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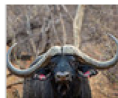
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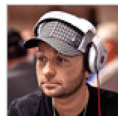
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THE INTELLIGENT INVESTOR

Finances and the Aging Brain

The latest research on why even smart investors fall prey to financial predators

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By JASON ZWEIG CONNECT

March 28, 2014 12:12 p.m. ET

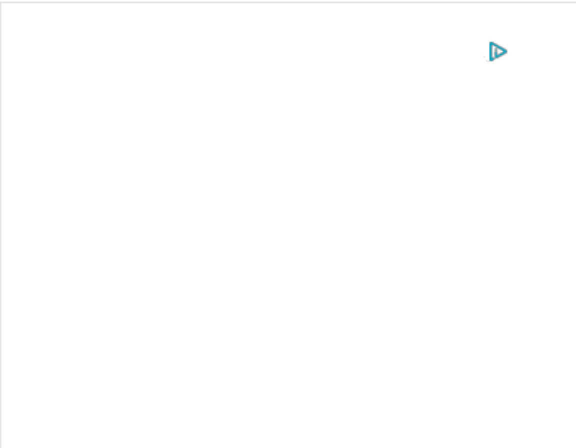
BRUCE MARTIN IS nobody's fool. The former chairman of the chemistry department at the University of Virginia is the author of more than 200 scientific papers and a textbook on biophysical chemistry. After a lifetime of diligent saving, Martin, 84, is also a wealthy man, with several million dollars in assets.

Enlarge Image

Last year, however, a home aide hired by Martin allegedly began forging checks and using his credit card, ultimately filching approximately $50,000, according to the professor's attorney, Michael Gilfix, an elder-law specialist at the Palo Alto, Calif.-based legal advisory firm Gilfix and La Poll Associates. While the case is still under investigation, and most of Martin's money has since been recovered, according to both Gilfix and a police department spokesman, Martin says he still feels burned by the incident. "I gave her access to my private affairs willingly, because I trusted her," he says.

Even sophisticated investors like Martin can end up victims of financial predators, and new findings in psychological and neuroscientific research are helping to explain why. As people age, they become more focused on maximizing positive emotions and social interactions—and more determined to block out negative experiences. This process, which experts call socioemotional selectivity, leads older people—including the affluent—to pay more attention to those who make them feel content and comfortable. At the same time, they are more likely to neglect warning signs that might have been obvious at a younger age. (For his part, Martin says he doesn't think cognitive impairment of any kind played a role in his situation.)

Some recent research has shown that highly intelligent retirees—even those with no signs of dementia—find it harder to distinguish safe investments from risky ones. Compared with younger investors, those over the age of 65 "showed striking and costly inconsistencies" in their financial behavior, according to a study of 135 subjects led by Ifat Levy, a neuroscientist at Yale University who has conducted experiments on this topic. For example, older investors tend to make simple errors that younger investors avoid—and such problems only worsen with dementia. Those individuals who are elderly—but still mentally fit—maintain a healthy sense of caution when confronted with a



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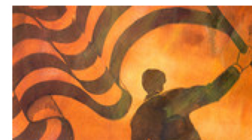

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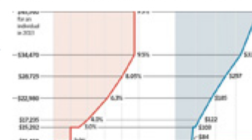

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complex or risky investment. But someone who has long made sensible financial decisions and is now declining cognitively is likely to remain self-confident "even if he has lost his reasoning capacity," warns Robert Willis, an economist and professor at the University of Michigan who studies financial decision-making among the elderly.

What's more, new research on mental health and aging also shows that people in their 40s and 50s have little insight into the trajectory of their future decline. In other words, just when they are the most capable of planning ahead for a time when their judgment might fail, investors are at an age when they're unlikely to believe that they actually need to plan ahead.

What are the implications for wealthy families? Monitor the financial health of parents as closely as their physical health, says Gilfix, and ask whether there's anyone new in their life and how they go about paying their bills.

For younger investors, experts recommend consulting with a group of trustworthy people, like a spouse, a wealth adviser and an accountant, before making any important changes to a financial plan—and doing so before the ability to judge who is and who isn't honest becomes compromised by old age. By that point, sudden and major changes to a financial plan tend to be associated with big mistakes. "Train yourself not to make a lot of fast decisions," says Laura Carstensen, director of the Stanford Center on Longevity at Stanford University. "Set up a simple plan and stick to it."

Write to Jason Zweig at intelligentinvestor@wsj.com

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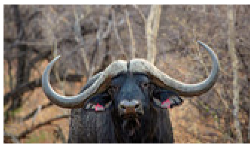
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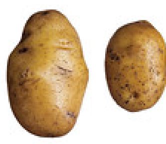
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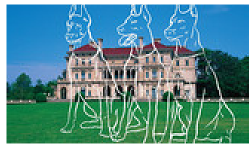
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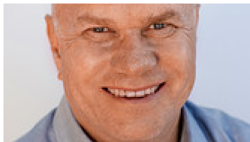
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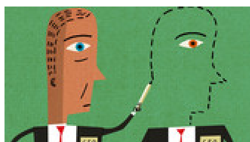
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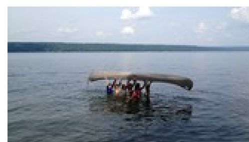
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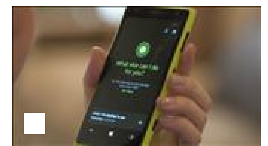

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