Money: A Love Story

By Dr. Elesa Zehndorfer

There are moments in your life when you realize money can indeed buy happiness. It's the joy you feel when you get the unexpected bonus at work. Or the cash in your hand when you sell a car. Or the pleasure when a stock you took a risk on quickly doubles or triples in value.

Money delivers a rush.

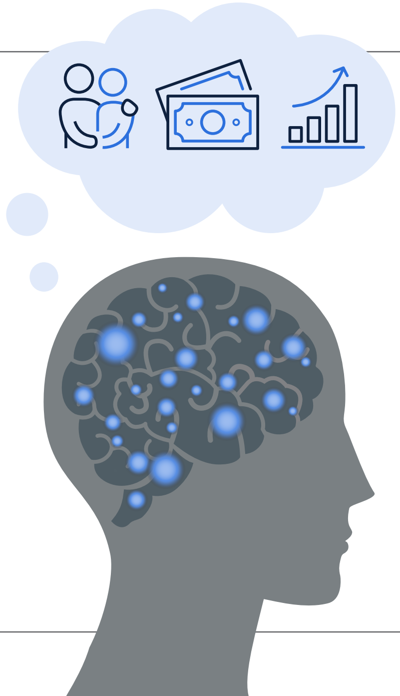
The way you feel at those times is a physiological response to money. That's because when we think about money, it can exert a neurological effect on our brains so seductive that it literally matches what happens to our bodies when we think about love or intimacy—some of our most primal of urges. It's no wonder, then, that research from behavioral economists and neuroscientists confirms it can be difficult to remain rational when it comes to our investing behavior. We are seeking that rush, time and time again.

My field of study, physiology, sheds fascinating light on how the body deals with these seductive effects. Let's investigate why we're hardwired to react emotionally rather than rationally when it comes to money, and how we, as investors, can tame our inner beast and resist the allure of quick profits from the next cryptocurrency.[1]

The Desire of Desire

Our thoughts and feelings about money likely start when we're children and find a quarter on the sidewalk, and it continues today when we see an investment unexpectedly increase in value. The rush is particularly alluring, especially when investors believe there's more of it to be made quickly and easily—like during the dot com run-up 25 years ago, or cryptocurrency today.

Money has been referred to as the "desire of desire."[2] From a physiological perspective, a craving or longing for money activates the exact pathways that are stimulated when we think about or engage with the first flush of love or intimacy.



The Money Effect

From a physiological perspective, when we think about money, it activates the same pathways in our brain that are activated when we think about love or intimacy.

Potentially addictive, it powerfully clouds our rational decision-making capacities, flooding our brains with dopamine.[2] When this happens, we can be tempted to ditch our well-planned, long-term strategy in hopes of making a quick gain.

When we think about money, we experience a stimulating, pleasurable sensation as our limbic system becomes engaged.[2,3] As we enjoy daydreams of a retirement spent on a sailboat, or a relaxing lifestyle living by a lake, for example, the neurotransmitters dopamine and oxytocin actively stimulate our brains. The downside? These chemical reactions can motivate us to seek out instant gratification of those dreams as quickly as possible—an instinct that has wreaked havoc on 401(k)s and other retirement accounts the world over.

Investors, who otherwise seem rational, can at times abandon their long-term strategy to acquire immediate rewards—a new boat, an RV, or a vacation—after being affected by these physiological drivers. Frequently, the "rush" drives riskier decisions and can significantly harm long-term outcomes.

Why you might ask, might our physiology betray us in such a way?

"When you have a dopamine-fueled rush to do something with your money, the best first step is a call to your financial professional."

—Dr. Elesa Zehndorfer

Capturing the Evolutionary Spirit

Gordon Gekko, in Oliver Stone's 1987 film, "Wall Street," famously remarked that "Greed, for want of a better word, is good. Greed is right. Greed works. Greed clarifies, cuts through, and captures the essence of the evolutionary spirit."

And he was right. Mostly.

What we refer to as greed today is better understood as a response that allowed us to maximize our chances of survival in ancient times. Greed, it has been said, "begins in the neurochemistry of the brain,"[4] representing an intense and selfish desire for something, especially wealth, power, or food. This powerful instinct allowed our hunter-gatherer ancestors to protect and provide for their families with the "fear, protection seeking and renewed aggressiveness"[5] required of their often short and brutish life, rewarding them with empowering testosterone and pleasure-inducing dopamine and oxytocin when they slew a beast or successfully defended their tribe.

In modern times, however, these survival instincts can lead us to make genuinely ill-founded financial decisions because they enliven our desires for immediate gratification, subsequently motivating us to act—even though it's often better, in an investing context, to stay put. They may also cause us to doubt sound investing decisions, resulting in needless anxiety and stress.

Working It Out

The great news for investors is that there are ways of tempering these powerfully seductive, primal instincts.

A Financial Professional Can Help You Avoid Snap Decisions

The easiest guardrail to install is a financial professional who manages your money. When you have a dopamine-fuelled rush to do something with your money, the best first step is a call to your financial professional. Their perspective, likely more rational than your own, can help you make decisions that could serve your best interests long term.

Exercise Can Help Calm Down a Money Rush

Before even calling or meeting with your financial professional, or if your financial professional is not readily available, there are some other steps you can take to tamp down your money rush before making a decision. For example, physical exertion stimulates dopamine and acts like a drug in an even more powerful way than money.

Everyday physical exertions such as hiking, walking your dog, swimming, or even chopping logs, causes our body to release amphetamine-like chemicals, such as phenethylamine and the cannabinoid anandamide, into our brains that can dampen the desire for dopamine from an unnatural source, such as money.

These solutions are basic, but we're talking here about basic human physiology. Knee bends, stretching, and deep breathing exercises, an invigorating swim, or simply exploring that new hiking trail all offer excellent means of clearing your head if you feel overwhelmed by financial pressures or if you have a meaningful financial decision to make. In short, just one session of physical exercise—particularly in the great outdoors—can carry profound effects.

Date Night

Money can be so alluring that it can mimic the sensations of romantic attraction,[6] so there has never been a more powerful argument to invest in real romantic pursuits with loved ones. A fun date night can help you keep your mind off money.

Sleep on It

Interestingly, rest, to the investor, is as crucial as exertion. As value investor Seth Klarman so sagely noted, "ultimately, nothing should be more important to investors than the ability to sleep soundly at night." A study backed up this sentiment, finding sleep to be "a biological necessity… without it, there is only so far the band will stretch before it snaps, with both cognitive and emotional consequences."[7]

Only one bad night of sleep will inhibit our memory and tamper with our ability to integrate new data with existing knowledge.[8] It will also ramp up stress hormones, down-regulate dopamine, and even potentially compromise our IQ.[9] The takeaway? Never make big financial decisions when you're tired. The phrase "sleep on it" carries literal, powerful connotations when it comes to money.

Something More Exciting

Famed economist John Maynard Keynes first remarked that individuals are driven by "animal spirits," a salient observation that cuts to the heart of our relationship with money. He also suggested that our brains are hardwired for the daily and, in terms of survival, the necessary pursuit of pleasure.

For the modern investor, this often means that even if we have rationally and confidently chosen a long-term investing strategy, we might still feel anxious, stressed, or seduced by the latest hot trend, such as cryptocurrencies, SPACs (special purpose acquisitions company), or NFTs (non-fungible token). These trends can cause us to experience worry about losing out on a big profit, which makes us doubt our well-informed, albeit less immediately exciting, approach.

The great news is that understanding the physiological mechanisms that lie behind these feelings and emotions allows us to make smart lifestyle choices that could benefit our long-term investing strategies.

Next Steps

1. **Talk to your Financial Professional.** When facing decisions about your investments, get professional guidance from your financial professional first. They can offer you a completely rational perspective your brain may not have considered.

2. **Take a walk.** The dopamine surge caused by thinking about money is powerful, but something as simple as a brisk walk, walking the dog, hiking, or chopping logs calms our pleasure pathways. So does a romantic evening with a loved one or oxytocin-inducing quality time with our kids and families, making us less interested in gaining feelings of pleasure from unnatural sources, such as money.

3. **Stick to your strategy.** Warren Buffett knows that holding a long-term investment and simultaneously rejecting the pull of exciting, risky new ventures can be profitable–but takes a lot of courage. So applaud your ability to hold firm, safe in the knowledge that you are potentially making grounded financial choices for you and your family.

Dr. Elesa Zehndorfer is a financial markets writer and researcher. Author of *Evolution, Politics & Charisma: Why do Populists Win?*, *The Physiology of Emotional & Irrational Investing, Charismatic Leadership: The Role of Charisma in the Global Financial Crisis,* and *Leadership: A Critical Introduction*. Dr. Zehndorfer is also Research Officer for British Mensa and a Quora Top Writer 2018 & 2017.

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