Why clients hate spending their savings – and other questions for Morgan Housel

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Published October 22, 2025 Updated October 23, 2025

Morgan Housel's bestselling books, which explain the psychological aspects of financial decision-making, resonate with many Canadians.

His latest, The Art of Spending Money, addresses the spending psyche specifically. In a recent interview with Globe Advisor, he answered questions about the saver's identity, advice from bots, and why people have such a hard time knowing what they want.

Why did you want to write a book about spending?

If you had asked me five years ago about my investing philosophy, I could have talked for two hours about it. But one day, I realized if I were asked about my spending philosophy, I had no answer.

That was just a curious observation of the imbalance of how much attention we spend on making money versus knowing what to do with it.

Also, when you observe other people – rich people, poor people, everyone in between – you see some people do a very good job at spending their money. They get a lot of happiness, a lot of contentment from it, and other people don't.

So, I thought you could apply the same framework as The Psychology of Money – not about what you know, but about how you behave – to spending.

Some clients who have saved more than enough for retirement have a real issue with opening the wallet and spending the money they've saved. How should advisors encourage clients to spend?

There are two reasons why this happens. One is pretty rational, the other is less so.

The rational reason is that if you and your spouse retire at age 65, statistically, there's a very good chance that at least one of you will live into your 90s. So, you're looking at a quarter of a century of no paycheques and needing to fund your lifestyle. Your lifestyle might get very expensive with health care down the road. If you're funding a 10-year retirement, it's very different than if you're potentially funding a 30-year retirement.

The less rational reason is more common. It's that their identity as a saver has hijacked their entire personality. When they think about money, they say, 'I am a saver. I save money every month.' Their net worth goes up every year, and the idea of ceasing that and flipping a switch is completely the opposite of who they think they are. It's completely the opposite to their identity and the personality they've built up. At that point, money controls them – and it's almost as bad as not having money to begin with.

I don't think advisors are necessarily doing anything wrong, but they need to acknowledge that a big part of their job is helping clients with their relationship with money, which is very different from helping clients accumulate money. It takes much more effort to manage your relationship with money. Is this controlling your identity, or are you using it as a tool to live a better life?

You are a proponent of trying something new in retirement. Why?

One of the biggest issues with retirement is that once people stop working, they have identity issues. They used to be a teacher, a firefighter, a doctor or a nurse, and now they're retired and they're not [what they used to be] anymore.

People have a really hard time knowing what they want. They're very good at knowing what they need and what they don't want.

And so, little experiments of spending a bit more money on food, travel, clothes, wine – whatever it might be – is the only way to really understand what you might want.

Backfilling your life with new hobbies is very important, and the idea of doing little experiments to figure out what those things might be is part of that.

People often say money is a story we tell ourselves, but stories can trap us just as easily as they can free us. What story of money do most people cling to for too long?

One story that does a lot of damage is the idea that your net worth or salary equals your self-worth. We view salary and net worth as a scorecard of how well we've done in life – the higher, the better; the lower, the worse – and that we should judge people in their entirety based on that. It's a very common thing. The reason why it's so easy to do is that money is so quantifiable.

So, if I said, 'Who is more moral, you or I?' there's no way to measure that. There's no morality score I can compare myself to. It doesn't take much insight or wisdom to take a step back and say, 'No, your integrity, your values, your honesty, your humour, your wisdom, is more important,' but because it's not quantifiable, it's easy to take a second rank to money.

A lot of your success comes from the way you take a difficult and unpleasant topic for many people – money – and explain concepts in a relatable and entertaining way. Do you worry that voices such as yours might be less important as more people turn to AI for advice over humans?

I don't worry because I think it would be fantastic if everyone had a bot on their phone that could give them good advice. But for myself, as a reader, I have no desire to read an AI book. To me, a lot of the magic of reading a book, whether it's fiction or nonfiction, is reading something and realizing that a fellow human wrote it.

I remember reading the review of a book by Cormac McCarthy, and the review said, 'I can't imagine how another human came up with that sentence.' That's the beauty of writing. And if you know that a bot is doing it, you lose a lot of that magic.

AI is great if you just need information, such as, 'Where's the cheapest hotel for tomorrow night?' But if you want to hear a story from a fellow human, there's never going to be a substitute for a human writing it.