“Inside the Mind of the Older Investor”

As the brain ages, it perceives risk differently. That can make you money—or cost you a bundle.
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[Moderator’s preface: As we look about us, we see others who are aging. Some aging is visible and some is not always readily apparent.]

As pop culture portrays it, getting older means growing more conservative.

In investing, the stereotypical image of older people is that of the little old man or woman living off stock dividends and fixed-income interest.

In recent times, the realization has set in that retirements once measured in years can now stretch for decades, and retirees need to grow their assets and incomes over time to offset the erosive effects of inflation. That means more consideration of stocks in addition to fixed-income investments.

Meanwhile, the emerging science of “neuroeconomics” has begun to show that, contrary to the conventional wisdom, changes in the brain make older investors better able to handle risk than younger people.

With advancing age, the hottest negative feelings tend to fade. The insula, a region of the brain that plays a role in generating a sense of disgust, shrinks. Concurrently, the amygdala, one of the centers for signaling fear and anger, also becomes less active. Brain waves associated with these feelings become less intense with age.

Thus, people in their 20s, are more easily upset over the prospect of losing money than their elders. People in their 60s and beyond are better able to withstand the emotional stress of a bear market than younger investors.

But, there are other contrasting effects of aging on the brain. With age, the brain becomes more impulsive, somewhat like being teenagers again. And, as fears abate, people are more easily swayed by positive emotions—which helps explain the success of con artists who prey on the elderly.

Academic research has shown that the average investor exhibits an abrupt and significant drop in performance around age 70, probably because of fading memory and rising impulsiveness. People over 65 are twice as likely to fall for obvious teaser rates on credit cards than those in their 30s.

Finally, people in the 60s and beyond tend to narrow their social circles and begin to lose sources of valuable information.

This places renewed importance on the old adage “know thyself.”

[Moderator’s conclusion: As we age, we tend to view life in the rear view mirror and make investment judgments based on fundamentals as they were, not necessarily as they are or will be.]