Finding and Funding a Good Life

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Benjamin Felix, *Portfolio Manager*, PWL Capital Inc.,“Finding and Funding a Good Life.”

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1. Introduction

Is a higher paying job with longer hours worth it? How should you prioritize saving for the future against enjoying life today? Should you rent or own your home? Does it make sense to pay for a house cleaner? Is it better to live in a bigger home with a longer commute, or a small home close to the office? Is going out to dinner a waste of money? Is an expensive vehicle worth it?

The answers to these questions are often delivered to us on a platter by our System One brains; our fast, intuitive, impulsive, and emotional thought processes that run automatically with relatively little effort (Kahneman, 2013). Unfortunately, our automatic, intuitive perception of the right answer is often flawed. Our automatic system brain is designed to seek pleasure, avoid pain, engage in survival-related behaviours, and impress other people; the automatic brain has its finger on the dopamine button and cares more about prestige than happiness (Haidt, 2006). This combined with a constant barrage of advertisements for material goods and algorithmically optimized social comparisons can lead us toward behaviour that is immediately rewarding, like buying stuff online or scrolling TikTok, but detrimental to our long-term well-being. Engaging System Two thinking, the slower, more deliberative, logical, and effortful process required for reflective thought and complex calculations (Kahneman, 2013) is likely to result in better decisions. Unfortunately, it's not as easy as flipping a switch since the mental models required for this reflection are not common knowledge. What does a good life look like, and how is money related to it? Of course, not all decisions require deep introspection, but stepping back to think through these big questions can result in guiding principles for large and small decisions alike.

The objective of this paper is to provide an overview of the non-financial considerations that deserve consideration in financial decisions – tools for System Two financial decision-making. Each consideration is paired with reflective questions that the decision-maker may ask themselves or the other parties involved in the decision-making process. Financial decisions are never objectively good or bad; each decision should be considered for its utilitarian, emotional, and expressive benefits, and its impact on living a good life. There is a lot more to a good life than wealth accumulation and risk-adjusted returns. A good life is, of course, subjective, but research across economics and psychology provide a starting point. Framing financial decisions through the lens of living a good life, measured by life satisfaction, rather than dollars in your bank account or other material possessions, is likely to lead to better outcomes.

2. Circumstances and Adaptation

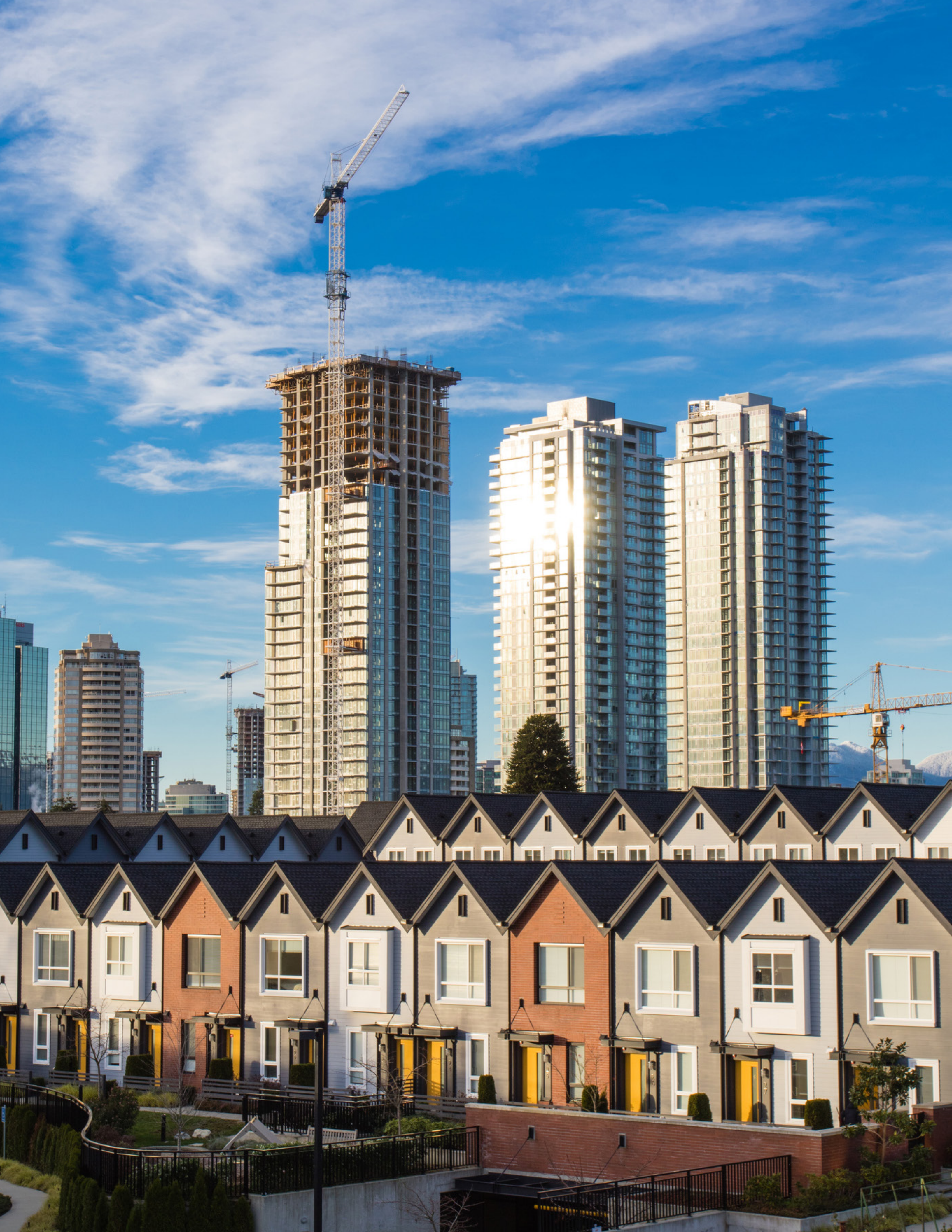
Given that money is a scarce resource that can be used to change our circumstances, understanding the circumstances that do, and do not, affect happiness is an important input to financial decision-making. Stable circumstances like health (Riis et al., 2005), income beyond what is required for the necessities of life (Jebb, Tay, Diener, and Oishi, 2018), wealth (Diener and Oishi, 2000), geographic location (Schkade and Kahneman, 1998), house size (Bellet, 2019), physical appearance (Wolsic and Fujita, 1995), gender, and age (Lucas and Gohm, 2000) seem like obvious predictors of differences in happiness and life satisfaction, but they are not. People are sensitive to changes in their circumstances, but they adapt quickly to the changes, and are generally not sensitive to their steady state. Large financial goals like buying a bigger house, moving to a sunnier part of the country, grinding it out for a higher paying job, or making a risky investment with a large potential payoff may not improve the quality of your life, but they will certainly require sacrifices and risks.

2.1 Affective Forecasting

People tend to overestimate the enduring impact that future events will have on them. One reason for this is focalism - failing to anticipate the unrelated events which will influence our thoughts and emotions (Wilson and Gilbert, 2003). Another big contributor to our weak affective forecasting abilities is the adaptation principle (Brickman, Coates, and Janoff-Bulman, 1978); we tend to quickly adapt to changes in our circumstances, both good and bad. This has become commonly known as the hedonic treadmill (Campbell, 1971). Further complicating our affective forecasts is the "end of history illusion" (Quoidbach, Gilbert, and Wilson, 2013); personalities, values, and preferences change over time, but people tend to believe that they have recently become the person they will remain for the rest of their lives. People believe that who they are today is pretty much who they will be tomorrow, despite the fact that it isn't who they were yesterday. Given the challenges in predicting the circumstances that will make us happy in the future, and knowing who we will be in the future, it might be more sensible to focus on how we spend our time minute-to-minute rather than striving to achieve a perfectly imagined future. Affective experience on a daily basis is predicted by the specifics of the current situation, like facing time pressure at work or having a leisurely dinner with friends rather than by more stable life circumstances (Dunn, Gilbert, and Wilson, 2011).

Questions to reflect on affective forecasting:

- When contemplating a major purchase, do you have a narrow focus on one aspect of it, or do you consider how it will impact your life minute-to-minute?
- Have you made a major purchase expecting it to increase your happiness? Did it?
- Have your values and preference changed in the last decade? Do you expect them to change in the next decade?



2.2 Income Satiation Points

We trade our time for money at work but working harder for more money is not always an obvious trade-off. It was found in a global representative sample of over 1.7 million people that the income satiation point for experienced happiness is USD $60,000 globally, and $65,000 in North America (Jebb, Tay, Diener, and Oishi 2018). Above this level of income people in the sample did not experience more happiness. Experienced unhappiness in the sample stopped decreasing at $75,000 globally and $95,000 in North America. For life evaluation - reflective happiness - the satiation points were $95,000 globally and $105,000 in North America.

In some regions, including North America, there is a turning point where life evaluation deteriorates with higher levels of income. The study authors speculate that the causation could generally be that higher incomes are accompanied by high demands on time which might also limit opportunities for positive experiences like hobbies, spending time with others, working on things greater than the self, and accomplishing valued objectives. Money can increase positive emotion, decrease negative emotion, and increase positive life evaluation. But in all cases, there is a satiation point, and in the case of life evaluation there is even a point where more income seems to decrease happiness. Alongside the understanding of income satiation, it is important to understand that acquiring more money is associated with hedonic rewards similar to illicit drugs (Breiter, Aharon, Kahneman, and Shizgal, 2001) where the initial experience is exhilarating, but the exhilaration fades as it becomes a stable circumstance.

Questions to reflect on income satiation points:

- How would your life change if you earned an extra $1,000 per month? What would you spend it on?
- Would you work an extra 3 hours per day to earn more money?
- How much would you need to be paid to give up your favorite leisure activity?

2.3 Renting vs. Buying a Home

Housing is typically the largest single expense for a household, and shelter is a basic human need. Finances aside (but keeping in mind that renting is not throwing money away (Felix, 2019), are homeowners happier than renters?

Empirically, homeowners are not happier, and may be less happy, than renters after controlling for income, housing quality, and health. Owners also spend less time on enjoyable activities like active leisure and more time working on their homes (Bucchianeri, 2011; Hofmann and Umbricht, 2019). While in some samples owners have elevated reflective life satisfaction, they also have less intense feelings of happiness (Morris, 2017). Remember, people are bad at forecasting what will make them happy in the future, but this effect is even more pronounced when it comes to major purchases.

People who believe materialistic achievements, like owning a home, will make them happy can be classified as having extrinsically motivated goals. Other examples of extrinsic goals are money, fame, image, and status.

Compared to people with intrinsic goals, like personal growth, intimacy, and community, extrinsically motivated people are less happy in general, and they overestimate the emotional benefits of achieving their extrinsic goals (Sheldon, Gunz, Nichols, and Ferguson, 2010).

Specific to housing, German data show that people overestimate the long-run life satisfaction gains derived from moving from a rented home to a privately owned property, and that this overestimation is more pronounced for people with extrinsically motivated life goals (Odermatt and Stutzer, 2020).

It is likely that this is, again, the adaptation principle at work. We overestimate how much happier we will be by purchasing a home, but once we live there the home becomes a condition of life rather than an aspiration, and its impact on our daily well-being is neutralized. Day-to-day happiness is shaped more by how we spend our time than by stable life circumstances or major life events (Kahneman, Krueger, Schkade, Schwarz, & Stone, 2004; Kanner, Coyne, Schaefer, & Lazarus, 1981).

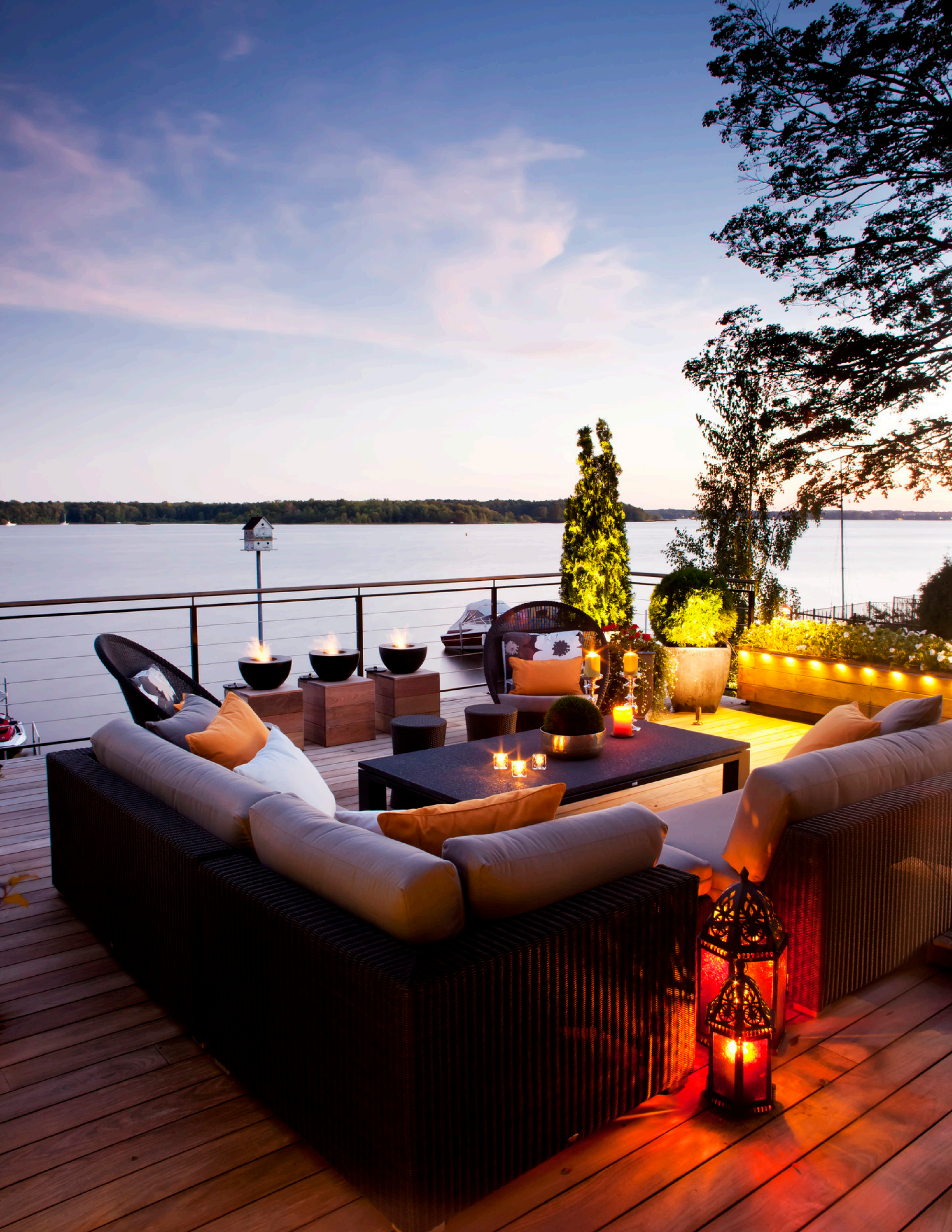
The other challenge posed by any major material purchase, including housing, is that people may suffer from buyer's remorse. People are often less satisfied by their material purchases than their experiential ones because they are more likely to ruminate about unchosen options with material purchases, and their satisfaction with their material possessions is undermined by comparisons to other available options, to the same option at a different price, and to the purchases of other individuals (Carter and Gilovich, 2010). This is as true for housing as it is for other material purchases (Bellet, 2019). Owning a home is not by any means an objectively bad decision, but it is not an inherently good decision either.

Questions to reflect on renting vs. buying a home:

- Do you believe that owning a home, in and of itself, will make you happy? Why?
- Do you enjoy doing maintenance and repair work around the house?
- What about your life would change if you switched from renting to owning, or owning to renting?

2.4 Cottages

A cottage is in many ways simply a special case of the decision to rent or buy a primary residence; cottages and recreational properties are available as rentals. Cottages may be viewed as a place for immediate and extended family to gather and create memories. There is no doubt that this is a worthwhile endeavor given the importance of relationships to happiness. However, as Dunn, Gilbert, and Wilson (2011) point out, it is important to think about the details. Who will you invite to the cottage? What if some family members don't get along? Who will take care of the maintenance? Will there be traffic leaving the city on Friday afternoons? Who will inherit the cottage? What if the child who wants it can't afford to maintain it? This is not an attempt to dissuade people from cottage ownership, but it is a reminder that happiness is in the day-to-day details of life more than it is in stable circumstances or major life events.



Questions to reflect on buying a cottage:

- Imagine a trip to the cottage from beginning to end. How do you spend most of your time? Do you enjoy it?
- Are there rentals available in the town you are considering a cottage?
- Have you thought about the estate planning aspect of cottage ownership?

2.5 Luxury Vehicles

The second largest expense in most households is transportation. Like housing, vehicles provide utility but, in many cases, are also purchased as positional goods (Hoen and Geurs, 2011). Vehicles may be viewed as experiential purchases to the extent that driving a luxury vehicle is itself viewed as a positive experience. While people imagine enjoying the experience of driving luxury vehicles more than economy vehicles, their actual experience driving is not different (Schwarz and Xu, 2011). If you ask someone how they will feel driving a luxury vehicle, they will likely predict strong positive affect. If you ask the owner of a luxury vehicle how they feel when they are driving, they will likely report the same. However, the actual experience of people driving luxury and economy vehicles is not different. The reason likely comes back to focalism; people imagine the luxury aspects of a vehicle when they are asked about it, but when they are driving the vehicle, they are thinking about getting to their destination on time, avoiding traffic, or keeping the kids from spilling their snacks. Driving a nice car sounds fun, and is fun to think about, but the experience of driving a luxury vehicle is nothing special. It is possible that luxury vehicles provide more than a (lack of) positive driving experience; do luxury vehicles increase happiness? Again, the empirical findings do not support the high cost of luxury vehicle ownership – it does not make people happier than frugal car ownership (Okulicz-Kozaryn, Nash, and Tursi, 2015).

If vehicles are purchased as positional goods, an important question to ask is who you are trying to impress. Wealthy people are not necessarily luxury vehicle owners. The median cost of the vehicles driven by the wealthiest people in the world is $46,000 (the mean is $210,000, skewed heavily by Larry Ellison's $2.2 million McLaren F1) (Hallam, 2021). In a 2016 survey, the median amount that millionaires paid for their most recent vehicle purchase was $35,000, and the most common makes were Toyota, Honda, and Ford (Stanley and Fallaw, 2018). Luxury vehicles are not associated with wealth, but they are associated with less favorable behaviors. In a sample of hedge fund managers, those who own performance cars take on more investment risk without being compensated with higher returns, are more likely to terminate their funds, disclose violations on their Form ADVs, exhibit greater operational risk, trade more frequently, actively, and unconventionally, and gravitate toward lottery-like stocks (Brown, Lu, Ray, Teo, 2018).

Questions to reflect on luxury vehicles:

- Think about your most recent commute (or drive to the grocery store). How did you feel during that specific episode of driving? Would a luxury vehicle have changed the experience?
- Imagine your dream car. Would you still want it if you lived alone on a desert island (with nicely paved roads)?
- Think about someone you admire. Would your admiration change if they drove a more expensive vehicle?

2.6 Trees

While moving to a sunnier location may not have an impact on happiness, living in nature does. People living in rural areas rather than urban areas, people living near green space, and people with good access to green space tend to be happier and have higher life satisfaction (Helliwell, Shiplett, and Barrington-Leigh, 2018; White, Alcock, Wheeler, and Depledge, 2013; Fleming, Manning, and Ambrey, 2016). Walking in nature produces more positive emotions than walking in the city (Berman, Jonides, and Kaplan, 2008), and the boost in positive emotions exceeds the boost that people may have expected beforehand (Nisbet and Zelenski, 2011). Nature experience is associated with increased positive affect; happiness and subjective well-being; positive social interactions, cohesion, and engagement; a sense of meaning and purpose in life; improved manageability of life tasks; decreases in mental distress, such as negative affect; and nature experience has been shown to positively affect various aspects of cognitive function, memory and attention, impulse inhibition, and children's school performance, as well as imagination and creativity (Bratman et al., 2019). Children who grow up with higher levels of greenspace are at a lower risk of psychiatric disorders (Engemann et al., 2019). People living in Beijing residential areas with more tree canopy coverage corresponded with a lower prevalence of psychological distress during COVID-19 compared to those with less tree canopy coverage (Zhang et al., 2021). In addition to improving mood and reducing stress, spending time in nature affects the perception of time (Davydenko and Peetz, 2017). Time is finite, but the perception of time can be affected by our circumstances.

Beyond the psychological benefits to individuals, nature exposure increases cooperative and sustainable behavior (Zelenski, Dopko, and Capaldi, 2015).

Questions to reflect on trees:

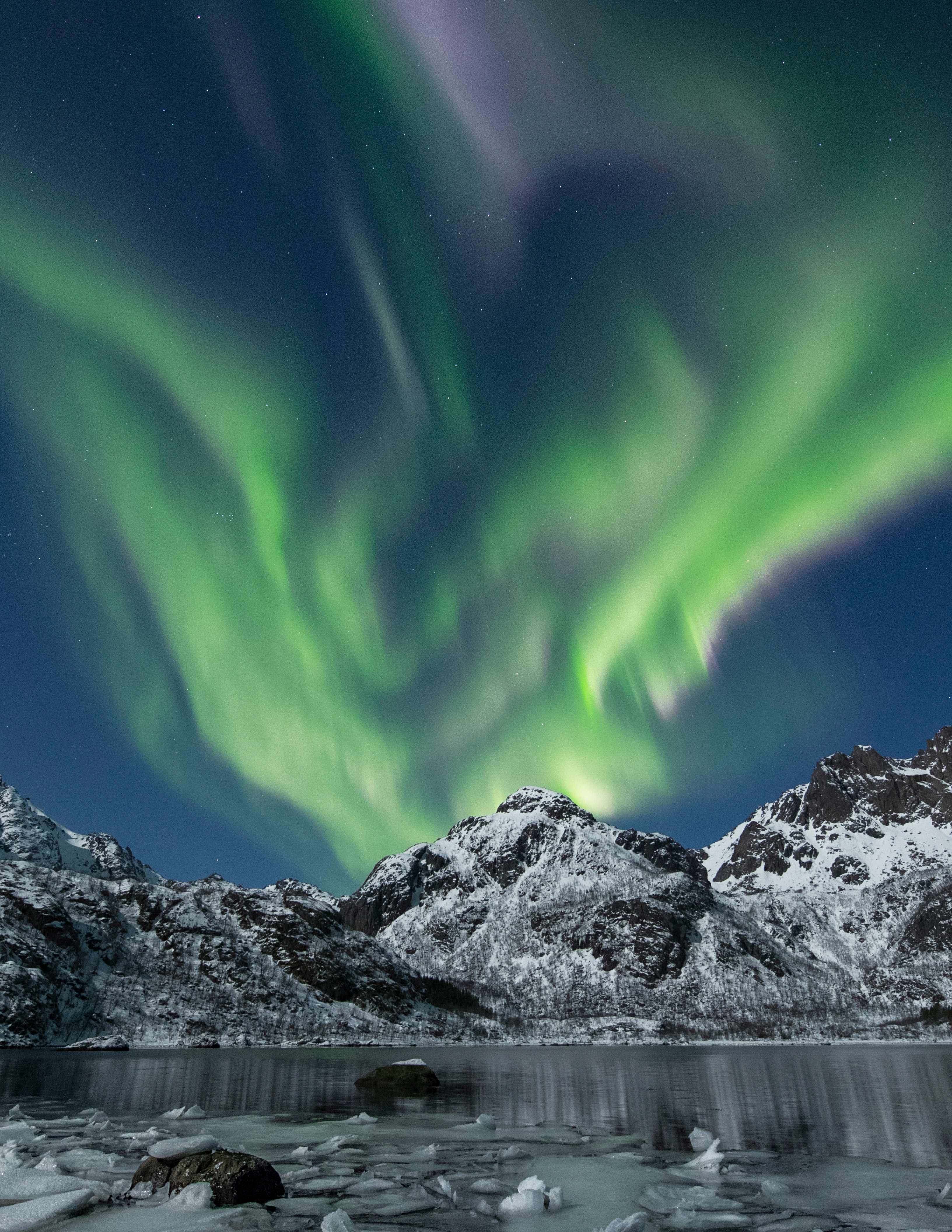
- How frequently do you spend time in nature? Could you increase that frequency?
- How far do you live from green space? Could you live closer without introducing a long commute?

2.7 Circumstances to Avoid

There are some cases where adaptation to unfavorable circumstances is less likely. Noise, especially variable or intermittent noise, interferes with concentration and increases stress, so living next to a busy intersection or otherwise noisy area may not be ideal (Frederick and Loewenstein, 1999). Even after years of commuting, people who commute in traffic arrive at work with higher levels of stress hormones (Koslowsky, Kluger, and Reich 1995). This is salient for anyone considering a move further away from work or family, introducing a longer commute to which they will not adapt in order to get a bigger house which they will tend to adapt to quickly. Not being in control of your circumstances has a large negative impact on happiness and life satisfaction. Even little things, like control over the plants in your home, can have dramatic effects on happiness (Langer and Rodin, 1976); in some cases, maintaining a feeling of control may be relevant in the rent vs. buy decision for housing.

Questions to reflect on circumstances to avoid:

- Is there distracting intermittent noise in your environment? How could you remove it?
- Do you commute in traffic? What could you change to reduce or eliminate it?
- Do you feel in control of your environment?



3. Things vs. Experiences

Likely due to focalism and the adaptation principle, spending on experiences is empirically more impactful to happiness than spending on things (Nicolao, Irwin, and Goodman, 2009). People are happy when they are engaged in what they are doing (Killingsworth & Gilbert, 2010) and experiences can provide this engagement. Reflecting on past experiences enhances mood more than reflecting on past material purchases, and people tend to anticipate and remember experiences more than things; experiences form part of our identities (Van Boven and Gilovich, 2003; Carter and Gilovich, 2012).

It is harder to adapt to experiences than to things since each experience is unique while things are static (Dunn, Gilbert, and Wilson, 2011). Experiences are more likely than things to be shared with other people, and strong relationships are important to happiness. Keep in mind, though, that while spending on experiences may be better for happiness than spending on things, the best experiences don't have to cost money. Spending decisions are important here, too: personal spending is unrelated to happiness, but prosocial spending (donations to charity and spending on others) is predictive of happiness (Dunn, Aknin, & Norton, 2008).

One of the best ways to deal with our poor affective forecasts and hedonic adaptation is to make more frequent small experiential purchases rather than fewer large material ones (Dunn, Gilbert, and Wilson, 2011). Empirically, happiness is better predicted by the frequency of positive affective experience than the intensity (Diener, Sandvik, & Pavot, 1991). Taking a friend out for dinner, signing up for a class in an area of interest, spending on an engaging hobby, or spending on other people are all approaches to spending where the affective experience is not easily adapted to; each instance of these experiences will be unique, while a material purchase is always the same (Dunn, Gilbert, and Wilson, 2011). Knowing that how we spend our time is more predictive of happiness than how we spend our money, a simple idea from Dunn, Gilbert, and Wilson (2011) is to think about how you spend your money will affect how you spend your time.

There is, of course, room for things that provide experiences. Equipment that facilitates time outdoors like a mountain bike or a kayak bridges the gap between things and experiences. Equipment needed for specialized hobbies like woodworking tools or a 3D printer fall into a similar category.

Questions to reflect on things vs. experiences:

- Grab a credit card statement and rank the purchases on a scale of 1-10 based on how much happiness they brought you. Are you spending on happiness?
- Think back to a dinner out with friends and a major purchase you have made. If you had to let go of the memory or the purchase, which would you choose?
- Think back to a material purchase that you expected to change your life for the better. Did it?
- Are you saving up for a big material purchase? How would it feel to redirect some of those savings toward taking a friend out for lunch?

4. Time vs. Money

Two of the most important resources in modern life are time and money. Both are desirable, finite, scarce, and measurable. Money allows us to move value forward and backward through time (Goetzmann, 2016). They are inextricably linked because we trade money for time by outsourcing tasks or purchasing time-saving goods, and we trade time for money by working. Due to this relationship, most people make daily choices about time vs. money trade-offs, and it turns out these trade-offs have significant impacts on happiness and life satisfaction.

Empirically, people who prioritize time over money are happier (Whillans, Weidman, and Dunn, 2016; Hershfield, Mogilner, and Barea, 2016), have greater social connection (Whillans and Dunn, 2019), have a better relationship with their spouse (Whillans, Pow, and Norton, 2018), and are more likely to choose a job that they enjoy (Whillans, Macchia, and Dunn, 2019). Even thinking about money can be problematic. People prompted to think about money are less interpersonally attuned, less prosocial, caring, and warm, and they eschew interdependence (Vohs, 2015).

Counterintuitively, while money can buy time, people with higher incomes feel that they have less time (Hammermesh and Lee, 2003), and people overestimate how much happier they would be with a higher income (Aknin, Norton, and Dunn, 2009). Another symptom of the general preference for money over time is that people are often unwilling to trade money for time, or framed differently, they undervalue their time, likely because measuring the monetary cost of time is difficult (Soman, 2001).

Questions to reflect on time vs. money:

- Do you prefer money over time or time over money?
- How much spare time do you have? How much spare money do you have?
- Do you include the monetary cost of your time in daily time vs. money decisions?
- Are there unpleasant tasks in your life that you could outsource?
- Have you gone out of your way to save money recently? Was it worth it?

5. Regret

Financial decisions are rife with uncertainty. A good decision made with statistically reliable inputs from financial economics, behavioral economics, and positive psychology does not guarantee a good outcome by any measure. Regret is a unique emotion for decision-makers because, unlike other negative emotions, regret cannot be experienced without choice (Zeelenberg and Pieters, 2007). It is easy to say that we should separate the quality of a decision from its realized outcome, but it is much more challenging to suppress feelings of regret – "the stomach-churning feeling that the present would be better and the future brighter if only you hadn't chosen so poorly, decided so wrongly, or acted so stupidly in the past" (Pink, 2022). Feelings of regret can be experienced about both decision process and decision outcome (Zeelenberg and Pieters, 2007). In the absence of self-regulatory abilities, frequent episodes of regret are associated with poorer life satisfaction (Sijtsema, Zeelenberg, and Lindenberg, 2021). In making financial decisions, which are inherently fraught with uncertainty, being aware of the real effects that regret can have on well-being, and the methods to moderate those effects is worthwhile.

5.1 Counterfactual Thinking

Central to regret is the concept of counterfactuals; alternative realities constructed in our minds where things turned out differently. In other words, we feel regret if we can readily imagine having taken an action that would have led to a more desirable outcome (Kahneman and Tversky, 1982). One of the strongest determinants in forming counterfactuals is closeness: the closer you were to an alternative outcome, the easier it is to form the counterfactual. For example, from Kahneman and Tversky (1982), a passenger who misses a flight by five minutes generally experiences more regret than one who misses a flight by 30 minutes. Another example might be someone's house burning down in a fire while having no insurance. If they had missed their insurance payment a day before the fire, the obvious counterfactual of "if only they had not missed the payment dominates the thinking", but if they had been without insurance for 6 months, they are less likely to have the same thought. But closeness isn't just about timing. It is the ease with which elements of reality can be cognitively altered to construct a counterfactual.

Counterfactual thinking is driven by two main mechanisms: Contrast effects, and causal inference effects (Roese and Morrison, 2009).

Contrast effects juxtapose reality against what might have been in an alternative reality. For example, winning $50 feels nice if you would have otherwise won nothing, but if you almost won $100, winning $50 does not feel quite as nice. This was studied with Olympic medallists and the authors found that that the dominant counterfactual that "I almost came in first" (an upward counterfactual) gives the silver medallist less satisfaction while the dominant counterfactual that "I almost came in fourth and didn't medal" (a downward counterfactual) gives the bronze medallist more satisfaction (Medvec, Madey, and Gilovich, 1995). Empirically, upward counterfactuals (if only… things would have been better) are much more common than downward counterfactuals (at least… things could have been worse) (Summerville and Roese, 2008).

Causal inference effects are the result of imagining an alternative reality; for that reality to exist there has to be a set of alternative facts. If everything else in the alternative reality is the same except for a single action believed to be the causal force behind the outcome, then it feels like changing that action would change the outcome. The problem is that changing that action in a future situation may not give you the same outcome as it would have in the past. Say you decided to sell a stock before it increases in price substantially. Your action of selling might be perceived by you as the causal force behind the outcome. The counterfactual involves not selling. The causal inference is that if you had not sold you would have gotten a better outcome. Of course, this is only true if all of the other facts, including the stock price increase, remain equal – given the enormous positive skewness in individual stock returns this is extremely unlikely (Bessembinder, 2018). Causal inference can lead to an incorrect application of the perceived causal relationship (holding onto the stock) to future decisions. This is a form of base rate neglect.

Questions to reflect on counterfactual thinking:

- Can you think of a situation where closeness to an alternative outcome caused you to create a counterfactual?
- Have you inferred causality of a decision where the decision may not have been the causal force?


"IT'S BETTER TO
LOOK AHEAD
AND PREPARE
THAN TO
LOOK BACK
AND REGRET."
-Jackie Joyner Kersee

5.2 What do People Regret?

Empirically, from a large US sample assembled in Pink (2020), people's regrets most commonly involve family (21.8% of the sample), partners (19.2%), education (15.6%), career (15.1%), finances (13.5%), and health (6.6%), and most people regret inaction (57.1% of the sample) rather than action (35.9%). Morrison and Roese (2011) find in a representative US sample that regrets involving romance are the most common (19.3%) followed by family (16.9%), education (14%), career (13.8%), finance (9.9%), and parenting (9%). Regret distributions are different for different demographics. Women and people not currently in a relationship are more likely to have romantic regrets; men and better-educated respondents are more likely to have career regrets. Over time, regrets about action tend to dissipate while regrets about inaction linger for longer.

Questions to reflect on common regrets:

- Look back on your life for a moment. What are some of your most significant regrets?
- Do your regrets involve actions or inactions?

5.3 Classifying Regret

An iBased on thousands of survey responses from the American Regret Project and the World Regret Survey, Pink (2022) observes that regret can be broadly divided into four core categories.

Foundational regrets stem from failures in foresight, responsibility, and prudence with long-term consequences; these are small decisions that are immediately enjoyable but have lasting effects due to compounding. Some examples are over-spending/ under-saving, not exercising, smoking, drinking excessively, not eating healthy foods, and giving up on education too early. People tend to favor the present at the expense of the future when making decisions. This may be due to temporal discounting – discounting rewards in the future (Urminsky and Zauberman, 2016) – or a weak connection with the future self (Hershfield and Bartels, 2018). In either case, the empirical result is future regret. Foundational regrets take years, or decades, to materialize. The nature of compounding, on financial assets and other aspects of life, is that the results hit you seemingly suddenly. The general difficulty in grasping the effects of exponential growth (Wagenarr and Sabato, 1975) likely plays a role in foundational regrets.

Boldness regrets are the result of playing it safe, followed by the counterfactual where taking the risk would have resulted in a better life. These could be things like missed romantic connections, declined job opportunities, or not starting a business. In the long-term, people tend to regret things that they failed to do more than things that they did do; inaction may be less painful in the short-run, but it is regretted more in the long-run (Gilovich and Medvec, 1994).

Moral regrets are based on things we have done that felt wrong. Morality is beyond the scope of this paper, but based on thousands of survey responses Pink (2022), following the moral foundations theory of Haidt (2012), finds that moral regrets fall into five categories: Hurting people through means such as bullying, insults, or "ghosting" romantic interests; cheating in relationships, in school, or through theft of physical items; disloyalty by falling short of obligations to a group; subversion through disrespect to parents or teachers; and desecration, or violating sanctity.

Connection regrets arise from relationships that have come undone or that remain incomplete Pink (2022). This should not be a surprise. The Harvard Study of Adult Development has found that close relationships are the best predictor of happiness throughout people's lives. Diener and Seligman (2002) find that people with strong ties to friends and family have the highest levels of well-being. Morrison, Epstude, and Roese (2011) find that regrets involving primary social relationships (romance and family) are felt more intensely than less socially based regrets (work and education), suggesting that social connectedness plays a central role in what people regret the most.

- Reflecting on your most significant regrets, which category do they fall into?

5.4 Preventing Future Regret

Future regret can be moderated or eliminated by improving decision quality, increasing decision justifiability, transferring decision responsibility, ensuring decision reversibility (if possible), and avoiding feedback about unchosen alternatives (Zeelenberg and Pieters, 2007). Improving decision quality may be accomplished following Heath and Heath (2013) who suggest widening your options, reality testing your assumptions, attaining distance before deciding, and preparing to be wrong. Increasing decision justifiability is related to making "normal" decisions which generally produce less regret than switch decisions (Inman and Zeelenberg, 2002). However, normal decisions are not always good decision. Aversion to regret may lead investors to prefer popular investments since doing something different from the crowd could lead to more regret (Pompian, 2016).

Making the normal decision could also be a consideration for major decisions like housing, where buying a home is often perceived as normal. Transferring decision responsibility reduces regret by making another party, typically an expert, responsible for the decision (Zeelenberg and Pieters, 2007). When decisions are reversible, people anticipate less regret, though they may experience more regret because reversibility increases counterfactual thinking; similarly, avoiding feedback about unchosen options reduces regret (Zeelenberg and Pieters, 2007).

- Have you regretted a decision based on the decision-making process?
- Has making a "normal" decision ever felt easier to justify?
- Would transferring the responsibility for a decision make it easier to live with a bad outcome?

5.5 Managing Current Regret

When regret materializes with respect to a decision that has already been made, there may still be strategies to deal with it. Current regret may be reduced by undoing the decision, justifying the decision, or re-appraising the quality of alternatives (Zeelenberg and Pieters, 2007). People are more likely to undo decisions of action than inaction (Zeelenberg, van der Pligt, and Manstead, 1998). Of course, not all actions (or the effects of inactions) are reversible. When decisions are irreversible, justifying the decision, or, in the words of Pink (2022), taking an "at least" perspective on the decision, can reduce regret. An alternative counterfactual perspective that may minimize regret is the "even if" perspective, where the outcome is equally bad even if a different decision had been made (McCloy and Byrne, 2002).

- How could a regrettable decision have turned out worse?
- What positives came out of your regrettable decision?
- If you had made an alternative decision, would things really be better than they are?

5.6 Embracing Regret

Regret is not all bad. It turns out that the uncomfortable feeling of regret can improve future decisions, boost performance, and deepen meaning (Pink, 2022). Regret aversion has been shown to make decision makers take significantly longer to reach a decision and to collect significantly more information before making a choice (Reb, 2007). Upward counterfactuals (if only… would have been better) heighten the intention to perform success facilitating behaviors and engender greater improvement on a task (Roese, 1994). Through counterfactual reflection, the upsides to reality are identified, a belief in fate emerges, and ultimately more meaning is derived from important life events (Kray et al., 2010).

Based on this, the popular phrase "no regrets" may not be a sensible objective. Frequent episodes of regret in the absence of self-regulation are detrimental to well-being but regret itself can be a valuable emotion. In fact, people value their regrets substantially more than they do other negative emotions (Saffrey, Summerville, and Roese, 2008).

- Can you think of a time when a past regret was helpful to a future decision?
- Does reflecting on your regrets heighten the meaning of key life experiences?

6. A Model for a Good Life

Martin Seligman, who co-initiated the field of positive psychology, introduced the PERMA model of well-being (Seligman, 2011), a five-factor model of well-being. Emiliya Zhivotovskaya further developed the PERMA-V model to include vitality: eating well, moving regularly, and sleeping deeply.

The factors in the model do not have optimal allocations for any given individual. A good life for one person may be different from a good life for another but understanding the factors in the model can help people consider the most important non-financial elements involved in making financial decisions on a day-to-day basis. The six building blocks of human flourishing in PERMA are Positive Emotion, Engagement, Relationships, Meaning, Accomplishment, and Vitality.

6.1 Positive Emotion

Positive affective experience, also known as hedonia, or feeling good, is relatively easy to think about - you know it when you feel it. Gratitude (Emmons and Mishra, 2011), savoring small pleasures (Quoidbach, Dunn, Petrides, and Mikolajczak, 2010), mindfulness (Roche, Haar, and Luthans, 2014), self-efficacy – the feeling of control (Rodin, 1986; Glass, Reim, and Singer, 1971), and hope and optimism (Alarcon, Bowling, and Khazon, 2013; Carver and Scheier, 2009) are all sources of positive emotion.

Interestingly, Quoidbach, Dunn, Petrides, and Mikolajczak (2010) find that increasing wealth decreases the ability to savor small pleasures. While positive emotion is important, we are limited by how much of it we can experience. For example, eating a good meal leads to experienced happiness but trying to eat the same meal again as soon as you have finished dessert leads to disgust (Miller, 1997).

The hedonic treadmill (Campbell and Brickman, 1971) refers to our insatiable desire to attain the next source of positive emotion in search of happiness. Things like a bigger house, nicer car, or higher paying job are all subject to adaptation. While we may get a short burst of positive emotion from obtaining these things, we quickly adapt to them and begin to search for the next thing. In making a financial decision it is important to ask how the decision is expected to impact positive emotion in the long- and short-term, and whether that expectation is worth the monetary cost.

Questions to reflect on positive emotions:

- What are you grateful for?
- What small pleasures would you never want to give up?
- What are you optimistic about?
- How do you practice mindfulness?
- Do you feel you have influence over your life's outcomes?
- What positive experiences can you buy?

6.2 Engagement

Flow is the state of total involvement in an activity that requires complete concentration; an experience so engrossing and enjoyable that time is forgotten and people will do it for its own sake even though it may have no consequence outside the activity itself (Csikszentmihalyi, 1999). In states of flow, people know what they have to do moment by moment, they get immediate feedback on what they are doing, and the activity is appropriately matched to their abilities. When a challenging task is in balance with skills, they become lost in the activity and enter a state of flow (Csikszentmihalyi, 1975, 1997). There are many activities that can result in states of flow; a few examples are work, sports, arts, reading, and creative projects.

Engagement has an interesting relationship with financial decision-making. The nature of flow requires skill at completing some challenging task. Skills often have some economic value. The ability to earn even a little bit of income can have drastic impacts on financial planning. Interestingly, eliminating work, which is often the primary target of financial planning, may deserve more careful thought. Haidt (2006) argues that "love and work are crucial for human happiness because, when done well, they draw us out of ourselves and into connection with people and projects beyond ourselves." Planning to work longer at a more enjoyable job can have a big impact on things like the amount of saving and risk-taking required to fund financial independence.

Questions to reflect on engagement:

- What are you good at?
- What does the world need?
- What can you get paid for?
- What do you love doing?
- What is the intersection of the previous four questions? This is your Ikigai.
- What activities make you lose track of time?

6.3 Relationships

Humans have evolved as social beings. Historically our survival has hinged on our ability to connect with and serve other people, and it is one of the reasons for our species' success (Harari, 2015). There is evidence suggesting that these evolutionary traits continue to play a role in our well-being. People with strong ties to friends and family and a commitment to spending time with them have the highest levels of well-being (Diener and Seligman, 2002).

An impact on financial decisions could be funding time to spend on relationships rather than material purchases.

Questions to reflect on relationships:

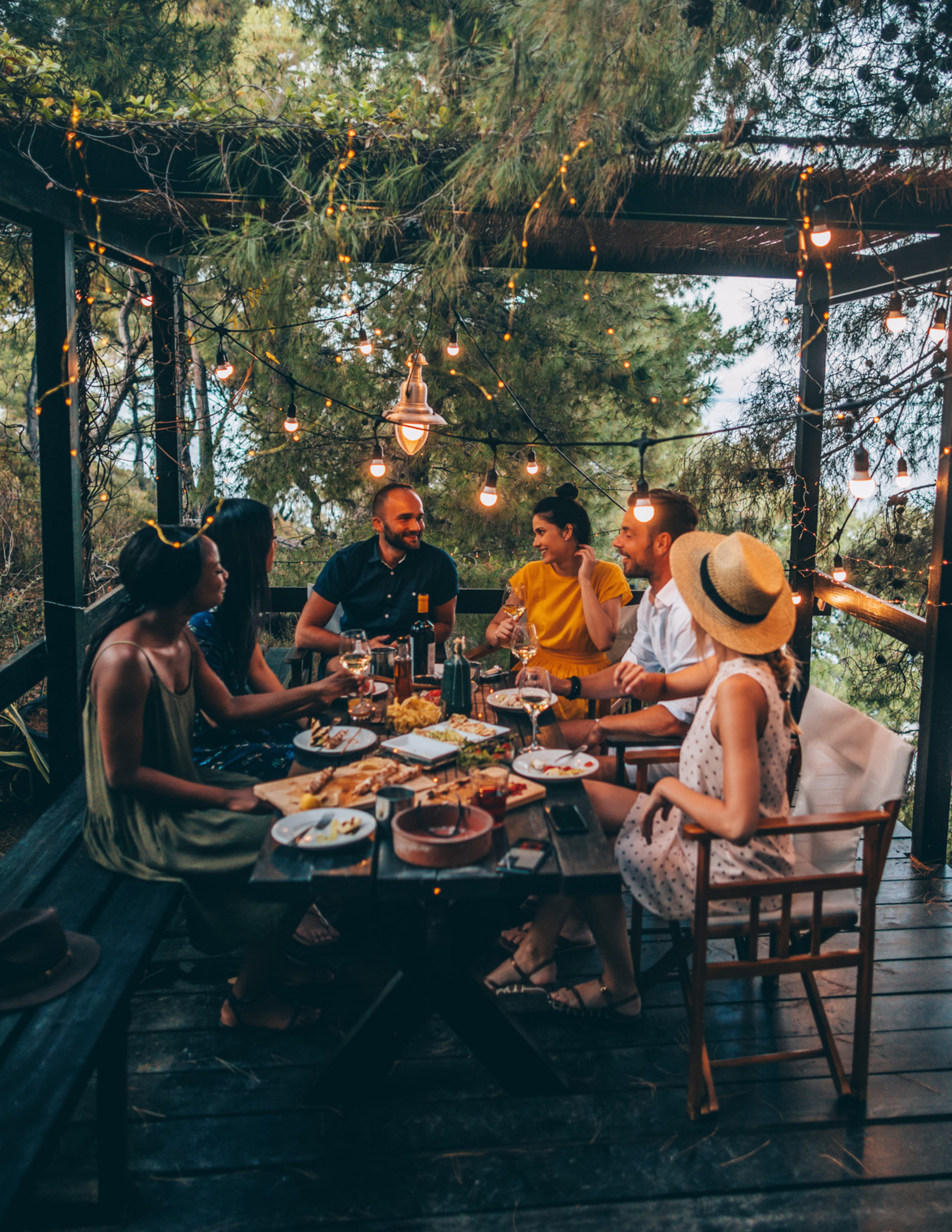
- Who do you wish you could spend more time with? What is stopping you from seeing these people more often?
- How many people in your life could you call at 2am to talk through a problem?
- What was the last act of kindness that you did for another person?

6.4 Meaning

People want meaning and purpose in their lives (Frankl, 2004). A meaningful life consists of belonging to and serving something bigger than the self (Seligman, 2012). Being involved with community, family, work, religion, and social causes are some examples of activities that allow meaning. These do not need to be grand gestures. Victor Frankl, a Holocaust survivor and psychologist, found meaning in sharing his small portion of food with others while living in Auschwitz (Frankl, 2004).

Questions to reflect on meaning:

- What contribution are you making to the world?
- How do you stay connected with your family?
- What do you do to contribute positively to those around you?
- How are you involved in your community?
- What social causes are important to you?



6.5 Accomplishment

People pursue accomplishment for its own sake (White, 1959). Achievement, competence, success, and mastery are relentlessly pursued by many humans even when they do not lead to positive emotion, meaning, or relationships. Mountaineering is a good (extreme) example: it is miserable and dangerous, but offers an outlet to set and achieve goals and pursue mastery, both of which seem to be innately important to people (Lowenstein, 1999). Accomplishment can occur at work, in sport, or in a hobby, among other places.

Questions to reflect on accomplishment:

- What are you trying to get better at?
- What do you want to accomplish in the next month? Next year?
- What achievements have you accomplished recently? How did it feel?
- Do you take time to reflect on your accomplishments?

6.6 Vitality

Noticeably absent from the PERMA model is anything related to physical health, but there is strong evidence that physical and mental health are closely related. Poor nutrition may be a causal factor in the experience of low mood (Firth, Gangwisch, Borsini, Wootton, and Mayer, 2020) and gut bacteria are related to anxiety and depression (Foster and Neufeld, 2013); some evidence suggests high consumption of red and/or processed meat, refined grains, sweets, high-fat dairy products, butter, potatoes and high-fat gravy, and low intakes of fruits and vegetables is associated with an increased risk of depression (Li et al., 2017). Exercise reduces anxiety, depression, and negative mood by improving self esteem and cognitive function. It also improves sleep, increases energy, and reduces stress, among other benefits (Sharma, Madaan, and Petty, 2006). Sleeping less than 7 hours per night is associated with weight gain, diabetes, hypertension, heart disease and stroke, depression, increased risk of death, impaired immune function, increased pain, impaired performance, increased errors, and greater risk of accidents (Watson et al., 2015). Some estimates show substantial economic costs due to lost productivity related to poor sleep (Kessler et al., 2011). It is likely that each of these elements of vitality – diet, exercise, and sleep – the "holy trinity" of healthy living, lead to improved mental and physical performance (Wells, 2017). Diet, exercise, and sleep are all related to money. Good food, gym memberships, personal trainers, and home gym equipment are often expensive. Beyond the supplies needed, finding (or funding) the time needed to eat well, exercise, and sleep at least 7 hours a night will often require trade-offs.

Questions to reflect on vitality:

- Do you eat a healthy diet? If not, how could you improve it?
- Do you exercise for at least 30 minutes at least 3 days a week? If not, what's stopping you?
- Do you sleep at least 7 hours each night?
- Between the PERMA-V model (what to do) and the common regrets that people have (what not do) there is tremendous overlap. A good life is highly subjective, but understanding.

7. Setting Goals

So far, we have seen many ingredients of a good life. Moving toward a good life generally requires setting goals. For many years, goals-based financial planning has been the backbone of the financial services industry. A financial planner will often start client interactions by asking "what are your goals?" and then building a financial plan to achieve those goals. The FP Canada Standards Council™ explains: "An effective financial planning recommendation, properly implemented, will help the client meet their financial goals and needs while helping to optimize their financial position." Big financial goals typically anchor the financial planning process: retiring at 55 with $8,000 per month of income, affording a larger home, saving for a child's university education, or buying a boat are some examples. Defining and prioritizing goals in the financial planning process is objectively valuable – using a goals-based framework to determine which goals to fund and how to fund them can lead to a substantial increase in utility-adjusted wealth (Blanchett, 2015). Optimizing based on a set of known goals is a math problem, but setting the goals is much more challenging.

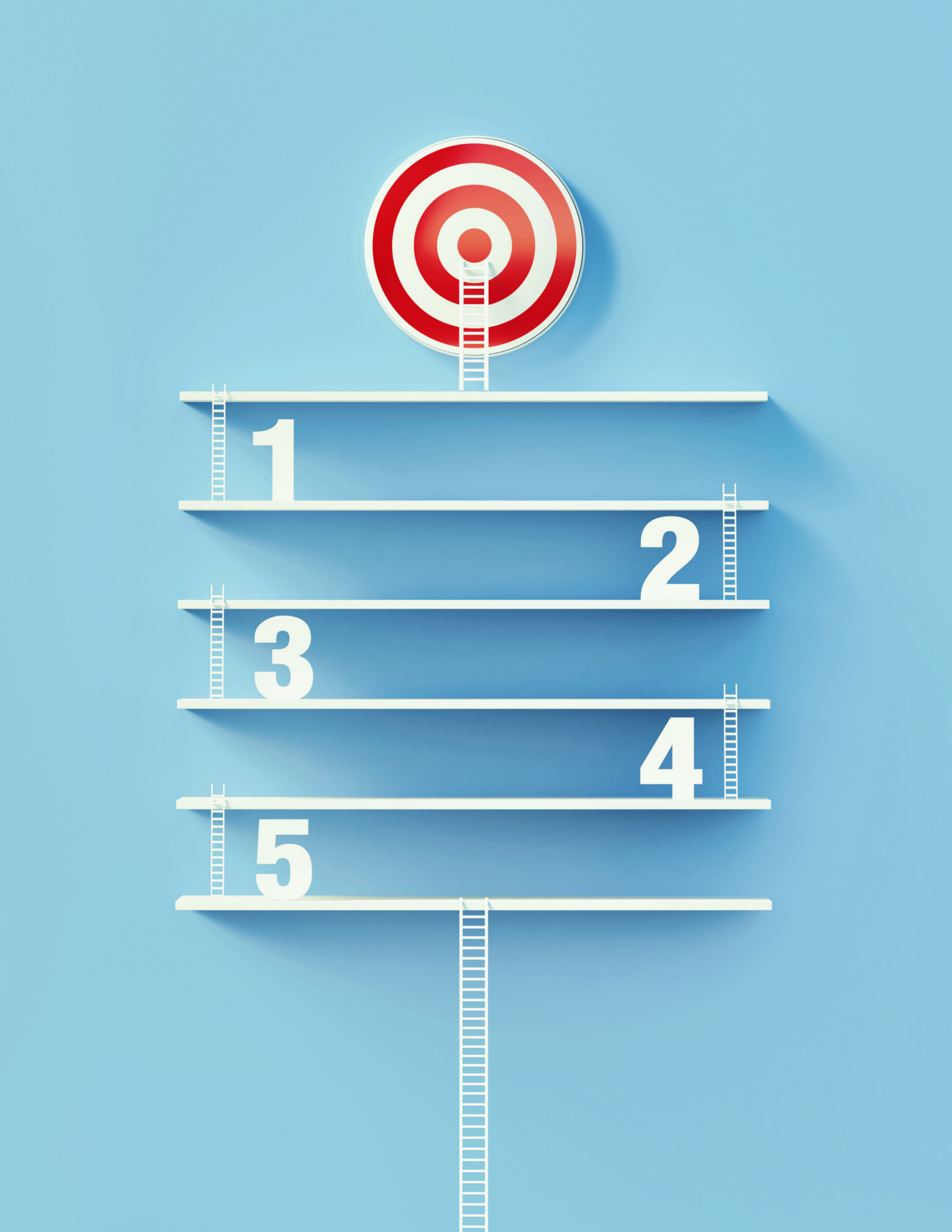
Not only are people deficient at knowing what will make them happy in the future, as described in the previous sections of this paper, they are also deficient in generating the possible set of objectives for the decisions that they make; in studies examining the ability of decision makers to generate self-relevant objectives for consequential decisions participants consistently omitted nearly half of the objectives that they later identified as personally relevant, and, once identified, the previously omitted objectives were perceived to be nearly as important as the ones initially identified (Bond, Carlson, and Keeney, 2008). This shortcoming in identifying objectives seems to stem from not thinking broadly enough about the range of relevant objectives, and not thinking deeply enough to articulate every objective within the range that is considered (Bond, Carlson, and Keeney, 2010). It should be clear that starting with the question "what are your goals?" without scrutinizing the goals themselves may lead to a financial plan that is at odds with living a good life.

7.1 Generating Objectives

Setting financial goals is effectively the process of defining a good life for yourself. As we have seen, many people will struggle to identify their personal objectives on the first try. Following the prescriptive implications of the empirical and theoretical work of Bond, Carlson, and Keeney (2010), a good first step is generating a list of objectives without outside help. Knowing that this initial list will be deficient, the next step is to revisit the task of identifying objectives with a stated challenge of approximately doubling the number of objectives initially identified. Empirically, this second challenge task leads to better estimates than a single request. The other finding from Bond, Carlson, and Keeney (2010) is that a categorical format can be useful in eliciting additional objectives. For example, we may use the PERMA-V model to inform potential categories for the objectives. If there is a master list of objectives available, it should be consulted after the individual has deliberated about their own objectives using the challenge and category tools (Bond, Carlson, and Keeney, 2010).

Questions to reflect on generating objectives:

- What are your goals?
- Can you double the size of your initial list?
- Does using categories like those in Section 6 (positive emotion, engagement, relationships, meaning, achievement, vitaility) help you think of any more goals?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7.2 Effective Goals

Given the long-term nature of financial decisions – moving economic value through time – financial goals are an important part of the decision-making process. Effective goals are statements of a desirable state, not the means to get there, and they are abstract; defined this way, goals are powerful motivational tools that pull you in the direction that you want to go (Fishbach, 2022). Defining a goal in terms of its desired state, like having more time for leisure activities, instead of its explicit costs, like spending money on a house cleaner, increases the motivation to achieve the goal; framing the desired future state as a goal rather than a means has a powerful effect on motivation (Shaddy and Fishbach, 2018). Abstract goals put the focus on the meaning of your actions, making the actions themselves seem less like a chore. Thinking about goals in the abstract makes people more likely to exercise self-control in their actions toward a goal (Fujita and Carnevale, 2012). However, there is a fine line where goals may become too abstract if they cannot be linked to a specific set of actions; if there is no clear path to achieving the goal people revert to fantasizing instead of taking action, and fantasizing about a goal seems to be negatively related to goal attainment (Oettingen and Wadden, 1991).

Another consideration in effective goal setting is whether to use "approach" goals or "avoidance" goals. Approach goals are things that you want while avoidance goals things that you do not want. Choosing between the two comes down to the nature of the goal and the nature of the person. Avoidance goals are most useful in preventing harm and escaping danger, while approach goals are better suited for achieving a positive desired future state; avoidance goals are more urgent and less pleasant and approach goals are easier to stick with since they are pleasant (Fishbach, 2022). Some people have a strong Behavioral Approach System while others have a strong Behavioral Inhibition System. Those with a strong Behavioral Approach System will do better with approach goals while those with a strong Behavioral Inhibition System will do better with avoidance goals. To assess your predisposition, Fishbach (2022) suggests reflecting on the following statements:

1. When I want something, I usually go all out to get it
2. When I see an opportunity for something I like, I get excited right away
3. I worry about making mistakes
4. Criticism or scolding hurts me quite a bit

If you agree with statements 1 and 2, you are expected to do better with approach goals. If you agree with statements 3 and 4 you are expected to do better with avoidance goals. Avoidance goals might work well to stop an unwanted behavior, like shopping online or spending leisure time scrolling Instagram. Approach goals will tend to be the better choice for defining a good life. In general, under most circumstances, approach goals are more motivating than avoidance goals (Fishbach, 2022).

Questions to reflect on effective goals:

- Are your goals abstract, defined as what you want to achieve rather than the means it will take to get there?
- Does it make more sense for you, or your situation, to set approach goals or avoidance goals?

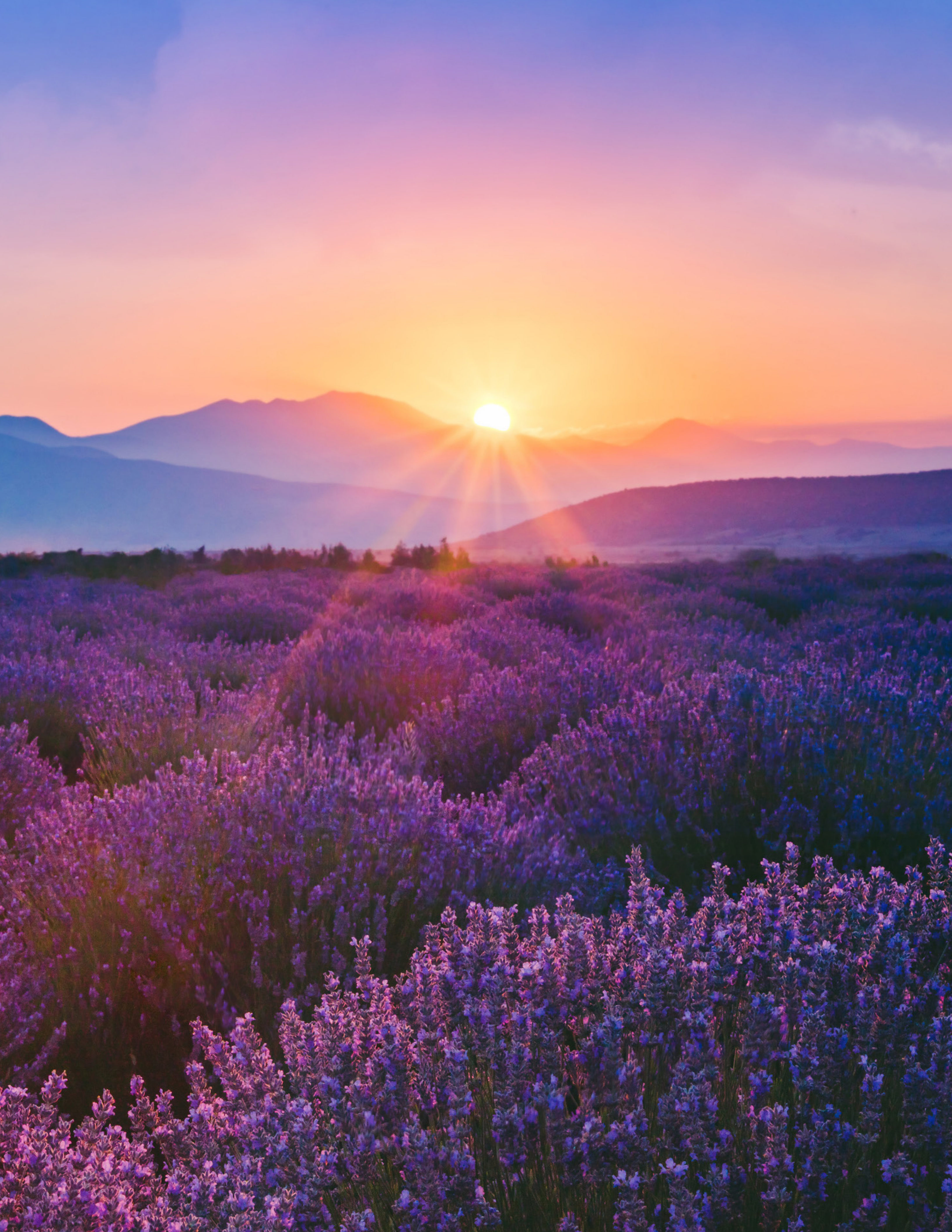
7.3 Pursuing Goals

Setting goals takes work, but the real work is in achieving them. To turn a goal into action it is important to create challenging, measurable, actionable, and self-set targets (Fishbach, 2022). Challenging, or optimistic, targets with minor consequences for failure increase motivation and execution toward completing the desired actions (Zhang and Fishbach, 2010). Measurable targets are necessary as a feedback loop to monitor progress. Actionable targets are practically useful in day-to-day life; a measurable target that is hard to measure is not useful. For example, exercising for 30 minutes each day is more actionable than burning 500 calories. Self-set targets maintain your sense of freedom – when people are told what to do they are more likely to rebel against the instruction to regain their sense of freedom (Brehm, 1966). In a financial planning context, a planner may tell a client what they need to do to accomplish their goals. An alternative approach would be to have the client partake in the analysis that arrives at the required action; having the client figure out how much they can save or spend to satisfy a goal, and potentially modifying the goal to suit, would be more effective than prescribing the amount required to satisfy the goal as originally stated.

Meeting targets should not feel like a chore. Intrinsic motivation to pursue the means toward a goal is one of the best predictors of adherence (Fishbach and Woolley, 2016). The implication for goal setting is important: if you do not enjoy the means, or the means does not feel like it is accomplishing the goal, it will be more challenging to stick with it. In long-term financial planning, the goal is often far in the future and the means (saving, for example) is not always enjoyable, making the motivation to save extrinsic. Activities can feel more intrinsically motivated when they achieve mini-goals, or when the activity is fun (Fishbach, 2022). In pursuing goals it is important to remember that we get pleasure from making progress toward a goal (pre-goal attainment positive affect), and from achieving the goal (post-goal attainment positive affect), but while progress toward the goal offers continued pleasure along the way, post-goal pleasure is short-lived (Davidson, 1998). In other words, when it comes to pursuing goals, it is more about the journey than the destination, and, as we have seen, making the journey enjoyable increases adherence.

Questions to reflect on pursuing goals:

- Do you have measurable, self-set targets for your goals?
- Do you enjoy the means to achieving your goals? If not, can you create mini goals to make them more enjoyable?



7.4 Organizing Goals with a Goals System

Goals will almost certainly pull in different directions. A good life has a lot of ingredients, but too much of any of them will be to the detriment of the others. Balancing the means to achieving multiple goals is a complex task that requires deliberate planning. In motivation science, this is achieved with a "goal system" (Fishbach, 2022). In a goal system there are top level abstract goals served by sub-goals (means). Some means are "multifinal" meaning that they serve more than one goal, some are "equifinal" meaning that they are one of multiple means that serve the same goal, and some are "unifinal" meaning that they serve only a single goal. A multifinal means might be walking to work with a friend, serving the goals of saving money on parking, getting exercise, and socializing. Equifinal means are multiple means to achieve the same goal – walking to work, hiking, and swimming all serve the goal to exercise. A unifinal means might be saving for retirement, serving the goal of financial independence but nothing else. Multifinal means are efficient, but from the perspective of motivation they can weaken the mental link between the top-level abstract goal and its means (Fishbach, 2022).

A goals system makes the relationship between means and goals easier to understand, but it does not determine how to deal with conflicting goals. Intuitively, resolving goal conflicts can be accomplished by prioritizing some goals over others or by compromising between multiple goals. When you view a goal as central to your identity (Shaddy, Fishbach, and Simonson, 2021) or see it as a moral or ethical issue (Tetlock et al., 2000), it makes sense to prioritize; prioritization can also make sense when the marginal benefit of the action does not diminish. For example, the marginal benefit of exercising after you have already completed the day's exercise is low, while the marginal benefit of finishing an assignment that is due tomorrow is high. When goals have decreasing marginal benefits, it makes more sense to compromise.

Questions to reflect on creating a goals system:

- Can you draw your goals system?
- How many of your goals have equifinal means?
- Are any of your goals in conflict with each other? How will you resolve the conflict?

8. Conclusion: Toward a Good Life

People are responsible for making financial decisions – which typically involve time and money – multiple times each day. This is not an easy task since we are wired to make quick decisions that result in short-term pleasure and improve our status relative to those around us. Even the noble objective of setting long-term financial goals is easily sabotaged by our inability to identify a complete set of personally important objectives, and our weak ability to know what will make us happy in the future. Stepping back to reflect on how our decisions will affect life satisfaction and happiness requires more effortful thought, a model to understand what a good life looks like, and a plan to achieve it. Building a goals system can be helpful in overcoming these obstacles. A goals system contains top level abstract goals, potentially informed by the five-factor model for financial goals, and the means to achieve them. The first step in funding a good life is finding a good life. Hopefully this paper is a starting point.

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