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## Time, money, age and advice: They're all connected

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By Kerry Pechter      Wed, Dec 18, 2013

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When people decide either to seek investment advice, manage their money themselves, or just ignore their finances, they're acting more rationally than you might think. Consciously or not, they do a mental cost/benefit analysis of the situation—weighing the value of their time, their own abilities and the amount of money they have.

So posits a new article Olivia Mitchell of the Wharton School, Raimond Maurer of Goethe University, and Hugh Kim of Seoul-based SKK University, called, "Time is Money: Life Cycle Rational Inertia and Delegation of Investment Management" (NBER Working Paper 19732).

The article offers some potentially valuable marketing insights. It ambitiously tries to quantify what has hitherto been difficult to quantify, such as the value of financial advice. And it makes some interesting observations about age-specific investor behavior.

At any given life stage, the authors say, people tend to manage their investments in one of three ways: by doing nothing ("inertia"), by doing it themselves ("self-management") or by consulting a financial advisor ("delegation").

The young don't have a lot of money yet and they're too busy building up their professional skills to pay much attention to their finances. They tend to let inertia have its way until they enter their 30s. That's unfortunate, because getting professional advice "from the beginning of the lifetime boosts welfare by 2.5%," the authors suggest. By "welfare," they mean consumption.

Evidently, as people enter their 40s and 50s, they have more savings, more street-smarts and are more secure in their careers, so they have the means, motive and opportunity to manage their own finances. "The middle-aged are more active, since this group is the most efficient in terms of financial decision-making." It takes them only about 3% of their time to manage their money, which they can easily afford. "Still, however, almost 85% of the middle-aged group does not change portfolio allocations."

The willingness to self-manage tends to rise as people retire and have more free time. "The fraction of self-managing investors jumps from 15% to about 30% at age 65," the paper says. Then, as mental agility begins to decline with age, so does the urge to self-manage.

Just as people sleep a big chunk of their lives away, so they spend most of their lives not paying much attention to money management. Even though investors change their portfolio management approaches 6.58 times during their lifetimes—which sounds like a lot—they spend an average of 66.44 years doing nothing, the paper said. They self-manage for an average of 13.56 years, and begin self-management, on average, about 30.87 years after they enter the work force.

The paper has good news overall for advisors. It claims that access to an adviser “boosts wealth more than 20% across all age groups,” mainly because people with advisers hold more equities and because outside advice lets people devote more time to climbing the career ladder. Professional advice is associated with a 2% increase in consumption, starting at age 50 and continuing through retirement.

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