



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.

As popular culture sees it, growing older means growing more conservative—in dress, politics and tolerance. In investing, the popular image of the older investor is the little old man or woman living off dividends, bonds and CDs. And the advice of the financial planning industry for the most part has reinforced that idea—you can’t afford a loss, so be conservative.

But recently, more financial pros have begun to realize that because retirements that once lasted years can now easily go for decades, you can’t give up the potentially higher growth that stocks offer. (See “Make Your Money Last a Lifetime” on page 96.) And the emerging science of

dala, one of the centers for signaling fear and anger, also becomes less active. Your sense of fear fades like an old daguerreotype. Researchers have displayed disturbing images, such as photos of rotting corpses, to people in their twenties and to retirees in their seventies and eighties; the brain waves in the older viewers were about a third less intense.

Similarly, brain scans show that people in their twenties get much more upset than older folks do when they expect to lose money. It turns out that investors in their sixties and beyond are considerably better at withstanding the mental stresses of a bear market than young investors are.

But there are downsides to the aging

Economist David Laibson has shown that people over 65 are twice as likely as those in their late thirties to fall for a teaser rate on a credit card; the thrill of the low up-front rate blinds older borrowers to the burden of future high-cost debt.

Finally, people in their sixties and beyond tend to narrow their social circles, preferring to spend time with family and friends they already have. That can make it hard, once you’re past a certain age, to get the financial advice you may need.

So how should these discoveries change your thinking about investing? Here are a few simple ideas.

▶ PUT UP A GUARD AGAINST THE RISK THAT YOU MIGHT GET IMPULSIVE To keep on artists—or a cold-calling stockbroker, for that matter—from turning your head with promises of big gains, make sure you have installed caller ID on your phone and tough spam filters on your e-mail.

▶ FORM A RELATIONSHIP WITH A TRUSTWORTHY FINANCIAL ADVISER The sooner you do this, the better. You want this person to be in your “inner circle” in retirement.

▶ DON’T BE A FRAIDY CAT The rule of thumb used to be that you subtract your age from 100, turn the remainder into a percentage and make that your maximum allocation to stocks. A 65-year-old should, by this formula, have no more than 35% in stocks. By the time you reach 80, you would be down to 20% in stocks. But the wisest and oldest investors have always thought this formula was hooley, and a lot of advisers now put the rule

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neuroeconomics has shown that, contrary to what you might expect, changes in your brain make you better able to handle risk in old age than you could as a young adult. All this has big implications for how you should invest.

FEAR AND LOATHING

Let’s start with how the brain ages. As you get older, your hottest negative feelings begin to fade. The insula, a region of your brain that helps generate the sense of disgust, shrinks. Meanwhile the amyg-

brain. As you grow older, your brain becomes more impulsive; in some ways, becoming a senior citizen is like being a teenager again. As your fears abate, you’re more easily swayed by appeals to positive emotions—which helps explain why get-rich-quick artists prey on the elderly. New research by finance professor Alok Kumar shows that the average investor exhibits an “abrupt and significant drop in performance around the age of 70,” probably because of fading memory and rising impulsiveness.

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| | SHIP DATE 10/2/07 |
| | STORY NAME inside the mind of the older investor |
| | PAGES 1-2 of 2 |
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at 115 or 120 minus your age. Even that may be too conservative. Years ago I interviewed Philip Carret, founder of the Pioneer Fund; at the time, he was 97. I couldn't resist asking this legendary money manager whether he had whittled his stock exposure to 3% of his

portfolio. "All my money's in stocks," he thundered. "Why on earth would I put 97% of my money in the lowest-yielding assets?" Two other heralded investors, Roy Neuberger and Joseph Rosenfield, told me much the same thing at ages 93 and 96, respectively.

Knowing that your negative emotions will fade should give you the comfort to make your retirement portfolio a little bit bolder. Just don't go wild. \$

Jason Zweig is the author of *Your Money and Your Brain*. E-mail him at investor@money.com.

Money70

OUR LIST OF RECOMMENDED MUTUAL FUNDS AND ETFs

Emerging markets funds rebounded in the month ended Sept. 13 after a sharp downturn in July and early August, when markets around the world declined in the face of a credit crunch. **SSgA Emerging Markets** posted the best return, up 17%, followed by **T. Rowe Price Emerging Markets** and **Vanguard Emerging Markets Stock**, both up over 15%. Worst of the bunch was **Neuberger Berman Fasciano**, down 0.3%.

| FUND (TICKER) | TOTAL RETURN | | | EXPENSES (AS % OF ASSETS) ⁵ | PHONE NUMBER (800) | FUND (TICKER) | TOTAL RETURN | | | EXPENSES (AS % OF ASSETS) ⁵ | PHONE NUMBER (800) |
|---|--------------|-------|--------------------|--|--------------------|--|--------------|------|--------------------|--|-----------------------|
| | 1MO. | 1YR. | 3YRS. ¹ | | | | 1MO. | 1YR. | 3YRS. ¹ | | |
| Large-Cap | | | | | | Specialty continued | | | | | |
| American Funds Amcap (AMCPX) ³ | 4.5% | 15.2% | 11.0% | 0.64 | 421-0180 | iPath Dow Jones-AIG Comm. (DJP) | -0.1% | 9.5% | N.A. | 0.75 | 764-7284 ⁸ |
| Am. Funds Am. Mutual (AMRMX) ³ | 3.5 | 15.0 | 11.4 | 0.55 | 421-0180 | iShares Dow Jones Select Div. (DVP) | 2.1 | 7.0 | 9.5% | 0.40 | 474-2737 |
| Fidelity Dividend Growth (FDGFX) | 4.7 | 12.8 | 10.0 | 0.59 | 343-3548 | iShares S&P GSSI Nat. Res. Index (IGE) | 12.4 | 38.4 | 29.1 | 0.50 | 474-2737 |
| Fidelity Spartan 500 Index (FSMKX) | 5.3 | 14.8 | 11.7 | 0.10 | 343-3548 | Third Ave. Real Estate Value (TAREX) | 5.8 | 6.1 | 16.7 | 1.11 | 443-1021 |
| Fidelity Spartan Total Market (FSTMX) | 5.2 | 15.0 | 12.6 | 0.10 | 343-3548 | T. Rowe Price New Era (PRNEX) | 13.7 | 43.9 | 29.5 | 0.67 | 638-5660 |
| iShares S&P 500 Index (IVV) | 5.3 | 14.8 | 11.7 | 0.09 | 474-2737 | Vanguard REIT ETF (VNQ) | 5.5 | 0.4 | N.A. | 0.11 | 851-4999 |
| Jensen (JENSX) | 3.1 | 11.2 | 7.1 | 0.85 | 992-4144 | Vanguard REIT Index (VGSIX) | 5.4 | 0.3 | 16.7 | 0.21 | 851-4999 |
| Madison Mosaic Investors (MINVX) | 3.5 | 6.6 | 7.1 | 0.95 | 368-3195 | Foreign | | | | | |
| Matrix Advisors Value (MAVFX) | 4.5 | 20.0 | 10.7 | 0.99 | 366-6223 | Am. Funds Euro Pacific Gro. (AEPGX) ³ | 8.6 | 22.5 | 23.5 | 0.75 | 421-0180 |
| Selected American (SLASX) | 4.4 | 13.5 | 12.3 | 0.90 | 243-1575 | Artisan International (ARTIX) | 8.9 | 21.5 | 22.6 | 1.20 | 344-1770 |
| Sound Shore (SSHFX) | 4.6 | 13.4 | 12.9 | 0.92 | 551-1980 | Dodge & Cox Intl. Stock (DODFX) | 6.3 | 22.2 | 24.3 | 0.66 | 621-3979 |
| T. Rowe Price B/C Growth (TRBCX) | 7.3 | 18.9 | 11.9 | 0.82 | 638-5660 | Fidelity Spartan Intl. (FSIIX) | 7.0 | 20.5 | 21.5 | 0.09 ⁷ | 343-3548 |
| T. Rowe Price Equity Income (PRFDX) | 3.8 | 13.8 | 12.0 | 0.69 | 638-5660 | iShares MSCI EAFE Index (EFA) | 7.3 | 19.8 | 21.3 | 0.35 | 474-2737 |
| Vanguard 500 Index (VFINX) | 5.3 | 14.7 | 11.7 | 0.18 | 851-4999 | Oakmark International (OAKIX) | 3.7 | 14.1 | 20.4 | 1.09 | 625-6275 |
| Vanguard Total Stock Market (VTSMX) | 5.2 | 14.9 | 12.5 | 0.18 | 851-4999 | SSgA Emerging Markets (SSEMXX) | 17.0 | 49.6 | 39.6 | 1.25 | 997-7327 |
| Vanguard Total Stock Market ETF (VTI) | 5.2 | 15.0 | 12.6 | 0.07 | 851-4999 | T. Rowe Price Emer. Markets (PRMSX) | 16.3 | 49.7 | 39.5 | 1.25 | 638-5660 |
| Vanguard Windsor II (VWNFX) | 4.9 | 15.2 | 13.8 | 0.34 | 851-4999 | T. Rowe Price Intl. Discovery (PRIDX) | 8.2 | 28.5 | 28.7 | 1.24 | 638-5660 |
| Midcap | | | | | | Vanguard Em. Markets ETF (VWVO) | 15.7 | 47.6 | N.A. | 0.29 | 851-4999 |
| Aston Mid Cap (CHTTX) | 5.0 | 25.1 | 14.9 | 1.16 | 992-8151 | Vanguard Em. Markets Stock (VEIEIX) | 15.8 | 47.5 | 36.6 | 0.41 | 851-4999 |
| FAM Value (FAMVX) | 1.3 | 7.7 | 8.2 | 1.18 | 932-3271 | Vanguard Intl. Growth (VWIGX) | 9.1 | 23.2 | 22.6 | 0.54 | 851-4999 |
| Fidelity Value (FDVLX) | 4.9 | 15.2 | 16.4 | 0.67 | 343-3548 | Vanguard Total Intl. Stock (VGTGX) | 8.6 | 24.6 | 23.7 | 0.32 | 851-4999 |
| FPA Perennial (FPPFX) ⁴ | 0.5 | 9.7 | 10.7 | 0.92 | 982-4372 | Bond | | | | | |
| Janus Mid Cap Value (JMCVX) | 4.0 | 15.5 | 14.3 | 0.93 | 525-3713 | American Funds Amer. H/I (AHITX) ⁵ | 1.9 | 6.2 | 7.3 | 0.65 | 421-0180 |
| Meridian Growth (MERDX) | 4.6 | 12.5 | 11.1 | 0.84 | 446-6662 | Dodge & Cox Income (DODIX) | 1.0 | 5.3 | 3.7 | 0.44 | 621-3979 |
| Primecap Odyssey Agg. Gro. (POAGX) | 4.3 | 15.9 | N.A. | 0.99 | 729-2307 | FPA New Income (FPNIX) ⁶ | 0.5 | 5.3 | 3.6 | 0.62 | 982-4372 |
| Vanguard Mid-Cap ETF (VO) | 5.4 | 14.9 | 16.9 | 0.12 | 851-4999 | Harbor Bond (HABDX) | 1.2 | 5.4 | 3.7 | 0.58 | 422-1050 |
| Vanguard Mid-Cap Index (VIMSX) | 5.4 | 14.8 | 16.8 | 0.22 | 851-4999 | iShares Lehman 1-3 Yr. Treas. (SHY) | 0.4 | 5.7 | 3.2 | 0.15 | 474-2737 |
| Multicap | | | | | | iShares Lehman TIPS Bond (TIP) | 2.0 | 5.7 | 4.0 | 0.20 | 474-2737 |
| Bridgeway Agg. Inv. 2 (BRAIX) | 11.9 | 29.9 | 21.6 | 1.13 | 661-3550 | iShares Lehman U.S. Agg. Bd. (AGG) | 1.1 | 5.5 | 3.4 | 0.20 | 474-2737 |
| Muhlenkamp (MUHLX) | 3.7 | 3.1 | 7.1 | 1.04 | 860-3863 | T. Rowe Price Intl. Bond (RPIBX) | 2.8 | 8.1 | 5.2 | 0.84 | 638-5660 |
| Weitz Hickory (WEHIX) | 2.8 | 4.1 | 7.5 | 1.20 | 304-9745 | Vanguard Infl.-Pro. Sec. (VIPSX) | 1.9 | 5.6 | 4.1 | 0.20 | 851-4999 |
| Small-Cap | | | | | | Vanguard Inter.-Term T/E (VWITX) | 2.1 | 3.4 | 3.0 | 0.16 | 851-4999 |
| Neuberger Berman Fasciano (NBFSX) | -0.3 | 8.9 | 5.9 | 1.20 | 877-9700 | Vanguard Short-Term Bond (VBISX) | 0.4 | 5.7 | 3.1 | 0.18 | 851-4999 |
| Royce Opportunity (RYPNX) | 2.1 | 11.6 | 13.9 | 1.11 | 221-4268 | Vanguard Total Bond Mkt. (VBMFX) | 1.2 | 5.8 | 3.6 | 0.20 | 851-4999 |
| Royce Pennsylvania Mutual (PENNX) | 2.0 | 12.2 | 14.6 | 0.87 | 221-4268 | Target-Retirement | | | | | |
| T. Rowe Price New Horizons (PRNHX) | 4.7 | 15.0 | 14.2 | 0.83 | 638-5660 | T. Rowe Price Retirement (STOCK/BOND ALLOCATION) | | | | | 638-5660 |
| Vanguard Small-Cap ETF (VB) | 3.3 | 12.1 | 13.6 | 0.09 | 851-4999 | 2005 Fund (55%/45%) (TRRFXX) | 3.3 | 11.5 | 9.9 | | 0.61 |
| Vanguard Small-Cap Index (NAESX) | 3.3 | 12.0 | 13.5 | 0.23 | 851-4999 | 2020 Fund (80%/20%) (TRRBXX) | 4.7 | 14.5 | 12.6 | | 0.72 |
| Specialty | | | | | | Vanguard Target Retirement | | | | | 851-4999 |
| Cohen & Steers Realty (CSRSX) | 4.5 | -1.3 | 18.5 | 0.96 | 330-7348 | 2025 Fund (81%/19%) (VTTVXX) | 4.8 | 14.6 | 10.7 | | 0.21 |
| | | | | | | 2035 Fund (90%/10%) (VTTTHX) | 5.4 | 15.6 | 12.4 | | 0.21 |

NOTES: As of Sept. 13. N.A.: Not available. Load funds are included for those who prefer to use a broker. ¹Annualized. ²Audited and annualized figures except on Fidelity. ³5.75% sales load. ⁴5.25% sales load. ⁵3.50% sales load. ⁶Includes a waiver. ⁷Area code is 877. SOURCES: Lipper, New York, 877-955-4773; the fund companies.

