

## **Expert Financial Advice Impairs Decision Making** **Shirley M. Mueller**

Published on Health Care Professional Live August 17, 2009

Lately, there has been so much financial fraud in the news that it is hardly worth reciting again. What does linger in one's mind, however, is how this could possibly happen to so many people so often. Not only were private investors involved, but even financial consultants who should have known better.

New research may provide an explanation. It indicates that the brains of research subjects shut off to decision-making in the presence of expert financial advice.

Gregory S. Berns and his colleagues from Emory University in Atlanta, Georgia investigated the brain function of subjects who made monetary decisions when they were given guidance and when they were not. Their study was entitled, "Expert Financial Advice Neurobiologically 'Offloads' Financial Decision-Making under Risk." It was published in PLoS One on March 24, 2009.

The investigators examined 24 students, 15 of whom were female. The average age was twenty three. They were asked to make financial choices between a sure payment and a lottery while undergoing functional magnetic resonance imaging (fMRI) to determine areas of the brain that were active during different interventions. At times during the testing, the volunteers made choices independently. In other periods, they received counsel from a financial 'expert.'

When the volunteers acted alone, their fMRI scans showed that regions of the brain consistent with decision making under uncertainty were activated. These included the areas technically called the parietal cortex and intraparietal sulcus. The intraparietal sulcus is the reputed human equivalent of an area in the monkey's brain that has been demonstrated to process elements of expected utility. Though this sounds complicated, utility is simply a gauge of the satisfaction from consumption of goods or services. Thereby, expected utility is the anticipated value, in this case how much the subject would glean in return from a particular monetary choice.

When the financial expert offered advice, the same location of the volunteer's brains that was active when decisions were made independently showed less activity. This was in spite of the fact that the financial advisor's suggestions were very conservative and did not lead to the maximum earnings. This means the

subjects did not serve themselves well by assessing the expert's counsel, but went into a type of decision making suspension.

The authors summarized, "these results provide significant support for the hypothesis that one effect of expert advice is to 'offload' the calculation of expected utility from the individual's brain." In other words, brain processes that lead to a decision go missing in the subject when the financial expert gave advice.

This study not only has implications as a reason behind easy investor fraud. It also is a warning for any investor who becomes passive after hiring a financial advisor. Even if the advisor has his client's best interests at heart, he certainly isn't infallible. In the study, the advisor gave ultra conservative advice, thereby meaning less money was earned by the study participant. The subject did not analyze the choices made by the advisor and therefore suffered the monetary consequences. There is no reason that this, or some variation of it, could occur in the other direction (too much risk taking) in real life scenarios.

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