

How To Calm Graying Investors

By Michael P. Sullivan

Uncertainty and fear are the enemies of rational behavior, whether by investors or anyone else. Younger people, who by nature's design must be optimistic, are less likely to be intimidated for an extended period of time by current events. Graying investors—those in their mid-40s and older—are more likely to panic or be frozen into indecision.

A vast amount of psychological research shows that graying adults make decisions (including the often overlooked decision to do nothing) on a different basis than younger individuals. The latter rely mainly on analysis based on the facts as they see them and what they consider to be logical reasoning. Older adults rely mainly on their experience in life.

The fundamental problem confronting graying investors today is that their experience does not appear relevant in the present crisis and, therefore, many have no basis on which to make decisions. In fact, graying investors do have life experience that is highly relevant. They just need to be reminded of it.

The question for advisors is how to talk to older clients in such a way that they become able to use their own experience to put things in perspective. Here are a few ways to get the conversation under way:

Introduce the topic by saying, "I know things are very uncertain now, and like everyone else, I'm a little afraid too. But when I begin to get upset I remind myself of history." Then follow up with these examples of historical perspective:

- **The Great Depression.** In the depths of the Great Depression, when unemployment reached 25%, Franklin D. Roosevelt said something we all remember to this day: "The only thing we have to fear is fear itself." Things today are nowhere near as bad as they were then. The United States, including the economy, is stronger in every way. If we got through that, we'll get through this. If your father or grandfather had been able to invest in the broad stock market in the 1930s, he would have eventually made a huge amount of money, and you would probably be wealthier too.
- **World War II.** At the beginning of World War II, in 1941, we had a very small army—and after Pearl Harbor, a very beaten-up Navy. Japan and Nazi Germany were far stronger than our present enemies, and the U.S. and its allies were much weaker than we are today. Yet in just four years we won that war and put the world on the path to freedom and prosperity. If your father had been able to invest in the broad stock market in the 1940s, you would probably be a much wealthier person today, because both the U.S. economy and the stock market grew explosively during and after the war. For the record, the S&P 500 lost 11.6% in 1941 and then had four straight years of double-digit gains before losing 8.1% in 1946, the year after the war ended. It did not have another losing year until 1957.
- **The Cold War.** After World War II, we fell into the Cold War. The Soviet Union was the greatest threat we had ever faced, because it had the nuclear capability to wipe this country off the map. It was a far more dangerous opponent than our present enemies. And remember, the Cold War went on for over 40 years. Yet, despite all the danger and the huge amounts of money the U.S. spent for defense, the economy grew and grew and grew—and so did the stock market. And we won that war, too. From 1949, when the full threat of the Soviet Union was recognized and NATO was founded, through 1990, when it became clear that the Cold War was over, the S&P 500 averaged a return of 12.2% compounded annually.
- **Today's crisis.** Compared with those very enormous dangers that threatened our existence, today's fears don't seem so insurmountable, do they? The economy will recover and start to grow again. Based on history, the stock market will eventually follow the economy up. And then, those people who are able to overcome their fears and

look to the future will be better off than those who wait until there is no danger. During the Cold War, the danger didn't end for 45 years, but the economy and the stock market both kept growing any way.

At this point, some graying investors might say, "But this time it's different." Again, remind them of what they already know from their life experience:

- **Every major crisis is different.** The Cuban missile crisis was different and much more threatening; we teetered on the brink of nuclear war for three weeks. The energy crisis was different and much more damaging to a much weaker economy.
- **The real question is not whether today's crisis is different but rather what happens as it is resolved and afterward.** From experience, we know that people adapt to the most difficult circumstances and keep going on with their lives—just think of the British during the German bombing attacks in World War II. Life goes on and so does the economy. Based on history, so does the stock market.

Don't expect graying investors to immediately agree with you and jump back into the market. You have given them a different perspective on the problem and a way to make their life experience relevant. The next step requires connecting decisions to invest to things important in their lives. We call these life issues, and they range from what they are going to do in retirement to how they are going to enjoy their grandchildren. If you make those connections clear, graying investors will begin to come back into the market.