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# *The Art of* Spending Money

SIMPLE CHOICES  
FOR A RICHER LIFE

**MORGAN HOUSEL**

Bestselling author of *The Psychology of Money*

*The*  
ART  
*of*  
SPENDING  
MONEY

*Simple Choices for a Richer Life*

MORGAN HOUSEL

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## Author's Note

When I wrote *The Psychology of Money*, I wanted to explore how we think about wealth and investing—how emotions and social pressures influence decisions that we pretend are purely rational.

This book, *The Art of Spending Money*, is a natural follow-up.

While *The Psychology of Money* focused on how we grow wealth, *The Art of Spending Money* focuses on how we use it.

Neither book tells you what to do with your money, because everyone's different. But both seek to understand what happens in our heads while using money. And here, we are far more alike.

The same big idea applies to both books: Money is less about numbers and more about stories—stories we tell ourselves about what matters, what makes us happy, and how we measure success.

Spending money is more art than science. There's no universal formula, no fixed rules. What brings one person joy may leave another feeling empty. And so, just as with investing, understanding our emotions—our biases, hopes, and fears—can guide us toward smarter choices. Choices that reflect who we are, what we value, and how we want to live.

If *The Psychology of Money* taught us how to earn freedom, this book is about learning how to make the most of it.

Here we go.



## **Introduction: The Quest of the Simple Life**

Dr. Dan Goodman once performed LASIK eye surgery on a woman looking to ditch her glasses. The patient returned for a checkup a few weeks later, despondent. She said the surgery ruined her life.

There was nothing wrong with the procedure—she could see clearly without glasses for the first time in years.

Goodman pressed: Then what's the problem?

The patient said she expected that after losing her glasses, her husband would find her more attractive and her coworkers would find her more intelligent. When she realized they didn't, and love and respect weren't driven by something superficial like her glasses, she was crushed.

"You have a problem I can't help you with," Goodman told her. "I'm sorry I didn't realize it earlier."

It's astounding to witness someone gain what they thought they always wanted only to realize that happiness is more complicated than they first assumed.

And, my gosh, that is so true with money.

There's an old saying that nothing's worse than getting what you want but not what you need. That sums up so many people's relationship with money and success. If you're lucky enough to get what you want (money), you might still realize it's not what you need (family, friends, health, being part of something bigger than yourself). And then you're disappointed. What could be worse?

This book is about how spending money has little to do with spreadsheets and numbers and a lot to do with psychology, envy, social aspirations, identity, insecurity, and other topics that are too often ignored in finance.

Can money buy happiness? Yes.

Can spending money make you happier? Yes.

But it's more complicated than many people think. In between the numbers, charts, and data sits the messiness and absurdity of the human mind. Money is a remarkable tool that can provide a better life if you know how to use it. But knowing how to use it is quite different from knowing how to acquire it.

Winston Churchill famously said that he got more out of alcohol than alcohol got out of him. By the same logic: I have seen rich people whose money got more out of them than they got from it, because they spent their life desperately chasing money without any sense of how to use it to make them happier. I have also seen low-income people get tremendous value out of what little money they had, using it as a source of leverage to acquire more of what made them happy.

What matters is not necessarily how much money you have. It's whether you understand and can control the psychology and behaviors that can make the connection between money and happiness more complicated than we assume.

There are so many ways that observation can affect your own life.

Think about the broke young person who buys a car he can't afford because he thinks it will bring respect and admiration from his peers.

Or someone who diligently saved their entire life but cannot bring themselves to spend a reasonable amount of money in retirement because "saver" has become ingrained as part of their identity.

Or the young couple saving for a down payment on a two-bedroom house whose expectations are suddenly inflated by a friend who just bought a three-bedroom house.

The rich entrepreneur who never feels like she has enough.

The low-wage worker who always feels like he has plenty.

None of these topics have to do with spreadsheets or numbers. They're so much messier than that. It's all psychology, sociology, and understanding how everyone's different. Understanding how everyone's just trying to make

it through life the best they can, making sense of the world given the experiences they've had, who they want to be, and what they think others think of them.

In school, finance is taught as a science, with clean formulas and logical conclusions. But in the real world, money is an art.

—

I worked as a valet at a five-star hotel in Los Angeles during college. One day we hosted an invite-only high-end furniture show for the city's moneyed elite.

A man came out to the valet stand chatting with a friend about how he just spent \$21,000 on an armchair. Several of my colleagues and I overheard him and were stunned. Spending that much on a chair—a *chair*—was inconceivable to us.

The guy saw our bewildered expressions and said: "Boys, I know. It's crazy. But when you have money, this is what you're supposed to do."

I found it such an interesting choice of words. "*Supposed* to do." Did he actually like the chair? Or was he blindly pursuing what society told him he's supposed to like and how he should spend his money?

I remember then thinking, as a nineteen-year-old aspiring to be rich one day: Is that what *I'm* supposed to do one day? I'm supposed to study long hours in college and grind in a career for decades so I can tell my friends I bought an ugly chair that costs the equivalent of one half of an average household income?

Would that actually make me happier?

As I processed it all, I remember my reaction going from astonishment to amusement to almost feeling bad for the guy.

I got to know a lot of these people. It felt like so many of them had this mindless chase for wealth without actually knowing why they wanted it, other than the primal urge for more. They were very good at making money.

But their ability to turn that money into a meaningfully better life felt rocky at best.

Of course, there's another path. Many people have figured out how to use money as a tool to provide things that actually make them happier in life. But the rich chair guy had it right: What society tells us we're supposed to do with money is not always what we should be doing to get the most out of it.

It's not our fault. A combination of evolution and social forces tell us—often in a shout—what we should want: more money than other people, bigger stuff than other people, shinier toys than other people. Sometimes that is what we want, and what you should chase. More often we will realize that spending money to show people how much money you have is a fast way to go broke and an expensive way to gain respect. Disappointment is often the outcome.

Now, I think you can use money to build a better life.

I think buying nice stuff can bring you joy.

I love ambition, hard work, and—most of all—independence.

But after writing about money for two decades, I am constantly amazed at how bad most of us are at knowing what we want out of money, or how to use it as anything more than a benchmark of status and success. And let me be clear: Most of this book is reflections I've had trying to figure out money and happiness in my own life.

If you ask parents what they wish for their kids, many will say, "I just want them to be happy."

Do you want them to be rich and successful? "Well, sure," they'll say, "but mostly I just want them to be happy."

That's great thinking. But many of those same parents, in their own lives, chase money and status at the expense of happiness. Perhaps the reason parents wish happiness over success for their children is because they've seen the downsides of blindly pursuing one over the other.

Carl Jung, one of the most influential psychologists to ever live, was once asked, "What do you consider to be more or less basic factors making for happiness in the human mind?" Jung listed them off:

1. Good physical and mental health.
2. Good personal and intimate relationships, such as those of marriage, the family, and friendships.
3. The faculty for perceiving beauty in art and nature.
4. Reasonable standards of living and satisfactory work.
5. A philosophic or religious point of view capable of coping successfully with the vicissitudes of life.

You can see how having money can affect some of those points. But money—especially lots of it—is not one of those points.

—

This book will not teach you how to spend money. If I (or anyone) could do that, it would be called *The Science of Spending Money*.

But I'm more interested in the *art* of spending money. Art can't be distilled into a one-size-fits-all formula. Art is complicated, often contradictory, and can be a window into your personality. The art of spending money covers things like individuality, greed, jealousy, status, and regret. That's what this book is about.

I try to tackle the art of spending money from several angles. But you'll find a few common denominators:

- 1. There are two ways to use money.** One is as a tool to live a better life. The other is as a yardstick of status to measure yourself against others. Many people aspire for the former but spend their life chasing the latter.
- 2. Money is a tool you can use. But if you're not careful, it will use you.** It will use you without mercy, and often without you even knowing it. For many people, money is both a financial asset and a

psychological liability. Blind lust for more can hijack your identity, control your personality, and wedge out parts of your life that bring greater happiness.

**3. Spending money can buy happiness, but it's often an indirect path.** Money itself doesn't buy happiness, but it can help you find independence and purpose—both key ingredients for a happier life if you cultivate them. A big, nice house might make you happier, but mostly because it makes it easier to have friends and family over, and the friends and family are actually what are making you happy.

**4. Enduring happiness is found in contentment, so those happiest with money tend to be those who have found a way to stop thinking about it.** You can value it, appreciate it, even marvel at it. But if money never leaves your mind, it's likely you've found yourself with an obsession, where it controls you. The best use of money is as a tool to leverage who you are, but never to define who you are.

**5. If you're confused about what a better life would look like, "one with more money" is an easy assumption. But that can sometimes mask deeper problems.** Money is so tangible that it's an easy goal to strive for, and pursuing it can become the path of least resistance for those who haven't discovered what truly feeds their soul.

**6. Everyone can spend money in a way that will make them happier. But there is no universal formula on how to do it.** The nice stuff that makes me happy might seem crazy to you, and vice versa. Debates over what kind of lifestyle you should live are often just people with different personalities talking over each other. Author Luke Burgis puts it another way: "After meeting our basic needs as

creatures, we enter into the human universe of desire. And knowing what to want is much harder than knowing what to need.”

—

In his 1907 book *The Quest of the Simple Life*, William Dawson writes about how many of his London peers devoted their lives to money and success but still seemed miserable. Those who lived simple lives in the country were comparatively jubilant.

His main observation was that those who were trying to get more money were actually held captive by it. They were so obsessed with wealth that it held control over their sanity, their relationships, their quality of life. What they intended to be a strategy to live a better life often became an ideology they were beholden to, like an invisible dictator. They wanted to have more money so they could become happier. But money could buy them everything except the ability to not be obsessed with money, which led to constant anxiety, which led to unhappiness. It was a vicious cycle. And most of them were blind to it.

Sometimes the stuff you spend money on has so much influence over your behavior that it's not clear whether you own things or the things own you. Benjamin Franklin put this so well when he wrote: “Many a man thinks he is buying pleasure, when he is really selling himself a slave to it.”

Dawson wrote that the ideal life was a simple life. A simple life might still be extravagant, with fancy homes and luxuries and toys galore. But it's simple in the sense that money serves you, not the other way around. The kind of lifestyle you choose to live almost doesn't matter—what matters is that you actually choose it, rather than being addicted to the mere appeal of it. Dawson wrote that his goal was not to make a living; it was to make a life, and only a fool would sacrifice his actual life for the endless pursuit of an imaginarily better one.

The quest of your own simple life—however you choose to live it—starts with a deep understanding and examination of yourself. We'll begin there, in the next chapter, with a story about making sense of misfit children.



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# ALL BEHAVIOR MAKES SENSE WITH ENOUGH INFORMATION

*Most debates about what's worth spending money on are actually just people with different life experiences talking over each other.*

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**A**n important question I love is: What have you experienced that I haven't that makes you believe what you do? And would I believe the same if I experienced what you have?

It applies to so many things in life. Including money.

The most important topic in spending money, one that's the cause of so much financial frustration and disappointment, is that there is no "right" way to do it. There are no universal laws of what kind of spending will make everyone happy and fulfilled.

What I like spending money on might make no sense to you. My fears might be your joys. Your goal might be the thing I most want to avoid.

There's a saying: Never make fun of someone for mispronouncing a word, because it means they learned it from reading. As a corollary: Never make fun of how someone spends their money, because they learned it from living.

Everyone is a product of their own unique past. To understand why people spend the way they do, you have to dig deep into their life experiences.

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My brother-in-law is a social worker. He works with kids from the lowest levels of abject poverty and broken homes who are pushed in and out of the foster system.

A lot of these kids struggle at school. Their behavior is poor. They skip class. They don't pay attention. They get into fights on the playground. They can't focus on the future.

It is easy for people to not only criticize these kids' behavior but shake their head in confusion.

"Why are you acting this way?" "Why can't you understand that if you behave better, you'll have a better future?" "How could you possibly think that's an OK thing to do?"

But there's a saying inside the foster care system: All behavior makes sense with enough information.

Once you understand what some of these kids have dealt with at home—the uncertainty, the lack of security, love, and attention—their behavior begins to make sense. They're in constant survival mode and never learned some of the basic social skills other kids take for granted.

You don't want to encourage or even justify their behavior. But once you see the world through their eyes, you quickly understand why someone would make decisions that seem foreign to you and me.

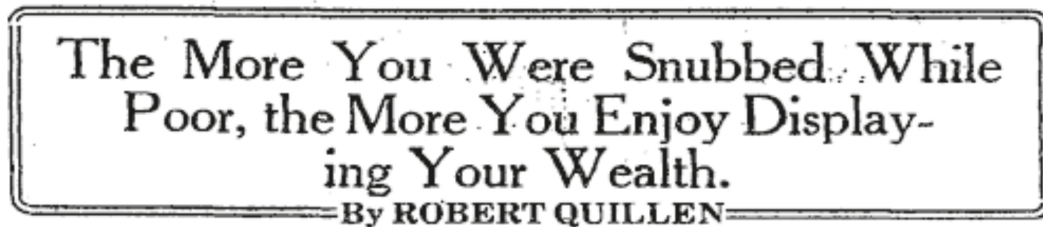
*All behavior makes sense with enough information*—including behavior about the different ways we spend our money.

—

By the late 1920s, America was at the tail end of a full social and economic cycle. The devastation of World War I was followed by a crippling recession. And then, after a decade of misery—finally—people got to relish an economic boom that gave name to the Roaring '20s.

Roaring doesn't do it justice—it was an absolute party. For a good five years in the mid 1920s the economy was fueled by cheap debt, a stock market bubble, and bootlegged liquor.

In June of 1928, syndicated columnist Robert Quillen wrote a newspaper headline that in fourteen words describes something so simple and important:



That's it. So much of the late-1920s desire to show off wealth with new cars, new clothes, new toys, was driven by a reaction to the poverty and uncertainty that preceded it.

When you at one time feel held back, then suddenly feel released, a common reaction is to frantically sprint ahead to make up for lost time. Historian Frederick Lewis Allen wrote about the era:

Like the suddenly liberated vacationist, the country felt that it ought to be enjoying itself more than it was, and that life was futile and nothing mattered much. But in the meantime it might as well play—follow the crowd, take up the new toys that were amusing the crowd.

People seemed to justify wild, unsustainable spending because they were making up for being snubbed and suppressed during the dour years. It felt as if they were righting a wrong, like getting revenge. They weren't spending wildly because they crunched the numbers and determined it was the right thing to do. They were trying to heal an emotional wound.

That behavior is timeless, and explains so much.

A close family member grew up extremely poor and in a broken home, snubbed in every way. He then became a successful businessman. When his daughter was preparing to go to college, he told her, “Pick the most expensive school you get into.” Sending his daughter to an expensive school was such a powerful symbol of what he had overcome that, in his mind, it was almost as if he preferred to pay the most absurd price he could. High tuition was like a social trophy that made him feel great about the arc of his life.

If you didn’t grow up snubbed, or snubbed in a different way, that might make no sense to you. But that’s the point: A lot of spending makes no sense until you peel back the onion layers of someone’s personality, identifying the specific thing they’re trying to accomplish, or the hole they’re trying to fill.

How your past influences your spending decisions can manifest in different ways, with opposite outcomes depending on the person. Tiffany Aliche—a former preschool teacher who became a wildly successful financial educator—once said that she suffers from “post-traumatic broke syndrome.” It’s made it hard for her to spend her newfound wealth. “I was broke for so long, and it was so hard, that I’m afraid of going back there,” she says.

If you try to make sense of spending habits—yours or other people’s—you have to start with the understanding that people don’t just spend money on things they find fun or useful. Their decisions often reflect the social and psychological experiences of their life. And since life experiences vary dramatically from person to person, what makes sense to you might seem crazy to me, and vice versa.

Spending a ton of money on a college degree might feel like a waste to one person, a nonnegotiable requirement to another, and the ultimate sign of climbing the social ladder to another. The same product has very different meanings to different people.

To someone who grew up in an old-money affluent family, a Lamborghini might be a symbol of gaudy egotism; to those who grew up with nothing, the car might serve as the ultimate symbol that you’ve made it.