

## THE STAN CLARK FINANCIAL TEAM'S

## P E R S P E C T I V E S

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## Behavioral Finance

## GIVING UNTIL IT FEELS GOOD

By Stan Clark, Senior Wealth Advisor

In his 1964 research study *Altruistic Behavior in Rhesus Monkeys*, Dr. Jules H. Masserman, M.D., put six rhesus monkeys in a cage. Also in the cage were two chains. If the monkeys pulled the first chain, they received a lot of their favourite food. If they pulled the second chain, they were fed a small amount of a less tasty food. They all quickly learned to pull the first chain.

After a few weeks the system changed. One monkey pulled the chain and a monkey in a different cage was shocked with electricity. All six monkeys heard him scream and saw him grimace in pain.

The reaction was immediate. Four of the monkeys stopped pulling the first chain. A fifth monkey stopped pulling either chain for five days and the sixth monkey stopped pulling either chain for 12 days. They starved themselves – so that a monkey they didn't even know wouldn't be hurt.

It turns out that people behave in a similar way. Economists usually assume people are rational and act in their own economic self-interest. But research in behavioral finance has documented hundreds of biases that cause us to act "irrationally," at odds with our own self-interest.

Those biases may cause us to do silly and destructive things that harm our finances, including: taking on too much credit card debt; overpaying for fad-like stocks; and bailing out of the stock market after it has fallen. The biases usually result from our emotions manipulating our rational thoughts. As Benjamin Franklin said in his autobiography: "So convenient a thing it is to be a reasonable creature, since it enables one to find or make a reason for everything one has a mind to do."

Although this "irrational" behaviour often leads to harm, it can sometimes lead to good. One puzzle of traditional economics is: Why do people act kindly to others, even when there is clearly no self-interest involved? Why give a tip to a server after the meal has been served, even if you are in a restaurant in another city and will likely never see that person again? Why are millions donated anonymously to charities each year? Why do we do things to help out people we don't know, who will never be able to return the favour?

Brain research shows that a sense of sympathy and caring about other people is deeply embedded in our emotional mind. The research reveals that, if a person has damage to the specific part of their brain responsible for this caring sense, they will lack feelings for others – sometimes with terrible consequences. But most people do have a

strong emotional instinct to help other people. Indeed, brain scans have found that when people help other people, the pleasure centres of their brain light up. Giving makes most people feel good.

In 1994, Mother Teresa gave a speech in Washington, D.C. attended by President and Mrs. Clinton, Vice-President and Mrs. Gore and 4,000 others. A main theme of Mother Teresa's talk was *giving until it hurts*. Many people find that giving until it hurts actually feels good! Like massaging a knotted muscle, doing some hard exercise or eating spicy food, sometimes a little pain actually does feel good.

The winter holiday season is approaching, so again we will discover the joy of giving.



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