RULE 5

KNOW YOURSELF AND YOUR DEEPEST MONEY ISSUES

Carl* sold his business for $100 million.

He's seventy-ish and he's financially sophisticated. But even though he is savvy enough to know better, he won't organize his affairs smartly from an estate and tax perspective. Politically, he's the type who under normal circumstances would rail at the very idea that the US federal government could grab 40 percent of his hard-earned wealth in estate taxes after he dies. But that is exactly what is going to happen if he doesn't act soon.

His health has started to deteriorate.

We're not entirely sure what's going on here. His second wife died, as his first wife had done some years earlier, so it could be he's stricken by a profound and immobilizing sadness. Or he's been swallowed by the quite common issue of refusing to face his own mortality. Or both issues are hitting him at once.

* Names and some personal details have been changed to protect identities.

For whatever reason, we cannot get him to manage his financial affairs in a prudent manner, even though, every now and then, we gently remind him to do so.

Carl can't take the next logical step in his wealth journey because he won't face his internal block. Whatever is happening inside him is so powerful, not even his normal self-interest is engaged, and he simply refuses to deal with whatever deep issue is seizing him up.

We are at an impasse. We can't help him because he can't help himself.

He smokes his cigarettes, drinks his wine, and looks out the window.

Both strategic asset allocation and the UBS Wealth Way, which we will discuss in the next chapter, are wealth-management techniques. But they depend on the investor doing their part, which is learning what makes them tick, understanding what triggers their fears, and practicing strategies to counteract such destructive forces.

As Carl's story makes clear, even the most effective portfolio-management systems only work for people willing to overcome their own internal obstacles interfering with their wealth management. This is not just a truth that the wealthy like Carl need to hear; it's equally true for a twenty-five-year-old in his or her first job, as it is for everyone else, no matter where they are in their wealth journeys.

Every time mortals like us buy or sell an investment, house, car, or just about anything else, our hopes, fears, values, emotions, and history are powerful forces driving events just below the surface of our decisions. Knowing yourself and mastering your inner money issues, especially when relatively young, is the single biggest way you can massively increase your investment returns. It is also extremely difficult. This is probably the most challenging and painful lesson to digest of all the professional wealth-management tips I am imparting in this book. The problem isn't understanding the concept of, say, buying a stock low

and selling it high; the problem is in getting yourself to do it. Maybe you breezed through the last chapter, because you know all about asset allocation. But when is the last time you systematically rebalanced your portfolio according to plan?

Let's start with your gifts as an investor.

As I have said, a primary reason none of us will ever become Warren Buffett is because we harbor money-related emotions that unconsciously rule our investment decisions. Warren Buffett's folksy charm, humility, generosity, and wisdom make him sound like he's just like the rest of us, but trust me, he knows what separates him from the rest of us mortals.

One of the differentiators is his ability to control his emotions. Warren Buffett and his mentor Benjamin Graham were always crystal clear on this subject and what it takes to become a world-class investor. It is never about "beating others at their game," they warned, but about "controlling yourself at your own game."[1]

In fact, in the nearly thirty years since I began my career in the hedge-fund world, I have spent enough time with the investment greats to know that books about Warren Buffett and Peter Lynch and other amazing stock pickers are *dangerous* to your financial health. They give you a false sense of security and glamorize investing. True, picking stocks is arguably one of the most interesting, challenging, and highest-margin big businesses in the world. For those very same reasons, however, the financial industry hoovers up many of the greatest minds, machines, and support teams and then hones their skills with a Darwinian efficiency.

Every time you make a trade, you need to have a healthy fear that the smartest stock picker in the world—backed by a tailored AI model, an army of high-quality researchers, and a bank of ultrafast computers—is sitting on the other side of that trade, staring back at you.

But go ahead—you're feeling lucky and have read a few books.

The best investors, your market counterparts, are special people who

have either an almost inhuman disconnect from their emotions or an almost inhuman level of discipline to get themselves into a zone where they can drive emotion out and away from their trades. In most cases they have some of both.

If you want to entirely beat those emotions away, rather than learn to work with and around your emotions, be careful what you wish for. It's a slippery slope from emotionless investing to anhedonia—an inability to experience any form of joy—to outright depression. I have seen this progression unfold many times in hard-driven investors.

I am not diagnosing Warren Buffett, but if the Buffett biography *The Snowball* is to be believed, the abilities that allow him to invest with such skill also cost Mr. Buffett a marriage he greatly valued.[2] What separates the Warren Buffetts of the world from the rest of us is not just emotionless investment decisions. It's the seemingly effortless ability to focus for hours, even days, on a problem with near photographic recall of all aspects of the issue.

I first saw this at work while at Harvard, where I watched dumbstruck as students calmly sat in the dorm lounge and played chess—in their heads. They didn't need a board because they saw the whole game playing out in their minds. Whatever their prodigious innate talents are, the real investment legends then up the ante further by practicing an almost religious discipline to get even better at what they do. Those are the type of financial professionals you are trading against when you buy or sell a security.

This was vividly brought home to me twenty years ago, when I was invited to a private lunch for hedge-fund titans at the University of Virginia, an event hosted by Blue Ridge Capital's founder, John Griffin.[3] It was a beautiful spring day in Charlottesville, the magnolias were bursting everywhere, and out on the grassy lawn, we sat at a round table surrounded by folding chairs under a small white catering tent.

John's circle of friends gathered that day included the hedge-fund heavyweights Julian Robertson, who famously seeded that generation of brilliant traders called "Tiger Cubs";[4] Daniel Kahneman, the Nobel Prize–winning economist[5] and author of the must-read *Thinking, Fast and Slow*;[6] and Paul Tudor Jones,[7] to my mind one of greatest traders in the world.

Paul first became famous by calling the 1987 stock market crash, which he warned, a year before it hit, would look like an "Acapulco cliff dive."[8]

That day in Charlottesville, Paul told us that he trades only at certain times of day.

For more than a quarter of a century, Paul reportedly paid the life coach Tony Robbins $1 million a year to act as a kind of therapist, trainer, and advisor.[9] Paul told me that the most important thing he did over the years was relentlessly track everything in and around that peak state of mind where he made his best trades. What time he made the good trade; what he ate and drank that day—everything. He studied equally hard the times he made bad investment decisions. Paul said he rarely traded during market hours anymore, because the stats showed his best trades were made when the markets were closed—and he was relaxed.

This disclosure was a preface to him asking Professor Kahneman if there were any successful studies of what can predict who will be a good trader and whether someone could be trained to be a good trader. Paul said (and this was twenty years ago) he had already spent millions of dollars collecting and studying trade statistics to answer these questions and had seemingly given up.

There was still something special that certain people had, which you could not reverse engineer from the data. Daniel Kahneman, not a dumb guy, amusingly spent the rest of the lunch pitching to get access to the data and pick up Paul's research project. That sure was fun to watch. As far as I know, that research, if it ever happened and led to conclusions, has never been published.

But talking to Professor Kahneman got me interested in **behavioral finance** and the need for people to get in touch with their more primal selves, the base impulses sometimes called our *inner caveman*, to become better investors. This is something that has become terribly important to the work we now do with UBS clients.

The kicker to this unforgettable lunch was an observation by Julian Robertson. He mostly sat and listened with his affable smile, but at one point he drawled, "Well, the most important investment decision I ever

made was who I chose to marry." (Picking the right spouse is another subject close to my heart.)

Here's the point of recalling this event: if Paul Tudor Jones thinks it matters whether or not he has a glass of orange juice before he trades, this stuff matters. While Warren Buffett can make smart investment decisions after chowing down McDonald's meals and five cans of Coke,[10] even Paul Tudor Jones didn't trust himself to follow suit but went out of his way to watch what he ate and always made sure he was in a calm mental state before making important investment decisions.[11] To hear him talk with humility and honesty about the process he goes through to make good investment decisions was sobering, liberating, and inspirational.

It was sobering because I suddenly knew that even one of the greatest traders of all time needed to work hard to create a short period in the day during which he trusts himself enough to make good investment decisions. To get there, he had to start with basics, such as what he drank that morning or how he slept the night before. Nothing was too small to look at, and it was all based on his deep desire to know himself better and lift his game.

The conversation was liberating because it meant that I, too, could admit to myself I was a human being with flaws, and part of becoming a successful investor was understanding and working around the quirky features of my personality, not ignoring or wishing them away.

Finally, what he said was an inspiration because it meant that I didn't have to be a one-in-a-million natural talent like Buffett, Lynch, or Tudor Jones to improve my investment decisions. I just had to keep working to improve my investment *process*, ideally reaching a similar place where I was able to make disciplined investment decisions not swayed by the yo-yo of everyday emotions. Physical fitness became my route and the key to my mental discipline, but Paul's words that day ultimately sent me in two productive directions at once.

Like Paul, I realized I had to find an investment strategy that wasn't trying to emulate Warren Buffett, but that worked well with who I was as an imperfect human being. This was how and why I eventually settled on asset allocation as my investment method. But the other direction Paul propelled

me was toward a deeper understanding of all the neurotic impulses I had tied up in my financial decisions. I wanted to better master my emotions in my personal and professional life, which is precisely the subject of this chapter.

I won't pretend what follows wasn't painful to write. But I need to work every day to keep this stuff out of the room when I make investment decisions, so it also feels good to drag it all into the open and publicly acknowledge my squirrely money issues. To encourage you to bring your own personal money quirks into the light, so you can see them clearly and deal with them honestly, I am going to share with you some of my personal issues around money and wealth.

THE ANGST IS PLANTED

"Mark, get out of the car and behold the downfall of America."

That's what Dad yelled at me as he banged on the back-seat window of our 1972 Chevrolet Kingswood Estate Wagon.

It was 1978 and I was seven years old. We were on a family outing and had stopped for gas. Outside the car, Dad was frantically beckoning me to come take a look. I reluctantly opened the back door and crept out.

I looked back and saw that my embarrassed mom was sliding ever lower in the front seat. Mom was a big believer in middle-class decorum and proper comportment, so my dad's public theatrics that day were her idea of hell. My four-year-old sister was, in contrast, blissfully ignorant and playing with her Raggedy Ann doll.

Dad was still cursing and pointing at the "grim reaper" bringing civilization to its knees.

I looked in the direction of his finger and discovered the pale rider who had come for the American dream was . . . the gas pump.

There were two major energy crises in the 1970s. In 1973 the Organization of Arab Petroleum Exporting Countries imposed an oil embargo on the US, after it resupplied the Israeli military during the Yom-Kippur War; and then again in 1979, when the shah of Iran was overthrown

during the Iranian Revolution and that nation's oil and gas industry was shattered in the process, squeezing global supplies.[12]

Those faraway geopolitical battles between governments and the energy markets were being felt in real time in our cloistered suburban-American world. On that day, the gas price stood at sixty-four cents a gallon, and our family station wagon could manage ten miles a gallon at best.[13] As gas prices steadily rose through the 1970s, you could hear my dad grumbling, but sixty-four cents a gallon was his line in the sand.

I think that day, Dad finally realized higher gas prices were not a temporary crisis but a permanent fixture in our economic life going forward, and gas prices did in fact continue to rise for the rest of the decade. Forty years later, when I thought about describing what inflation feels like to colleagues who hadn't ever lived through it, this memory came back at me like it was yesterday. It was so vivid that I realized there was a lot more going on for me personally that strange day in 1978.

The most important thing that transpired in that bizarre father-son moment was in fact happening at a micro level and invisible to others. That day my father's public outrage and my mom's private cringefest somehow fused inside of me. Dad was conveying to me all his anxieties around money: his angst about its scarcity and that he didn't make enough; about the World Order that seemed to be hurtling itself self-destructively toward the rocks; that the repeated energy crises of the 1970s meant oil was running out and there weren't enough natural resources on earth to satisfy humanity's appetites.

There just wasn't enough of anything we needed.

Scarcity ruled my world.

In short, I had picked up my "inheritance" from my father, the whole white-knuckle gamut of financial anxieties that he successfully passed on and that I have spent a lifetime dealing with ever since, in all their emotional complexity.

When we got back in the car and started to drive away, my mother was still cringing; my dad was still raging about the things he couldn't understand or control; and my sister, cuddling her doll, was still playing happily, as I had been a few minutes before.

But I was sad, unsettled.

It may have led me to overcompensate.

I don't think it's too much of an exaggeration to say that this gas-station moment likely sealed my professional destiny and led me to become the chief investment officer of UBS Global Wealth Management. Of course, you can't draw a straight line from that day in American suburbia to sitting in the desert with sheikhs eating a sheep eyeball or discussing how to pass on a family business over tea in Beijing, as was to come. But, from then on, I ached to get back to feeling good, and to do so over the coming decades I unconsciously and continuously strove to return to that gas-pump scene and address all the things my deepest self wanted to understand and resolve but didn't have the maturity or life experience to figure out.

Those questions and issues ran the gamut, from how I could comfort my mother to how I could reach a place where I felt I had "enough"; to distinguishing what I had control over from what I did not; to understanding how the world really worked and what the geopolitical and economic forces were that had impacted those gas prices.

I might not have been able to articulate all of this at the time, of course, but I really wanted to be free of my father's issues and wanted answers to all these questions, including what great insight I was missing and should be aware of.

Only much later in life did I finally realize what that missing epiphany was: if everybody in the world aspired to a Chevy Kingswood Estate Wagon or was driving a car that got ten miles to the gallon, we were all in serious trouble.

THE MONEY-COMPLEX "INHERITANCE"

Our complex relationship to money is not only picked up by osmosis during childhood, as in my experience at the gas station; it is also, to some degree, inherited from our ancestors. My dad passed on to me his worries about

paying the household bills and the state of the world because of what *he* picked up from his father.

My paternal grandparents—who adored my sister and me and made us feel priceless—started life poor. They came from a tiny village in Swabia, Germany. The unofficial motto of Swabia, which was framed and hung on my grandparents' wall, was *Schaffe, spare, Häusle baue*, or "Work, save, build a little house."[14] Such nice sentiments don't always help. When the 1920s rolled around, my machinist Opa couldn't find work, and the jobs he did secure were made meaningless by the fact that Germany's monthly inflation rate hit 29,500 percent in October 1923.[15]

When I was a kid—and we were chowing down a platter of Oma's Christmas cookies around the kitchen table—Opa would tell me about what it was like coming of age in the wacko Weimar Republic. When he got paid on a Friday, my grandfather had to buy everything he needed right away, because by the time Monday rolled around, he could no longer afford the same groceries. It was hard to get my little head around this notion, and I suspect Opa's lurid tales about the Weimar Republic played a role in my later fascination with economic history. So did the fact that rather than staying around to fix the Weimar Republic, my grandparents ditched all they knew and in 1926 bravely headed to America to start a new life.

In 1938, on the eve of World War II, Henry Haefele, my dad, was born stateside. The by-product of preparing for that war was of course that the US economy was itself picking up and coming out of the Great Depression. Opa found work as a machinist and bought some land in Ringwood, New Jersey. The town is now a New York bedroom community, but at the time it was more like Hillbilly Appalachia. Like the Swabian maxim on the wall said, my grandfather built their little house from scratch. He built fires around boulders and then poured cold water on the rock to crack them into more manageable chunks to build with.

They couldn't wire their house for electricity when America needed supplies for the war effort, so my dad and his parents lived in their modest house for nine years without it. They lived by kerosene lamp; well water was drawn from a hand pump in the kitchen. They cut firewood on a

circular saw attached to the car axle, and one day it cost my grandma her finger.

When kerosene leaked into the well, they lowered my pint-size dad down a rope so he could skim the slick off the water's surface. A pressure tank Opa installed eventually allowed for running water, and the house was finally wired for electricity in 1951. Dad, an only child, had two beagles, and as a kid he put food on the table by hunting rabbits and squirrels in the surrounding woods.

So it's understandable why my dad was triggered by sixty-four-cents-a-gallon gas in the stagflation 1970s. Inflation had powerful, life-altering consequences for my grandparents, and my modest German immigrant family experienced real economic hardships. Here's the point: families do pass on a profound sense of hunger or entitlement or middle-class satisfaction or frustrated rage or underprivilege or louche excess, from one generation to the other, depending on the myths that have been built out of the family's life experiences and their subsequent narratives.

And that family story is another powerful inner force that investors need to understand and master in themselves in order to up their game.

I've spent half a century on a journey with the good and bad of the legacy I inherited, so I can get back in that Chevy and drive to Enough Town, that mythical place in my imagination where we all feel sated, content, and anxiety-free. Sometimes, on a good day, I get to visit Enough Town, which is sweet enough, but it is my fervent hope that eventually I'll get to move there on a more permanent basis—and that you'll meet me there too.

Let's be clear: my money complexes are part of my DNA and make me who I am. They have been a negative force, at times unconsciously consuming me and making me anxious and curtailing my enjoyment of life. But when they were understood and prodded in a new direction, they equally became an enriching source of investment ideas and smart market plays when I most needed them.

You can't and won't ever eliminate your deep-rooted money issues, but you can become conscious of them, understand how they manifest, and perhaps redirect their powerful force in a positive direction, as you will

later see our most successful clients are doing for themselves via impact investing. But that reimagining is solely a by-product of the self-knowledge that flows directly from reflecting on some uncomfortable childhood memories.

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In the summer of 1978 our family drove down to Disney World in Orlando in the Chevrolet Estate Wagon. I was still in first grade, and it was a big deal, since this was shortly after Dad's gas-pump hissy fit. We stayed at seedy motels along the highway where we weren't allowed to touch anything until my mother had gone over the room with a can of Lysol spray.

One day we treated ourselves to the buffet at Disney's Polynesian Village, where a monorail threaded its way through the building and colorful big-eyed totems stared down at us through the ferns. The adults drank from carved-out pineapples sporting umbrellas. The child's buffet back then was eight dollars, or thirty-nine dollars in today's money, which means Disney was as expensive in the 1970s as it is today for middle-class families scraping by but still wanting to treat their kids to a special vacation.[16]

I know the buffet was eight dollars because of my sister.

At five, she was going through a period where she was a picky eater, and my dad completely lost it when all she would eat from the Polynesian buffet was black olives. "Eight dollars for this buffet and all you're going to do is eat black olives! I hope you choke on those black olives!" It was an awful family moment, and seeing Dad worked up and railing at my innocent little sister triggered my own angst. I began piling food on my own plate and crying, "Look, I'm eating my food! I'm eating my food!"

This is how scarcity takes root in a soul.

To this day, I have a thing about not wasting food. It is a challenge not to clear my plate, no matter how full I am. I reuse teabags and eat items well past their sell-by date, even after this habit has badly upended my internal plumbing system. My tell-it-as-it-is Scottish wife informs me I pack underwear for a business trip like I am planning to poop myself twice a day.

I don't want to claim any of this as genuine hardship, because I grew up in an emotionally rich and loving family, surrounded by doting grandparents and relatives, a cool and funny sister, and devoted parents who unquestionably adored their kids. I felt loved. Even then, I knew I was lucky to have DisneyWorld problems, in a world full of much larger problems, or at least I knew that everything I had was easier, better, newer, bigger, and more climate controlled than what my grandparents and parents had had.

And things got a lot better for our tight-knit family shortly after this Disney trip because my mechanical engineer Dad got a great job at a company called Liquid Metronics, where he stayed for twenty-three years, after years of rotating jobs and occasionally getting laid off. From age seven onward, I lived with my family in a substantial house with a pool in the Massachusetts village of Stow, just outside Boston.

I guess the point of these stories is their banality. I could fill this book with entertaining stories about dinner at a six-seat *omakase* restaurant in Tokyo or a private event where I was served filet mignon while Janet Jackson performed fifteen feet away from my table. But that stuff is not important. What is important, as far as this book is concerned, is what I figured out about myself: every time there is a plate of food in front of me, if it's the most exquisite haute cuisine—or worse, a plate of fries—I am instantly transported back to that Polynesian Village buffet. I now know I can never go on an all-you-can-eat cruise ship, and I have made peace with that. It is an important insight I have acquired on my personal journey to wealth, and it's why you're going to hear me say the same thing again and again.

Know yourself. Know your triggers.

OUR MONEY ISSUES NEVER DIE

If you still think this emotional stuff is mere fluff, touchy-feely ephemera that has nothing to do with wealth creation, I strongly recommend you rethink your position. It certainly isn't considered fluff by the billionaires I

work with. Untangling emotions from wealth is some of the most profound work we do at the UBS chief investment office.

One of the greatest investors I know, a UBS client, once said to me, "Mark, I have known success with money for many years, but I failed three times working on my estate plan. We have started again. I am still not confident about what I am doing."

I had spotted something earlier in the day, so I politely joked with the client that some of the difficulty might be his self-acknowledged preference to talk about "if" he died, rather than "when" he died. It was that hard-to-swallow reality, mortality, that was stirring up a lot of angst and denial and the feeling that we weren't talking about money when we talked about money. Once this fear was acknowledged and addressed, the brilliant billionaire was able to move forward, and we were able to help him build a stronger investment plan on solid emotional foundations.

Managing wealth continuously teaches us lessons about ourselves, no matter where we are in our journey. Hank* was a self-made entrepreneur with over $400 million in his portfolio. After he sold his manufacturing business, he had reached that stage in life where he finally had the time and means to actively engage with philanthropy.

One day, Hank was sharing his portfolio decisions with a group of similarly wealthy entrepreneurs in New York, and when he came to his charitable efforts, he proudly informed this self-help group he was donating $250,000 to the educational opportunities of underprivileged kids.

He expected to be lauded.

His peers tore into him.

They ridiculed his efforts. They correctly pointed out that as a percentage of his total wealth, his charitable giving was miserly. He could and should give far more.

The centimillionaire was both hurt and stupefied.

It was only when his peers started interrogating him that they collectively came to the source of the problem. Hank had a very tough

* Names and some personal details have been changed to protect identities.

upbringing, was literally dirt poor and starving at certain points of his early life, and though he was now wealthy, his mind was still trapped in the emotions of his childhood poverty.

Hank believed that giving away a quarter of a million dollars to charity was *incredibly* generous, something he never dreamed he would ever be able to do. It was a small fortune to an impoverished child, which was what he still felt like inside, and it was only his peers' virulent reaction that made him aware that relative to his wealth, his adult philanthropic efforts were underwhelming. After being made aware of his issue, he gradually overcame his internal obstacles and gave away increasingly larger amounts of his sizable wealth.

The emotional money issues of childhood never go away. They are with us, always, as we climb the ladder of wealth. If you want to be free of the fear and greed that rules most of your money decisions, so you can really enjoy the "richness" that can come with wealth and wise wealth management, you must do the hard work on yourself.