

Mental health affects investment decisions, study shows

June 24 2010, By Daniel Aloï

(PhysOrg.com) -- A paper co-authored by Cornell economist Vicki Bogan suggests that mental health issues or substance abuse in a household may have an effect on investment decisions and management of retirement assets.

The financial choices people make are crucial to planning for a comfortable retirement, especially for those Americans who manage their personal investment portfolios and whose employers do not offer pensions. Even those with the security of earning a government pension may see its value erode with inflation.

A recent paper co-authored by Vicki Bogan, Cornell assistant professor in the Dyson School of Applied Economics and Management, links mental health with investment decisions, suggesting that the way many workers manage their retirement assets may ignore the effects on [investment decisions](#) of mental health disorders or substance abuse problems, which affect individuals in one out of three households in the United States.

Bogan and her co-author, health economist Angela R. Fertig of the University of Georgia, found that households with at least one person diagnosed with a [mental health disorder](#) held a greater percentage of their assets in bonds or cash. They found this to be part of a pattern of risk aversion common to the financial decisions made in those households.

The researchers began by exploring "general tendencies and patterns in investments and health," said Bogan, whose research focuses on investment decision-making. While physical health impacts have been studied, the effect of mental health on economic decision-making has been "an interesting and unexplored area in the literature," she said.

"The most prevalent diagnosis is depression, and there has been some research linking depression with taking less risk, and work linking Seasonal Affective Disorder with financial market activity," she said.

In addition to households affected by mental illness decreasing investments in risky instruments, they also discovered "that single women diagnosed with a psychological disorder significantly increase their share of financial assets devoted to safe investments and have an increased probability of holding safe assets."

[Mental health](#) issues can adversely effect "an individual's motivation to invest for future returns," they wrote. Physical or [mental health issues](#) also reduce productivity and earnings while increasing medical spending, "thereby reducing the availability of funds to invest; it may also cause a household to change its portfolio allocation toward more liquid assets," they wrote. "Historically, portfolio choices of stock have been vital to economic advancement and wealth building, particularly during prosperous economic times."

Bogan and Fertig also expressed concern that people focusing too much on safe investments could put themselves at an economic disadvantage.

"It begs further research," Bogan said. "We know that stockholding and making investments has been a key to long-term wealth-building. And for those not taking the appropriate levels of risk for their portfolio, it could have long-term effects on their financial situation."

Fertig presented their working research paper at the Third Biennial Conference of the American Society of Health Economists, "Health, Healthcare and Behavior," held June 20-23 at Cornell. Bogan said they plan to submit their research for journal publication after the conference.

Provided by Cornell University

Citation: Mental health affects investment decisions, study shows (2010, June 24) retrieved 19 September 2024 from

<https://phys.org/news/2010-06-mental-health-affects-investment-decisions.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.