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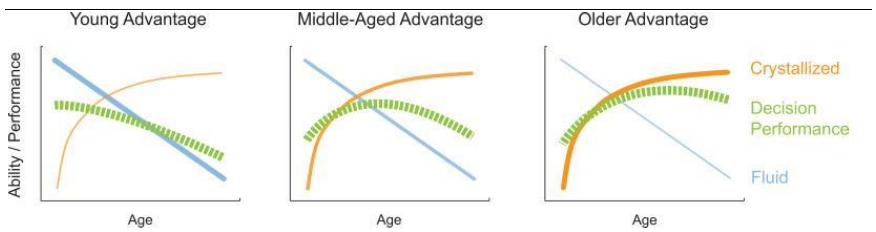
Silver Generation

Financial Decision Making

Financial decision making as we age is a very sensitive topic yet one that should be better understood and addressed. We all change as we age. Our fast twitch muscles start to decline in our thirties, we often need reading glasses as we encounter problems with near vison in our forties and different areas of cognitive ability decline or change as we age.

An interesting study by MIT Neuroscience Department found that different cognitive skills decline at different times. This is a function of the type of intelligence required to perform a task. Fluid Intelligence is the ability to think quickly, recall information and manipulate new information. Crystallized Intelligence comes from the accumulation of facts, figures, and life experiences.

Raw speed in processing information peaks quite early, in our late teens and early twenties. Short term memory improves to our mid-twenties, levels off and then begins to decline in the mid-thirties, and the ability to evaluate other people's emotional state continues to expand into the mid fifties before it begins to decline. In the early years of our life these fluid skills are the sharpest saw in our toolbox. As we age, we tend to rely more on our crystallized intelligence. New studies are showing that the opportunity to expand crystalized skills can occur well into the mid-seventies, with declines not occurring until the mid-eighties. The more opportunities the older individual take for intellectual stimulation improves the odds of increasing these crystallized skills.



Fluid skills decline as we age and become a less dominant tool for decision making. Crystalized skills decline much later and become a more dominant tool as we age.

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Financial Decisions & Aging Population

A few aspects of reduced fluid skills when we age are reduced desire for lots of decision making, becoming more risk adverse and loss of self-confidence. A normal decrease in fluid skills can also be a good predictor of financial acumen among seniors. The interesting aspect of this is that while general self confidence may decline as we age, we do not seem to lose our confidence in our ability to manage our own finances. This may lead to a few financial issues for investors later in life. With a decline in fluid skills, we may make investment decisions in the moment. We may have trouble identifying risk in investment opportunities and for some unfortunate seniors, we may be more susceptible to fraud. Another behavior is the reluctance to get help. It is estimated that almost half the older investor population get no help at all. This may be because we don't want to recognize this change in us or that we simply do not recognize this is a change. Our finances are also such a personal issue that many of us are reluctant to give up control or ask for help, even from a trusted family member.

One positive aspect is that our crystallized skills can compensate somewhat for declining fluid skills as we make our decisions based on more accumulated life experiences. An investor who has experienced euphoria of market bubbles and the subsequent sharp selloff may be more careful when the next bubble occurs. Investors who have experienced sharp selloffs and market recoveries may be more optimistic for a recovery that one who is experiencing decline for the first time. Older adults are proven to be more willing to wait a shorter period for a larger amount of money than younger adults who would accept a smaller amount early. This ability to think forward, combined with personal experience can allow the older investor to accept market volatility and have more faith in market cycles.

This current period of very low interest rates may lead to inappropriate asset allocation for older investors. The portfolio we managed in our accumulation phase of life may not be suitable or needed in the later stage of our distribution phase of retirement. Older investors may gladly convert more investments to bonds or low maintenance fixed income if these instruments paid a meaningful rate of return. To maintain previous returns and maintain capital, more senior investors are increasing their exposure to stock market volatility than they may need to.

An analysis of the withdraw rate from your investments could lead to a change in your asset allocation mix. Please contact us if you would like to explore your sustainable withdraw rate and review your investment policy.

If financial decision making is a concern for you or for a family member there are a few things that can help mitigate risk and improve your investment outcomes. Open conversations with trusted family members earlier rather than later. These conversations do not have to lead to a change in control of the finances but can help create a contingency plan if needed. This trusted family member may also wish to attend review meetings with you and your advisor. Just like bringing a second set of ears to a doctor's office it may be helpful to have another advocate in the room when you are discussing your finances. Also open a dialog with your advisor about a review of your investments. Perhaps a change in strategy or consolidation of accounts may be in order if it can make your investment experience easier and less risky.