Use reason, not emotion, when you make investment decisions,” is the common advice of financial advisers to their clients. But that advice is neither feasible nor wise. Antonio Damasio, a clinician and researcher in neurology, demonstrated that emotion complements reason and the interaction between reason and emotion is mostly beneficial, often critically so.

The Economist (2006) describes Elliot, one of Dr. Damasio’s patients, whose surgeons removed some of the frontal lobe of his brain as they excised a tumor lodged there. Elliot was a responsible family man with a good job before his tumor appeared. His ability to reason did not disappear after his surgery. Indeed, Elliot seemed to apply reason even more rigorously than before. He could list all the reasons for scheduling his next physician’s appointment on one date or another. But he could not decide which one to choose. Elliot’s ability to make sensible decisions was gone and he lost both his wife and his job.

Dr. Damasio found that the damage in Elliot’s brain centered on his emotions, not his ability to reason. The Economist stated, “Elliot no longer felt anything, and although he could summarise the choices available in a given situation as well as anyone else, without his emotions to guide him he could not actually make a choice.”

Long into retirement, my father would tell about the time, many years before, when he moved our family to a small two-bedroom house in a better neighborhood. My parents occupied one bedroom and the other went to my six-year-old brother, two-year-old sister, and me, the 10-year-old.

My father asked his employer for permission to dip into his retirement fund for money to expand our house. He was angry when his employer refused, but he was grateful to his employer later in retirement.

It is hard for young people who want the money now, whether for a bigger house, a better car, or a more enjoyable vacation, to listen to the voices of their future old selves who would need the money even more urgently in retirement. We all need help from employers, spouses, financial advisers, and even the government to quiet the greedy voices of our young selves and bolster the needy voices of future old selves.

The voices of our future old selves are quieter than the voices of our present young selves because of differences in time perspectives between the present and the future. Psychologists Trope and Liberman (2003) described the differences with a visual analogy: From a future perspective we see a forest, but from the present perspective we see a tree.

Time-distance influences the way we see future events. We see abstract and emotionally cold pictures of events that are far in the future while we see concrete and emotionally hot pictures of events in the near future. The picture that
my father saw when he was contemplating an expanded house was so concrete and emotionally hot that he could almost touch its walls and feel the pride of a man who provides for his wife and children. In contrast, the picture that my father might have seen when he was contemplating dipping into his retirement fund was abstract and emotionally cold. It is hard for a man in his early thirties to form a concrete and emotionally hot picture of the difference between living on 60 percent of his salary if he dips into his retirement fund and living on 80 percent of his salary if he does not. It is no wonder that when my father was young he was willing to dip into his retirement fund and when he was old he was happy not to have been permitted to do so. In retirement my father could see concretely and feel emotionally the difference between the joy of being financially independent and the sorrow he would have felt if he had to rely on his children for financial support. He would recite an old proverb, “When parents support their children everyone smiles, but when children support their parents everyone cries.”

Our knowledge of the effect of time perspectives on the attraction of the near future and the distant future offers tools to balance the two. We can bolster the attraction of events in the distant future by making them concrete and emotionally hot right now. We can draw concrete and emotionally hot pictures of the difference between retirement on 80 percent of our pre-retirement income and retirement on 60 percent of it. In retirement we still will have to pay for food, utilities, home maintenance, property tax, and insurance. We will need 100 percent of these, not 60 percent, not even 80 percent. So what will we cut from our retirement budget if we are to live on 60 percent of our pre-retirement income? Will it be the opportunity to travel, to dine at restaurants, to attend the opera?

One of the challenges of financial advisers who consult with pension fund trustees is to help balance the scales by making the needs of future retirees as concrete and emotionally hot as those of current retirees.

And how would we feel if we have to rely on our children for financial support? A concrete and emotionally hot picture of life in retirement can counter the attraction of a concrete and emotionally hot picture of a new car and perhaps deter us from spending now what we might need even more urgently in the future.

The emotions of institutional investors are not different from those of individual investors and they equally are affected by hot emotions. Pension fund trustees must balance the needs of current retirees with those of future retirees. The needs of current retirees are concrete and emotionally hot. Trustees listen to current retirees who cannot get an experimental transplant because the medical plan does not cover it. Or they listen to retirees who must skimp on food and medicine because their pensions are too small. In contrast, the needs of future retirees are abstract and emotionally cold. One of the challenges of financial advisers who consult with pension fund trustees is to help balance the scales by making the needs of future retirees as concrete and emotionally hot as those of current retirees.

The recently enacted Pension Protection Act of 2006 offers a tool for tilting choices toward the future by making them automatic.

Employers now are authorized to deposit money from employee paychecks automatically into retirement funds unless employees formally object. Moreover, the law authorizes employers gradually to increase over time the percentage deducted from paychecks for retirement funds.

The story of our family had a happy ending. Somehow, my father found a way to assemble enough money to expand the house without dipping into his retirement fund. Moreover, my father taught me how to tilt my own choices toward the future even when the present was emotionally hotter. Whenever I got a cash gift for a birthday or holiday my father offered to double it if I put it in a savings account he established for me. The goodies I could buy with the money were emotionally hot but so was the magic of turning each dollar into two. I usually chose magic and saved. When employers match employees’ 401(k) contributions they too follow my father’s lesson. They turn employees into money-multiplying magicians and make savings emotionally hot. Advisers follow that same lesson by making future experiences vivid and emotionally hot, coupling pleasant emotions with the reasoned act of saving.

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