



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 hokey, 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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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. \$

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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. (DVOY)	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%) (VTTHXX)	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. ⁸SOURCE: Lipper, New York, 877-955-4773; the fund companies.

