

The Brain/Money Connection

We know that stress can affect our health in many ways, sometimes causing heart disease, obesity, asthma and diabetes. But did you know the brain is also physically impacted by stress? Neuroscientists at the University of California, Berkeley, have found that chronic stress triggers long-term changes in brain structure and function.

Neuroeconomics, a fascinating sub-specialty of neuroscience, is the science that explores the way the brain is influenced by money. This new discipline focuses on understanding the neurobiology of decision making.

Neuroscientist Dr. Sam Barnett, co-founder of ThinkAlike Laboratories, conducted research to determine the brain's appearance while making financial decisions. He found that the ability to make sound decisions related to money can be impaired by anxiety.

The complexity of the financial situations we often find ourselves in makes it difficult to process the information involved and impedes our ability to make rational choices. There can be several choices to consider, each with their own pros and cons, and the plethora of information can easily make us most feel anxious.

Barnett claims this wide range of options causes us to make poor decisions. Since the brain, has two basic modes, fight or flight, being presented with too many choices can lead to confusion and anxiety.

Author James Clear agrees with this premise and adds that it is the lack of certainty that adds to the anxiety. Clear says, "One of the greatest sources of anxiety ... is the constant uncertainty." How do we know if a particular investment makes sense? Should I invest in a hedge fund or in a municipal bond? These questions are multifaceted with no clear-cut answers.

When making a financial decision based by comparing all available options, there will almost certainly be an overwhelming number of options making it difficult to choose. This wide range of choices, coupled with not uncertainty, creates a high level of stress that can lead to hasty, uninformed decisions. Barnett's study shows that lots of these anxiety-generated decisions lead to buyer's remorse for people across every age group and socioeconomic circumstances.

Alternatively, instead of making a quick, poor choice, people may choose to make no decision at all. In some situations, remaining undecided and taking no appropriate action can be truly disastrous.

The science behind the science

The relationship between money and the brain has primarily been a subject of research in the last decade. Through MRI testing, scientists have found that different parts of the brain are stimulated when dealing with money. One study published by the National Institutes of Health showed that there is increased neural activity when people play games for money. In fact, the brains of these game-playing people looked quite similar to brains of people high on cocaine.

Apparently, even the possibility of winning money changes the brain! When making even the simplest financial decision, the brain is in play and influences the process.

How can we help our brain handle so much information?



Barnett's study also shows that receiving assistance in narrowing down the options, or having a financial advisor provide a framework for the decision, helped alleviate anxiety. Making decisions from a focused, confident point of view leads to a better long-term outcome.

Developing long-term and short-term financial plans that consider what we want and need in the future also relieves some anxiety and improves decision making. While a knowledgeable friend can be a great sounding board, a financial planner is the better choice when seeking help with this process.

MemberAlliance Credit union offers assistance like this through our Investment Planning Services. Call, visit our website, or stop by to learn more.

Working with a competent financial planner is well worth the outlay, and most planners offer an initial meeting at no cost. The financial planner will help you focus on your goals and hone in on the important components of a broad plan. According to Barnett, narrowing options not only leads to better financial decisions, it also improves brain function.

You can also narrow information by using budgeting tools. Simply putting financial information on paper (or in cyberspace) helps the brain organize and make sense of the large volume of information. Setting financial goals and checkpoints can also help reduce anxiety.

The bottom line? The best way to make sound financial decisions is to get help. Going it alone can lead to regrettable choices you can never undo. Call, click or stop by MembersAlliance Credit Union today. We're here to take the stress out of money management!

SOURCES*:

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