AARP Driver Safety Program

The AARP will present their Driver Safety Program, sponsored by the Naugatuck Senior Center on March 17 and 18 from 8:30 a.m. to 12:30 p.m. The Naugatuck Senior Center is located at 300 Meadow Street in Naugatuck. The cost of the course is $10, with checks made out to AARP. The class consists of two four-hour sessions and students must attend both sessions for a completion certificate. Those individuals completing the program may be eligible for a discount on their auto insurance. Class size is limited, so registration is necessary by calling 720-7069.

Why Smart People do Stupid Things With Their Money

By James W. Coleman

Most people are generally intelligent, reasonable and knowledgeable, but if left to their own devices, they are capable of doing some really dumb things with their money. On occasion, this paradox has left me breathless. Have you ever wondered why it is so hard for people to learn from their own financial mistakes? Have you ever been amazed by why in the world smart people do such stupid things with their hard-earned money? Turns out that there is a new science that explores these questions and it can help us all discover how to keep emotions out of our financial decision-making. It's called: neuroeconomics.

Neuroeconomics is a hybrid of neuroscience and psychology. Its mission is to help crack the smart yet stupid riddle for the first time. By using the wonders of brain-imaging technology, scientists are able to get down to the biological bedrock of financial decisions. Scientists can actually illuminate the living brain's neurons, circuits and systems that determine how we think about money. What scientists are discovering is that emotions are located in a more primitive part of the brain than rational thought.

Jason Zweig, expert and author of the new book on neuroeconomics, *Your Money and Your Brain*, gives us this example. When you unexpectedly lose money on an investment, a part of your brain called the insula becomes intensely active. The insula is one of the main centers in the brain for processing disgust; the neural response of someone who has just lost money is barely distinguishable from the activation in the brain of a person who has just smelled vomit or stepped in dog doo. It's literally a sickening feeling, and it creates an almost irresistible urge to get rid of the thing that made you sick. Being slaves to our emotions can lead us astray financially, chief among these emotions are disgust, greed, confidence, surprise, fear, regret and (of course) happiness.

Emotion and reason battle within the human brain

All of us, including otherwise intelligent, clever and knowledgeable people, are balls of emotion just waiting to erupt, generally at the worst possible time, and often over money. It happens all the time. The wonder of the neuroscience of financial decision-making offers a new way to understand how our emotions work and how we can control them. As financial advisor, I can help my clients understand how and why they need to keep their emotions out of financial decisions.

First step is to acknowledge that emotions are woven into your thinking, whether you are aware of it or not. Own your feelings. Track your emotions. Here's a technique for becoming aware of emotions. Keep an emotional journal, a basic record of how you feel about the markets and your portfolio. You will be able to look back and learn from your emotions. Over time, what you will discover is that emotional investing is quite likely to be dead wrong. Here's why in a nutshell. Imagine you are invested only in stocks. When your stocks are high (and therefore increasingly expensive) you are likely to feel happy (instead of being concerned). When your stock portfolio suddenly drops in price and loses value (and stocks become cheaper), you are likely to feel disgust (instead of being excited by the buying opportunities). By keeping an emotional journal, you will learn not to turn your emotions off, but to turn them inside out.

Only fools invest without rules

You can stop the bouncing ball of emotion by setting price targets in advance, by using goal-based asset allocation, diversification and investing timeframes, when you are calm and rational. Do not count on self-control or your powers of persuasion when you are upset. Hundreds of studies in neuroscience and neuroeconomics teach us that self-control and persuasion will not work when the market goes to extremes of fear and greed. Be humble in the face of your emotions and feelings. By setting price targets, by using techniques in advance, like disciplined asset allocation and diversification and long-term investing horizons, you can remove emotional turmoil and instill rules-based financial decisions.

Are these insights unique to neuroeconomics? Some of them are. For example, it's extremely valuable to know that long-term planning is processed exclusively in the reflective, cortical areas of the brain while short-term decisions are driven mainly by the more primitive emotional circuits. Here's another tip. The best way for people to save for a long-term goal is by visualizing an intensely emotional positive scenario around the goal. Exiting the short-term brain makes the long-term future feel intensely vivid in the here and now. Instead of asking yourself: "When do I want to retire?" you should ask "What is my dream retirement?" and then visualize that dream as concretely as possible.

Saving for retirement is an abstract goal. If, instead, you create a story, around a dream, like: "I want to retire and live on a sailboat" -- accompanied with full-color photographs, nautical charts, itineraries, and so on -- then you have made saving for retirement into a much more exciting motivational goal that will directly activate the reward-seeking circuitry in the brain. Now that's a practical insight from neuroeconomics that can help prevent smart people from doing stupid things with their money.

[About Jim Coleman: Jim Coleman has been in the financial services industry for over 20 years. He founded Coleman Financial Advisory Group, a Waterbury-based financial services firm, in 1990. He specializes in providing comprehensive financial planning, asset management and estate planning services.

Mr. Coleman received a Bachelor of Science degree from Northeastern University in Boston, with a double major in finance and marketing. Coleman is also a member of the Financial Planning Association, the largest organization of professionals dedicated to championing the financial planning process.

Coleman's passion is finding solutions to financial problems and further educating his clients and the community. Listeners in Connecticut rely on Coleman to deliver sound, accurate financial advice as host of *All About Money*, a radio talk program. He recently authored a book titled *Educated Investing: Your Guide to Surviving and Thriving in the Fast-Paced Global Markets of the 21st Century.*

Call Coleman's office at 756-7526 or visit www.ColemanAdvisoryGroup.com to learn more.]

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