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 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 amygdala, 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 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.

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 upfront 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 con 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 hooey, and a lot of advisers now put the rule
“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 Rosenfeld, 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. $