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Positives of Aging

As we age, we experience a constant and continuous and increasing series of losses. Some of the losses, like loss of a parent or sibling or a spouse, are substantial and significant. Some losses are pretty minor, but in aggregate, become substantial. Gradual loss of physical strength and endurance, loss of recuperative powers, and lower energy levels are minor on a daily basis, but cumulatively represent fairly large transitions.

Each of us can formulate his or her own approach to dealing with aging. This can run the gamut from denial to acceptance, from passivity to frantic exercise; from withdrawal to energetic engagement. I think a large part of how we approach aging is based on how we frame and understand the aging process.

Conventional Wisdom

At a professional conference a couple of years ago, I attended a session on Physical and Mental Aspects of Aging: Impact on Retirement & Planning. The session was presented by the Program Director of a large and prominent university's Retirement Planning and Living program in the Department of Personal Financial Planning. The message was clear and unequivocal. Somewhere in the mid-50's begins an inexorable physical and mental decline that continues through the remainder of life. The presenter detailed the physical aspects of aging, including the increased incidence of disease, deterioration, and disablement.

The presenter continued on with the cognitive decline by charting cognitive performance with the decline in speed of processing, working memory, and long-term memory. Apparent declines in numeracy and financial literacy were underscored along with a correlation of higher interest rates on loans and lines of credit for elderly borrowers (for some unknown reason).

This decline was juxtaposed against the continuing increase in longevity and the sharp increase in end-of-life medical costs; underscoring the financial planning nightmare. The presentation ended with a couple of gratuitous slides pointing out how important health is, particularly as we age, (duh), and that it might be a good idea to pay attention to diet and activity level (duh). The general message was: "it's all downhill from here, so get used to it". Clearly, the point of the presentation was to highlight the challenges facing not only aging clients but

the planners who are focused on helping them. In that light, there is at least some justification for the focus on all the things that can go wrong and create difficulties.

Nonetheless, I left the session with a vague sense of depression (well along the way in the grieving process). I had already passed through the first three stages of grief: denial, anger, and bargaining. And I guess there has been a level of acceptance, yet there still remains a bit of denial.

A Better kind of Wisdom

At a more recent conference, I was introduced to the work of Dr. Gene Cohen. Dr. Cohen was a pioneer in aging research and his most recent book [The Mature Mind – The Positive Power of the Aging Brain](#), published in 2005, challenges the conventional wisdom, which holds that:

- The brain cannot grow new brain cells,
- Older adults cannot learn as well as young people,
- Connections between neurons are relatively fixed throughout life,
- Intelligence is a matter of how many neurons you have and how fast those neurons work.

Dr. Cohen points to research that shows the brain is more resilient, adaptable and capable than has been long thought.

- The brain is continuously resculpting itself in response to experience and learning,
- New brain cells do form throughout life,
- The brain's emotional circuitry matures and becomes more balanced with age,
- The brain's two hemispheres are more equally used by older adults.

I think all of these points are positive. The last two are particularly relevant from a financial planning and investments perspective.

The reference to emotional circuitry is focused on the limbic system, including the amygdala (the lizard brain), which was mentioned in [our last quarter's letter](#). Cohen describes the imbalance in the pathways between the limbic system and the frontal cortex as being big and fast *from* the limbic system *to* the frontal cortex, and small and slow *from* the frontal cortex *to* the limbic system. This is the imbalance between reason (frontal cortex) and emotion (limbic system) that gets us in trouble in all sorts of ways. Research has shown that activity in the amygdala decreases with age. Having

better balance in this brain circuitry is clearly a good thing.

Likewise the emphasis on the separate right and left hemispheres of the brain is more pronounced in younger people. The brains of some older adults remodel themselves to use the hemispheres together, which is more powerful and efficient. This remodeling appears to lend more creativity to the aging brain. This creativity frequently manifests in older adults finding satisfaction in various artistic endeavors.

Dr. Cohen identified four distinct developmental phases of later life. *Midlife reevaluation* is characterized by the questions: Where have I been? Where am I now? Where am I going? *Liberation* is characterized by the question: If not now, when? *Summing up* can be a time of recapitulation and review, and is characterized by a desire to give back. The final phase, which Dr. Cohen calls *Encore*, is about continuation and the desire to go on, even in the face of adversity and loss.

What to do

The work of Dr. Cohen suggests that rather than focus on, and simply minimizing decline, we recognize the potential for positive growth in later life. Brain fitness can actually be enhanced later in life by:

- Physical and mental exercise, - both boost brain power.
- Choosing challenging leisure activities, – dancing is quite impactful; music, puzzles and reading are also good.
- Achieving Mastery in a new endeavor, - this creates a sense of self control, and
- Establishing strong social networks, - active social engagement is associated with better mental and physical health.

While from a planning perspective, it may be prudent to provide for a decline in cognitive capabilities, we individually need not accept the conventional wisdom of an unavoidable decline.

The table below shows the returns through December 31, 2014 for selected investment asset classes. In most cases, the results below are appropriate benchmarks for the related mutual funds in your investment portfolio.

Asset Class	Data Series	YTD	3 Yrs.	5 Yrs.
Ultrashort Bonds	BofA Merrill Lynch Three-Month US Treasury Bill Index	0.04	0.07	0.09
Short Term Municipal Bonds	Barclays Capital Municipal Bond Index 3 Years	1.22	1.47	1.93
Short Term Government Bonds	Barclays Capital Treasury Bond Index 1-5 Years	1.17	0.64	1.79
Short Term Corporate Bonds	BofA Merrill Lynch 1-5 Year US Corporate and Government Index	1.51	1.43	2.30
Short Term Global Bonds	Citigroup World Government Bond Index 1-3 Years (hedged)	0.96	1.03	1.17
Intermediate Term Municipal Bonds	Barclays Capital Municipal Bond Index 7 Years	6.09	3.07	4.76
Intermediate Government Bonds	Barclays Capital US Government Bond Index Intermediate	2.52	0.99	2.78
Intermediate Corporate Bonds	Barclays Capital Credit Bond Index Intermediate	4.16	3.98	5.00
Intermediate Global Bonds	Citigroup World Government Bond Index 1-5 Years (hedged)	1.90	1.54	1.78
US Marketwide Core 1 & 2	Russell 3000 Index	12.56	20.51	15.63
US Marketwide Vector	Russell 2500 Index	7.07	19.97	16.36
US Large Cap Market	S&P 500 Index	13.69	20.41	15.45
US Large Cap Value	Russell 1000 Value Index	13.45	20.89	15.42
US Small Cap Market	S&P Small Cap 600 Index	5.76	20.24	17.27
US Small Cap Value	Russell 2000 Value Index	4.22	18.29	14.26
Real Estate Investment Trusts	Dow Jones US Select REIT Index	32.00	16.10	16.99
International Marketwide Core & Vector	MSCI World ex USA Index (net div.)	-4.32	10.47	5.21
International Large Cap Market				
International Large Cap Value	MSCI World ex USA Value Index (net div.)	-5.41	10.46	4.52
International Small Cap Market	MSCI World ex USA Small Cap Index (net div.)	-5.35	11.77	7.91
International Small Cap Value				
Emerging Markets	MSCI Emerging Markets Index (net div.)	-2.19	4.04	1.78