

# The Best Tool for Investing Success

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There has been a tremendous amount of research done on the cause of investor behavior. After all, investor results have told us people are impulsive, short sighted, reactionary, and confused. Research has now illuminated the science behind it. A few years ago, I began to incorporate these understandings into my approach with clients and their financial planning.

On June 5<sup>th</sup>, I asked a friend of mine, Dr. Paul Nussbaum to address a group of my colleagues. Paul is a Neuropsychologist who specializes in the aging brain. He has published and presented on the subject of brain health and financial decision making often, and I wanted to provide a summary of the points he made with us.

First, some stats: Your brain weighs 2 – 4 pounds, is composed of 60% fat, and consumes 25% of the blood each time your heart beats. If you are a 170 pound male, 3% of your body uses 25% of your blood. So, its importance for your functioning is primary.

## Gender Differences

As for how your brain functions, science shows us that there are gender differences, and those differences relate to money, too. The left side of our brain deals with numbers, details, goals, and plans. The right side deals with faces, tone, melody, and getting around the world. When you view the activity in the brains of women and men, women use both sides of their brain, while men are compartmentalized to the left side. Insert your own joke here...

## How does this relate to money?

Studies show that for men, money is a matter of winning and losing; for women, it is about a lifestyle.<sup>1</sup>

- Women are more likely to turn to someone else for financial advice (30 % vs. 17%).
- Men are more likely to say they've made more financial mistakes than smart financial decisions (35% of men vs. 28% of women).<sup>2</sup>

- 46% of women are more focused on whether or not their investments are performing well and are less concerned about the reasons why. Fewer men feel the same (38%).<sup>2</sup>

## How the brain's anatomy effects investing

One part of your brain is the subcortex. This area involves your automatic responses to stimulus and environment. This is the reflexive part of your brain. If we are to survive (or even thrive), we need to pursue rewards and avoid risks quickly. This is the ancient part of your brain, so think about impulses.

Your cortex is the outside part of your brain. The cortex is the reflective part of your brain. It includes the frontal lobe. This lobe works on things like structure, organization, your personality, and it tells the rest of the cortex what to do.

When it comes to financial planning, those people who are overly cautious and fearful of investing are being led by their cortex. For those who are always chasing risk, they are being led by their subcortex. Each system is an important counterweight for good decision making.

## An Aging Brain and Money

Within the subcortex is the hippocampus. This part of your brain deals with learning and memory. This is where Alzheimer's hits. If a parent, friend, or spouse is slipping mentally, Dr. Nussbaum says there may be a worry about the integrity and health of the hippocampus.

The brain's amygdala section is where our most basic reactions reside. If you think back to man's earliest existence, this is where fight or flight came from. Early man was chased by animals that were hungry for a meal. A quick reaction time was necessary to survive past dinner. When fight or flight occurs, your hippocampus shuts off. As a result, you stop learning, and you stop remembering things. This process also occurs when people are battling stress. If someone is stressed for a long period of time, they may be worried about Alzheimer's. But, Dr. Nussbaum believes sometimes it is just a matter of finding out "What's chasing you?"

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The way this process relates to my experience with clients is that I don't find jumping in and gathering data and numbers to be a good first step. I like to refer to the first step as a Discovery meeting. It is in this setting that I can better understand what someone's true objectives are, how I may help them best reach those objectives on their terms, and finally communicate with them in a way that can be productive.

Further research suggests that from age 60 on, both cognitive impairment without dementia (CIND) and dementia rise measurably every five years. Most people are holding their greatest level of wealth, and therefore making critical decisions, at the time of increased cognitive decline. My role as a financial advisor for these folks is much different than the one I have with a younger client. My ability to realize that and utilize appropriate resources is critical.

These were just a few points made by Dr. Paul Nussbaum. It was an invaluable hour, and I wanted to share some of the insight. If you are thinking about your situation, or that of a relative or friend, and would like to ask me a question, please do not hesitate to contact me. For more information from Dr. Nussbaum, please visit his site at <http://www.brainhealthctr.com/>.



*If you would like to discuss the subject matter in this article or any question related to your financial planning, please contact David Jeter at [djeter@alleghenyfinancial.com](mailto:djeter@alleghenyfinancial.com) or 412.536.8012.*