Commentary

The Paradox of Wealth: A Satirical Exploration of Intelligence and Financial Success

Kjetil Haugen[1]

1. Faculty of Economics and Social Science, Molde University College, Norway

This brief commentary presents a satirical examination of the relationship between wealth and intelligence, challenging the conventional wisdom that links financial success with rational decision-making. Through humorous and provocative arguments, the manuscript posits that achieving extreme wealth often involves taking significant risks, which may be seen as irrational or "stupid" by conventional standards. Using a combination of economic theory and anecdotal evidence, the discussion explores how high-risk decisions can lead to substantial financial gains, while also highlighting the absurdity of measuring personal qualities by wealth. This analysis aims to provoke thoughtful reflection on societal values and the true determinants of financial success. By engaging with themes such as risk-taking, economic theory, and societal perceptions of wealth, this concise contribution invites a broader discussion on the nature of financial success and the qualities it truly reflects.

Corresponding author: Kjetil Haugen, Kjetil.Haugen@himolde.no

1. Introduction

It is hard today, with all the information floating freely around the internet, not to observe the extent of stupidity said or written by rich people. All these silly stories about the correct decisions at the right time are constantly boring me. Not to speak about all these silly political statements, which by themselves are strong empirical indications of the truthfulness of the title of this note. If other (not so silly) but still perhaps not so very wise internet surfers read these stories and actually believe them, this information is not only boring but maybe even dangerous.

2. How to get really rich

I will try to argue why stupidity is a necessary condition to get rich[1] by starting to address the obvious question: How does one get rich? Apart from the obvious explanations of heritage or sheer luck, one is often presented with explanations involving hard work, determination, decisive power, and so on. As the intelligent reader has probably understood, I do not buy such explanations.

To get rich, it is necessary to take risks. And, in order to get really rich, one has to take really big risks. Why is this? Financial theory may be helpful here, at least at a somewhat philosophical stage. Before I dig loosely into necessary economic theory, let me make the following clear. My meaning of getting rich here is not heritage[2]- or lottery-luck-rich, but either by applying financial and/or human resources to invest, making a starting wealth not only larger than the starting point but very much larger than the starting point. Hence, my definition of getting rich is making your start-up resources grow and grow much.

3. A little economic theory

So, what has financial theory to offer? One celebrated part of this somewhat dull part of economic theory is named the CAPM model [1][2][3][4][5]. Roughly speaking, what this model tells you is that in order to achieve returns of the insecure type, one has to take risks by investing in uncertain financial objects like bonds, warrants, options, or shares, to name a few of these nifty financial instruments. One could be on the safe side and put the money in the bank, or alternatively take risks and invest the money into less safe harbors. The theory then goes on: In order to make (presumably risk-averse) individuals take such risks, they must be paid a risk premium. This risk premium ensures that in the long run, investors are better off (on average) than the more risk-averse bank savers.

4. The silliness of wealth

This seems to make sense, does it not? To earn more money, one has to take risks. After all, if one could make a fortune safely, then everybody would be rich. We are all (very well) aware of the fact that everybody is not rich. As such, this seems like a sensible way of thinking. Take no risks and stay poor, or take risks and get rich. This is all good; my point is, however, slightly further along this line. The obvious continuation of this argument is then: To get Super-Rich, really big risks need to be taken. Such risks could involve putting all your starting wealth into a single financial commodity, starting your own firm, or deciding to become the best football player in the world at the age of 5. These are all legal decisions. We can, of course, also look at some illegal options; for example, robbing the Bank of England or buying a ton of heroin. Both options could offer substantial profits, but perhaps at unacceptable risks.

There are people making wise decisions, investing in portfolios, or doing their homework at the same time as training extensively to become the world's best-selling author. None of these characters win the big prize of the investment lottery. Such prizes are reserved for the significantly sillier individuals going all the way for the maximal prize at a minimal probability. To reach the level of Messi or Ronaldo, doing your maths is perhaps not a wise strategy. At the same time, the new Messi is perhaps already born, but how silly a character he is. Still, he will emerge out of nowhere, mesmerizing future global football audiences with his magnificent play.

My argument is actually very simple. To become really wealthy, one must take unacceptable risk - or be silly or stupid or whatever one likes to name it. Nobody has ever become the richest man in the world by going along with the sensible majority, have they?

An alternative way of thinking on these matters could perhaps be: We are all involved in the big richness lottery. A limited number of persons will win the big prize (getting really, really rich). To affect the chances to win, we can make a lot of risky decisions. But, to have a reasonable chance to win, we must make crazy decisions. Still, only a tiny fraction of those who make these stupid decisions will win - they must be the most stupid of all - or not?

As many of my examples are from the entertainment industry, some readers may be misled into believing that one needs to be a football player or rock star to get stupidly rich. This is by no means the case. Think about the investors above (and do not forget that richness in this context is far more than the salary of the average CEO) who make profits from investing in uncertain securities. Surely, one could make a reasonable fortune grow faster than average by well-hedged investments in the financial market. However, unless the starting fortune is insanely high, such a (wise) strategy would not lead to the kind of richness we talk about here. In order to reach such levels, one has to make stupid investment decisions - involving going for unreasonable risk. If one of a million technological options proves to be the successful one, hitting it may be hard, leaving 999,999 fools behind but still one stinking rich. This "winner" gets the prize, but does not prove intelligence. After all, he went for a very unlikely and unmistakably silly investment option.

Let me sum up. To become super-rich, it is necessary to take extensive risk. Or in layman's terms, too high a risk. Taking too high a risk is not a rational or sensible decision. And, of course, only fools act insensibly or irrationally.

5. Social implications and conclusions

Measuring personal qualities by wealth is, of course, crazy in this context. This US way of judging personal qualities has (God forbid) not yet really arrived in Europe. Let us indeed hope it continues like this. It might be wise to advise the media not to print all these crazy stories, but perhaps to no avail. It seems all the "sensible people" really enjoy reading about the successful fools. Let us all hope they watch them as fools and not geniuses.

The fact that our argument also provides a neat explanation for why people with old money despise the "nouveau riche" or the new money people comes in handy, but is of course not the main point here.

So, dear reader, next time you come across a story on personal success, give my tiny simple argument some room in your head. Only real fools become really rich (and "successful").

Good luck, and stay poor.

For those readers feeling the urge for a slightly more scientific approach, the following conference presentation [6] or the accompanying paper [7] may be of interest.

Footnotes

[1] I should perhaps be slightly more clear on my definition of richness. In this text, a convenient definition could be: *If your wealth is so high that it is the only reason for entering media, then you are rich.* Alternatively, a more scientific approach can be found in the so-called "Super-Rich" literature. See, for instance, [8]. Here (see, e.g., [9]), the typical definition of the Super-Rich uses quantiles or percentiles of wealth distributions to classify the Super-Rich. A recent example, [10], illustrates this by claiming (quote) “Richest 1% bag nearly twice as much wealth as the rest of the world put together over the past two years.”

[2] As will become clearer later on, wealth generated by heritage (old money) differs from new money, as risk-taking through some kind of investment strategy is unnecessary to achieve Super-Richness. Surely, some persons may inherit money that makes them eligible to get Super-Rich by investments; these persons are not ruled out. However, people who get Super-Rich by heritage are not necessarily stupid.

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