners.

Fig 4: Happiness and age



Source: Stone et al. (2010), Fidante Partners.

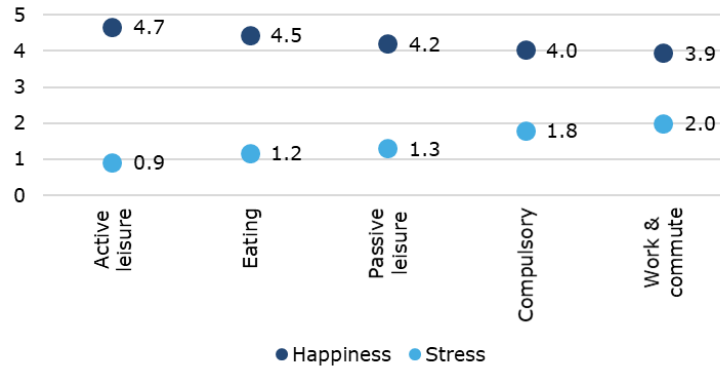
And now for the good part

Arguably, it is hard to do something about your gene pool or your age, but there are things we all can do to increase our happiness in life. And as you might have guessed, it does not require making a lot of money or winning the rat race. Instead, it typically involves being with other people we like. Fig. 5 shows a study by Daniel Kahneman and colleagues (yes, the Nobel prize winning Kahneman worked on happiness studies as well) based on the current gold standard of happiness research: the Day Reconstruction Method (DRM). In it, study participants are asked right at the end of a day to report how happy they felt during different episodes of the day. The results show a clear trend that has been confirmed by many other studies. First, commuting to work tends to be one the most stressful

activities we engage in and one that does not make us happy at all. Work itself can be a happy activity, but for most people it tends to be stressful and reduces happiness. Similarly, doing work that is compulsory, like taking care of household chores, does not make us happy.

The activities that do increase happiness are leisure activities and eating. But crucially, not all leisure activities are created equal. Passive leisure activities like watching TV, listening to music (rock 'n' roll perhaps?) are less effective in reducing stress and creating happiness than active leisure activities like doing sports or going to a rock concert. Watching TV is on average even associated with a reduction in happiness. So go out of the house and engage with your family and friends and you will see how good that makes you feel.

Fig 5: Reported happiness and stress during different daily activities



Source: Kahneman et al. (2006), Fidante Partners.

Let's talk about sex

Now that we have touched on the rock 'n' roll part of sex, drugs and rock 'n' roll, let's talk about the sex part. Sex is a "pleasant" physical activity and thus it should not surprise us that having sex has a significantly positive effect on a person's happiness. And it seems that more is indeed more in this case. A study from 2004 showed that having sex about once a month seems to be the "neutral" state of affairs that does not impact happiness either positively or negatively. People who had sex only once or twice per year, on the other hand were somewhat less happy than the "monthlies". Having sex two to three times a month makes people a little bit happier (about the same as having sex once a year makes people unhappier) while having sex once a week increases happiness quite significantly. If one goes beyond the weekly mark and interviews people who had sex two, three or more times a week, happiness starts to plateau off – presumably because it starts to become really exhausting, but that is just my guess. While there are generally no differences between men and women when it comes to what activities make us happy, there are differences when it comes to having sex. For men, more is always better, while for women, it is quality above quantity.

"In 1969 I gave up women and alcohol – it was the worst 20 minutes of my life"

George Best was certainly right about the women when he uttered these immortal words, but he was not correct about the booze. Consuming drugs tends to make people unhappy, and the harder the drug, the worse it gets. People who are consuming moderate amounts of alcohol report feeling slightly happier than people who are sober – and let's face it, in today's world we all can use some beer goggles from time to time. But getting drunk or even being an alcoholic is associated with a strong decline in happiness, an increase in depression and many other adverse effects.

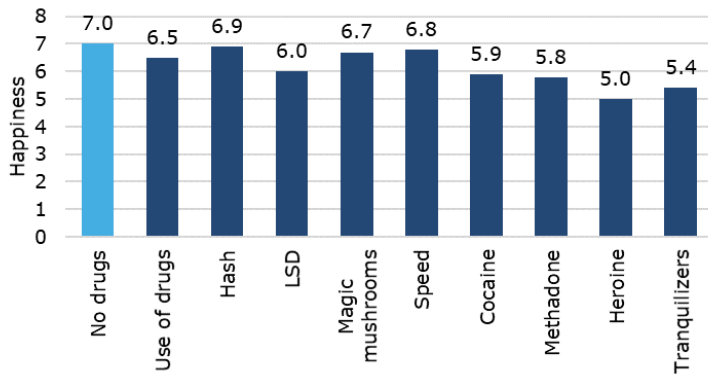
Smoking too, is universally reported to reduce happiness in life. A study of more than one million British women showed that women who smoked were about 25% less happy than women who never smoked. The good news is that once women gave up smoking their happiness in life increased to almost the same levels as women who did not smoke.

But the real kicker when it comes to the association between happiness and drug use has to be the study of Ruut Veenhoven amongst c. 2,000 Danes. Veenhoven asked the participants to confess to prior drug use in their life and rate their current happiness. The results are shown in Fig. 6 below. First, prior drug use was correlated with a significantly lower happiness in life, but the differences depended strongly on the kind of drug consumed. People who smoked

marihuana in the past were about as happy as people who never consumed drugs (or at least pretended to never have used drugs). Moving to harder drugs like LSD, cocaine, heroine or tranquilisers showed an ever-increasing decline in happiness. The common feature amongst all these drugs is their

potential to create severe addictions and physiological changes in the brain that lead to behavioural changes and can cause mental illness. All of these developments clearly reduce happiness in life, so kids, please stay away from the drugs.

Fig 6: Happiness and drug use



Source: Veenhoven (2003), Fidante Partners.

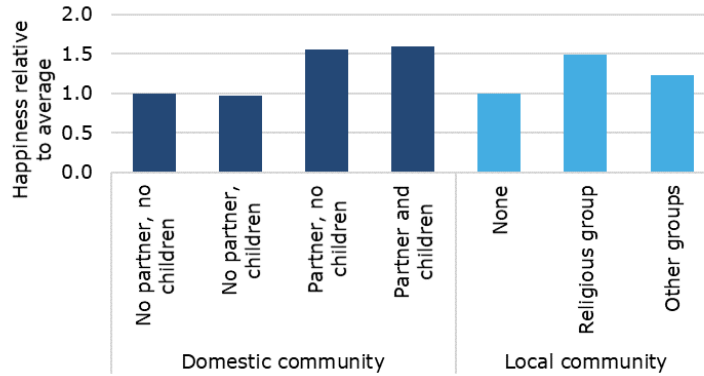
The holy grail of happiness

Happiness economics not only shattered the belief in money and drugs as a pathway to happiness, it also showed us, what makes people happy: Being with people we love and like. I have mentioned above the study of more than one million British women. This study also looked at other determinants of happiness, some of which are shown in Fig. 7. The left half of the chart shows the happiness of women who live alone (with or without children) compared to women who live with a domestic partner. And before you start saying "but...", let me tell you that the results for men are identical.

Living with a domestic partner is highly positive for your happiness. In fact, having a partner you love by your side has about the biggest positive impact on your happiness of all the variables ever investigated. The sense of belonging, safety and personal intimacy a partner can give you is about the best drug that life has to offer.

But Fig. 7 also shows an inconvenient truth for many people. Children ... do not make us happier. As we can see on the left-hand side of Fig. 7, women with children tend to be no happier than women without children. The only difference in happiness stems from being with a partner. Modern studies in experienced happiness have also shown that people tend to be very stressed out by children. When asked right after an interaction with their own children mothers tend to report significantly lower levels of happiness and higher levels of stress than after a neutral activity. However, if the same people are asked about the same interaction with their children a while later, they tend to claim that they were much happier than average during that interaction. The lesson to be learned: Don't believe parents who claim to be happy, they are full of crap.

Fig 7: Happiness are other people



Source: Liu et al. (2015), Fidante Partners.

That social interactions with people we like is conducive to increased happiness can also be seen from the results presented on the right-hand side of Fig. 7. Being engaged in any kind of group activity leads to higher happiness. However, some group activities are better than others. Most prominently, religious people tend to be far happier on average than non-religious people and the more often they go to church or participate in their religious community, the higher their reported happiness. It is this sense of belonging to a specific group of like-minded people that gives us a sense of fulfilment. Religion has been shown to be the most powerful influence on creating this sense of belonging and purpose, but other secular activities like volunteering work to help the poor etc. can have similarly powerful effects.

And this should be a lesson for all of us to ponder over Christmas and into the New Year. We should think about what gives us meaning in life and what (and who) we really care about. Surround yourself with these people and remove the people that make you angry, sad or frightened from your life as much as possible. Engage as much as possible in activities that are meaningful to you. Most of us are not independently wealthy, so we have to go to work to earn a living, but try to make sure you are not stuck

in a job that gives you grief or makes you endure nasty co-workers more than necessary.

If you have something in life that you are passionate about, try to spend as much time as possible doing that. You might volunteer for an organisation or even turn it into a profession. I am lucky enough to do for a living what I am passionate about – investment research. This is why I find the time to write strange reports on happiness economics that have absolutely nothing to do with my job description and, if anything, reduce the happiness of my boss who realises that I wrote this report during my work hours. But I am also passionate about animals, and while I have not turned that into a living, yet, I can volunteer for animal rescue organisations and support them with more than just my money.

And, I am lucky enough to be happily married and can spend my Christmas vacation with the person I love the most in the world. But we all should realise that not everyone is this lucky. So, if you have family member who are alone at home over Christmas or who are unhappy in their lives for whatever reason, make an effort and reach out to them. It will increase their happiness and yours.

Merry Christmas everyone from the entire Fidante team!

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