MarketWatch
THE WALL STREET JOURNAL.

Publication: Market Watch
Date: April 8, 2014
Author: Anne Tergesen

# Saving for retirement? Retrain your brain

If you ever feel like emotions rule your financial life—and jeopardize your retirement readiness—a new book from financial planner Donna Skeels Cygan, "The Joy of Financial Security," has some tips that you may find useful. I recently spoke by phone with Cygan, who lives and works in Albuquerque, N.M. The topic: How to retrain your brain to make smarter financial decisions. What follows are edited excerpts from the conversation.

Q. How does the brain process financial decisions?

A. It varies by person. The amygdala is the part of our brains where our emotions tend to originate. That's where we get the fear, greed, impulsivity and anger that are enemies of a good investor. That is in conflict with the prefrontal cortex region of the brain, which is our reflective, analytical side and is where logic prevails. When it comes to finances, that's the region that prompts us to have goals and plan for the long-term.

Those two parts of the brain can be in complete conflict. What I get from this research is that it is important to be aware of these two parts of the brain and their roles. So when the Dow plummets 500 points and I feel panic welling up, I am better able to calm myself down and tell myself that my job is to hold the course for my clients and calm them down.

[Wall Street Journal columnist] Jason Zweig says a good investor uses both parts of their brain, which I think is very true. The first step is to become more aware of their influence –and to understand whether you are dominant in one or other.

Q. What types of people are prone to over-rely on one or the other part of the brain when making financial decisions?

A. A lot of people are very impulsive. These are the people who run for cover when the market drops 500 points, and miss the rebound. They are their own worst enemies. But there are others—and here, I can think of some of my clients who are scientists and engineers—who are very analytical and sometimes analyze a financial decision to death. They can become paralyzed, or scared to death to make the wrong decision, so they keep analyzing and analyzing and it doesn't really add value.

When I have clients like that, we often make spreadsheets. They need that so they don't feel they are making decisions on a whim. But what I emphasize to them is that that's only one piece of puzzle. We need to apply the data and analysis to their personal situation and answer the question, "how does this financial plan fit into your life?"

Q. How can we train our brains to make more effective financial decisions?

A. If you are impulsive and you know it, then the easy answer is that you need a financial plan to set some guidelines. So if the market drops 500 points, you can focus on your goals for the long-term instead of reacting to day-by-day swings. Here, a financial adviser can help keep things on track by reminding you that the market has so many bumps along the road, but that it always recovers.

Tell yourself you are not going to listen to your neighbor's hot stock tips. If someone pitches the latest and greatest new product, protect yourself. Have a rule that you are going to wait three days before buying. During those days, get a second opinion and do some research. This applies some structure to the decision-making process.

Being aware of your fear and greed and trying to calm them down means turning off the TV and the computer. In the days after 9/11, I called my clients and I found that those who sat glued to the TV were the most frightened.

On the other hand, Harry Markowitz, the pioneer of modern portfolio theory, who is as analytical as they come, decided that instead of taking a purely analytical approach to investing he'd use a 50/50 stock/bond portfolio. As Zweig relates in his book, Markowitz recognized the role of emotions in investing—emotions like regretting missing gains and fearing losses. So he went for a balanced portfolio. I think that was a brilliant solution.