ACTUALLY, MONEY CAN BUY HAPPINESS

Ignore the clichés.

Free your mind and the cash will follow

BY MARK MILLHONE

MONEY IS GOOD. MORE MONEY IS BETTER. IT'S TRUE. WHY can't we just accept that?

In other areas of life, we let go of conventional wisdom when science proves it wrong. It's getting to the point where the conventional wisdom about conventional wisdom is that none of it is true. But with money, for whatever reason, we hold on tightly to our misinformation.

You've heard the following six financial "rules" before. We don't know where they came from. We just know what the latest research says: They're dead wrong.

Photograph by MARK HOOPER

STUPID MONEY MAXIM #1

Money can't buy happiness

As Gertrude Stein supposedly noted, "Whoever said money can't buy happiness didn't know where to shop."

According to a recent Pew Research Center study, happiness rises in a nearly straight line through eight levels of annual income: Only 23 percent of people earning less than $20,000 a year say they're happy, whereas 50 percent of those making $150,000 annually can't wipe the smiles off their faces. This is called the absolute income effect. It works in reverse, too: People earning less than $15,000 a year were five times more likely to be unhappy than those earning $75,000 or more.

That's good news for rich people. But what if you're sentenced to a lifetime of middle-class living? Luckily for you, there's something called the relative income effect. Last year, Princeton University researchers found that your happiness increases in lockstep with the amount of money remaining from your paycheck after you pay your monthly bills. "Once you earn enough to cover your basic needs, being much richer doesn't make you much happier," they reported in the journal *Science*.

So how can you make sure your personal profit-and-loss statement is always in the black? J.J. Burns, a certified financial planner (CFP) in Melville, New York, offers three easy ways.

1

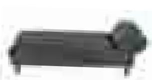
PAY YOUR MORTGAGE ON THE FIRST OF THE MONTH. "Banks compound interest every day, so not waiting till the midmonth due date will save you thousands over the course of your loan. Another trick: Split your payment in half and send your bank a check every 2 weeks; it will cut 10 years off the life of a 30-year loan."

2

GUARANTEE YOURSELF A 25 PERCENT RETURN. "Every time you receive a raise, give your 401(k) one, too. If you're a single guy in the 25 percent tax bracket—meaning you make between $31,000 and $74,000—every $1,000 you contribute will cost you only $750. And, of course, that money should grow."

3

INVEST IN THERAPY. "Depression and anxiety are bad for your wallet, too. According to the Surgeon General's office, the indirect costs of mental illness in the U.S. are nearly $80 billion. That's $80 billion of raises that weren't given and businesses that weren't started. Seek help. There's no more direct way to invest in your own happiness."



Earn $270,000 more than the average guy, and your height won't matter to women.

STUPID MONEY MAXIM #2

Money can't buy you love

Reams of research over the past decade confirm what we all know but prefer not to admit: To women, wealth is sexy.

A survey of 190 women published in the *Journal of Personality and Social Psychology* reveals that women looking for a mate are most attracted to power and financial resources, followed by kindness and intelligence. Women seeking a one-night stand, on the other hand, want muscularity and masculinity most (actually, period).

Love doesn't come cheap, however. Earlier this year, researchers at the University of Chicago asked 10,434 women—all of whom had set their ideal man's height at 6 feet—what it'd take to fall in love with a 5'2" suitor. Their collective answer: He'd have to earn at least $270,000 more per year than their ideal 6-footer.

Why are women so hot for money? Evolutionary biologists have long theorized that females naturally seek mates who can provide for the family. But Arizona State University researchers also found that because women have been stuck under a glass ceiling at work, they're attracted to men who can help them bust through.

So go ahead, use your wealth to woo. Just don't let it come between you later—financial issues are behind nearly 3 in 5 failed marriages. Here's how to money-proof your relationship, according to Jonathan Rich, Ph.D., psychologist and author of *The Couple's Guide to Love & Money*.

1 CREATE YOURS, MINE, AND OURS ACCOUNTS. "The 'ours' account is for shared expenses like the mortgage, utilities, and food. The other accounts are for personal expenses such as entertainment. Keeping separate accounts helps to avoid needless nitpicking, and gives both of you some financial freedom."

2 KEEP YOUR EYES ON THE HORIZON. "Sailors give this same advice to the queasy. Close objects bob up and down, but things in the distance remain stable. Likewise, focusing on small, day-to-day money issues can strain your relationship. Talk over the big, long-term goals, agree on a plan, and then check in every month to make sure you're still on course."

3 REAP HER RICHES. "Men thrive on rivalry; women don't. So stow your competitive spirit when it comes to financial matters. Instead, think of it this way: Her success is your success. Her raise is your raise. Cheer her on, but don't race her to the finish line. Because even if you win, you lose."

MARK HOOPER *(heart)*, *PhotoObjects.net (couch)*

→ STUPID MONEY MAXIM #3

It takes money to make money

Truth is, hard times have historically been the best times to strike it rich. More than half of the 30 Dow Jones companies trace their birth to recessions. Hewlett-Packard, for example, which had revenues of $92 billion last year, was founded with just $6,000 (in 2007 dollars) in the wake of the Great Depression. And Bill Gates, who now has a net worth of $56 billion, was an unemployed college dropout when he founded Microsoft in the mid-'70s.

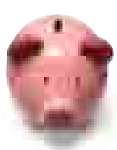
Why are bad times so lucrative? They force entrepreneurs to rethink conventional wisdom, embrace risk, and swing for the fences.

Having very little money can be a key advantage when starting a business, says Ted Rheingold, CEO of Dogster.com. Rheingold launched his site in 2004 with $0, was turning a profit a year later, and now the site brings in more than $1 million annually. Compare that with Pets.com, which launched in 2000 with a monster $82.5 million initial public offering and was out of business within 9 months. The difference? Dogster was more nimble. Both companies were banking on pet accessories. But when no one wanted to buy them, Dogster quickly focused on providing social networking for pet lovers. Meanwhile, Pets.com was stuck with warehouses full of unsold chew toys.

Point is, once you figure out what's wrong with your million-dollar idea, it might actually be worth a million bucks. Below, top Dogster Rheingold offers a few more tips for budding (and broke) entrepreneurs.

PAY OTHERS BEFORE YOURSELF
"This is vital to really making money. It creates the employee loyalty you'll need to hold your business together long enough for it to become profitable."

DON'T DRINK YOUR OWN KOOL-AID
"Always retain your objectivity about what works and what doesn't. Be passionate about running a model, original business—not running with your original business model."



EMBRACE YOUR POVERTY
"Having money to play with often ends up being a self-fulfilling prophecy. You just blow it all on business cards and office space before you need those things to make your business grow."

SHOULD YOU LOAN MONEY TO A FRIEND?

1 IS YOUR FRIEND SOMEONE YOU WANT TO HELP?
NO → SAY NO · YES → 2

2 CAN YOU AFFORD TO LOSE THE AMOUNT YOUR FRIEND IS REQUESTING?
NO → SAY NO · YES → 3

3 DO YOU REALLY BELIEVE YOUR FRIEND WILL PAY YOU BACK?
NO → 4 · YES → SAY YES, then discuss and agree

4 ARE YOU WILLING TO GIVE THE MONEY AS A GIFT INSTEAD?
NO → SAY NO · YES → SAY YES, then ask a financial advisor

SAY NO,
adding something like . . .
1 "You're a great friend, but I can't really swing a loan right now."
2 "I don't feel comfortable loaning money right now."
3 "I can't really loan you the money. Is there some other way I could help?"

SAY YES,
then ask a financial advisor if there will be tax consequences, so you **see the whole picture.** You have two choices: 1 Simply give your friend the money, or 2 write up a loan contract that includes a condition that turns the loan into a gift if the money isn't repaid by a certain date.

SAY YES,
then discuss and agree on the specifics (amount, interest rate, payment schedule, late fees), **write a loan contract**, and transfer the money to your friend.

→ STUPID MONEY MAXIM #4

Friends and money don't mix

This notion is so tremendously useful that if it didn't already exist, someone would have to invent it and ship it to men around the world. What's more ingenious than being able to tell a friend you can't help because you *care about him too much*?

Alas, it's nonsense. A 2004 report by the Global Entrepreneurship Monitor reported that one-third of the nation's 500 fastest-growing private companies started with capital raised from the founder's family and friends. And a recent University of California at Berkeley study showed that socioeconomic status is one of the most consistent predictors of the people we choose as friends. Damn straight, friends and money mix—like rum and Coke.

So when you invent a better way to slice bread, don't be too proud to call on the people you know best. Just remember: It's business, not personal. In other words, take "no" for an answer.

But what if you're on the other side of the phone, with a friend asking you for financial support? What if you do want to help, but you're just not sure if it's financially wise? In that case, take the four-question self-test above, created by wealth counselor Thayer Willis, author of *Navigating the Dark Side of Wealth*.

One-third of the U.S.'s fastest-growing private companies exist because the founder tapped friends and family for cash.

Brand X Pictures (pitcher)

→ *STUPID MONEY MAXIM #5*

Money makes the world go round

Maybe not so much anymore. According to a comprehensive review of research by the Council on Contemporary Families, men are increasing putting family before salary.

Historically, of course, men have focused on winning the bread and women on serving it to the kids. "But the evidence overwhelmingly shows what we call gender convergence, an ever-increasing similarity in how men and women live and what they want from their lives," says Molly Monahan Lang, a sociologist at Bloomsburg University of Pennsylvania, who coauthored the review. In fact, a recent Radcliffe Public Policy Center study found that 82 percent of men between the ages of 20 and 39 put family first, compared with 85 percent of women. And 71 percent of those men would give up some pay in exchange for more time with family.

What's driving the trend? Young men—a third of whom come from divorced families, according to Yankelovich research—have a strong desire to outfather their hard-charging, baby-boomer dads. Researchers at the University of Pennsylvania found that the less a father aspires to career advancement, the better he feels about his performance as a parent. And the less emphasis a father places on wealth, the better he feels about the care his children receive. Kids benefit, too: Numerous studies reveal that children of career-focused parents are more likely to experience behavior problems, do worse in school, and achieve less success as adults.

Now that fathers have a healthier attitude toward money, how can they pass it on to their kids? Take the advice of CFP Rick Kahler, author of *Conscious Finance*.

1 SCHOOL THEM ON THE RULES OF FINANCE "Smart money management is a basic 21st-century survival skill. Don't downplay its importance with your kids. Fact is, fewer than half of Americans between 52 and 62 have anything saved for retirement, despite making career a top priority."

2 PREPARE FOR THE TOUGH QUESTION *Daddy, how much money do you make?* "Many of us find it easier to talk to our kids about sex than money. That's crazy. Break it down to a daily amount, and tell them what you spend it on. Talk about it openly and engage their curiosity."

3 BANKRUPT THEM, EARLY AND OFTEN "You should start giving your kids an allowance around the age of 5, but make them work for a portion of it. Don't hesitate to take their allowance away. If you back down, you teach them that the way to get what they want in life is to break the rules."

→ *STUPID MONEY MAXIM #6*

More money = more problems

This maxim has been gaining steam in recent years, as lottery winners take to the airwaves and complain about how complex their lives are now. Uncle Buck wants to pay off his truck, cousin Jeb hopes to start a mail-order bait business, and poor little Johnny is being harassed at school.

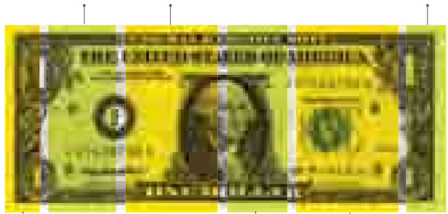
It's true that a sudden windfall can blow a person's life off course. Psychologists even have a name for it: "sudden wealth syndrome." But on the whole, according to a British survey, lottery winners are doing just fine: 55 percent say they're happier now, and 43 percent are just as happy as they were before. The more money they won, the happier they are. Of married winners, 95 percent are still with the same partner. And 90 percent report having the same best friend.

There's a decent chance you'll hit a jackpot someday. If you consider all of the potential sources of sudden wealth—investments, job promotion, sale of a home or business, legal settlement, retirement disbursement, inheritance—more than 75 million Americans will see a significant influx of cash at some point, says Susan Bradley, a financial planner and author of *Sudden Money: Managing a Financial Windfall*. "Coming into money should simplify your life," says Bradley, "not make it more complicated." Here's her 6-step plan for making sure it does. ■

Step 1 Pay off your debts, such as car loans and credit cards.

Step 2 Take care of any home repairs or medical procedures you've been putting off.

Step 3 Set aside 5 to 10 percent of what's left for something fun, like a vacation or a new car.



Step 4 Take another 5 to 10 percent and give it to charity.

Step 5 Invest the rest of the money in your future. Think IRA or a 529 college savings plan for your kids.

Step 6 Watch your money grow. An annual 10 percent rate of return (the stock-market average) will double it every 7 years.

Sudden wealth should simplify your life, not make it more complicated.

From top: MARK HOOPER, *Josh Westrich/Age FotoStock*