Unlocking Life Well-Being:
Insights from the Third Generation of Behavioral Finance

Many years ago, a financial adviser told me about a couple, prospective clients, who said, "Before you start planning for us, you should know that we have a disabled son. We need to plan for him first so he is supported even when we're gone."

I often note that the biggest risks in life are not in the stock market. If you want real risk, I say, get married. And if you want more risk, have children. People laugh because the point is obvious. Yet that point is regularly lost when we speak about financial well-being, neglecting life well-being.

I was motivated to write my book, *A Wealth of Well-Being*, by reflecting on my own financial and life well-being and those of others. We need financial well-being to enjoy life well-being, but it is life well-being that we seek.[1]

Financial well-being comes when we can meet current and future financial obligations, absorb financial setbacks and keep driving toward financial goals, such as adequate retirement income. Life well-being comes when we live satisfying lives full of meaning and purpose.

Good financial advisers are well-being advisers, crossing the boundary from financial to life well-being. Indeed, financial advisers must evolve into well-being advisers to compete for clients because many of the traditional services of financial advisers have become generic.

Financial advisers provide input on portfolio asset allocation, but so do robo-advisers at a low cost. Financial advisers rebalance portfolios, but so do robo-advisers at a low cost. However, robo-advisors cannot be well-being advisors because they lack the ability to form emotional connections with their clients. These connections are central to the role of well-being advisors and their impact on their clients.

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His research focuses on behavioral finance. He attempts to understand how investors and managers make financial decisions and how these decisions are reflected in financial markets.

His latest book, "A Wealth of Well-Being: A Holistic Approach to Behavioral Finance," was published by Wiley in April 2024.

The Vital Role of Finances in Life Well-Being

We need financial well-being to enjoy life well-being, yet ordinary people and scholars often overlook or downgrade the domain of finances. "To me, well-being means balance between work, friends/family, my relationships, and my health," said Jean, a 31-year-old American woman. "Each of these things definitely factors in, with maybe my relationships being the most important part."[2]

Jean did not mention finances among the domains underlying her life well-being. And even when mentioned, that domain does not rank high. One survey found that the domain of finances ranks no higher than the domains of family, work and health. Another found that it mattered little, much less than the domains of family, friends and health. Still, another found that it ranks last.[3] Yet another survey revealed that 55 percent of Americans rank finances as the major source of stress in life, followed at some distance by stress over work, health, family and social life.[4]

The domain of finances has a special place among the domains of life well-being because it is important on its own and underlies all other domains. We need finances to support ourselves and our families, paying for food and shelter. We need finances to maintain our health and that of our families, paying for the services of physicians and hospitals. We need finances to pay for an education that would qualify us for well-paying and satisfying jobs, careers and vocations. We even need finances to experience and express our religion.

Doug Lynam used to be a monk. Now, he is a financial adviser. "For too long," he wrote, "religion and money have been held separate as if the very existence of one sully the other. But the cold, hard truth of modern life is that we need money … even monks. I discovered this fact the hard way when our community went bankrupt."[5]

Ample Finances and Well-Being: Exploring Utilitarian, Expressive and Emotional Benefits

Ample finances enhance well-being through utilitarian, expressive and emotional benefits. Utilitarian benefits answer the question: What does something do for me and my pocketbook? Expressive benefits answer the question: What does something say about me to others and myself? Emotional benefits answer the question: How does something make me feel?

The three kinds of benefits are evident in the words of Divya, a 33-year-old American woman. "My financial status enabled us to purchase this home that is well out of reach for many individuals in my age group and place in life. I felt proud that my family could make the decision to purchase this type of home. …"[6]

This home provides Divya utilitarian benefits as shelter, expressive benefits as an emblem of high social status, "well out of reach for many individuals in my age group and place in life," and emotional benefits as pride "that my family could make the decision to purchase this type of home. …" Moreover, financial capital underlies all these benefits. Divya said, "My financial status enabled us to purchase this home. …"

The wealthy, owners of extravagant financial capital, enjoy utilitarian benefits unavailable to owners of mere ample financial capital. Documentary filmmaker Abigail Disney, an heiress to the Disney fortune, acknowledged these benefits. "If you move up from coach to business to first class, you won't want to go back to coach. And once you've flown private, wild horses will never drag you through a public airport terminal again."[7]

The wealthy also enjoy expressive and emotional benefits beyond those available to owners of mere ample financial capital. Disney continued: "I've never been much of a materialist, but I have wallowed in the less concrete privileges that come with a trust fund, such as time, control, security, attention, power and choice. The fact is, this is pretty standard software that comes with the hardware of a human body."

Well-being is enhanced when the three kinds of benefits are in balance. "Regarding the need for wealth, it is definitely better to accumulate as much as possible," said Qiang, a 40-year-old Chinese man. "However, the need for wealth should not become a form of burden. It is something that cannot be overly pursued or ignored."

And Michael, a 71-year-old American man, said, "I've seen people pursue [wealth] as a goal and screw themselves," "You can't exist without money, but achieving wealth was never a goal. Living a good life and being happy was more important."[8]

Putting Life Well-Being at the Forefront: The Third Generation of Behavioral Finance

Life well-being is at the center of the third generation of behavioral finance, a generation preceded by standard finance and the first and second generations of behavioral finance.

In standard finance, people are portrayed as computer-like "rational," seemingly immune to cognitive errors such as overconfidence and emotional errors like excessive fear. Rational people aim to increase their wealth and its utilitarian benefits, mostly consumption, and they can strike it perfectly.

The first generation of behavioral finance described people as bumbling "irrational," aiming to increase their wealth, as in standard finance. However, they were hampered from striking it perfectly by cognitive and emotional errors.

In the second generation of behavioral finance, people are described as "normal," people like you and me, neither rational nor irrational. Normal people aim for expressive and emotional benefits in addition to utilitarian ones and are sometimes willing to sacrifice some wealth and its utilitarian benefits for them.

The third generation of behavioral finance also describes people as "normal" but explicitly describes life well-being as people's overall want. This new generation takes a broader perspective, viewing individuals as complete beings. It not only examines their finances and long-term goals but also considers their roles and experiences in various areas of life, including family, friendships, health, work, education, religion and society.

Endnotes

[1] Meir Statman, *A Wealth of Well-Being: A Holistic Approach to Behavioral Finance* (New York: Wiley, 2024).

[2] Ibid.

[3] Richard A. Easterlin and Onnicha Sawangfa, "Happiness and Domain Satisfaction: New Directions for the Economics of Happiness," in *Happiness, Economics and Politics*, eds. Amitava Krishna Dutt and Benjamin Radcliff (Northampton: Edward Elgar Publishing, 2009), 70-94.

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Arie Kapteyn, James P. Smith, and Arthur Van Soest, "Are Americans Really Less Happy with Their Incomes?" *Review of Income and Wealth* 59, no. 1 (March 2013): 44-65.

[4] Meir Statman, *A Wealth of Well-Being*.

[5] Ibid.

[6] Ibid.

[7] Ibid.

[8] Ibid.