Are top investors' brains wired for wealth?

Friday, January 10, 2003 Posted: 3:33 PM EST (2033 GMT)

(CNN) -- You've done your market research and listened to the financial experts. But why isn't your portfolio growing?

According to some neuroscientists, the brain and its affinity for patterns may reveal how people handle investments more so than other factors.

"We come with this built-in prediction addiction," said Jason Zweig of Money magazine. "Brain research [shows] that you're going to try to outsmart the market whether you can or not."

Most people seem to have a "prediction addiction" and try to make sense out of even the most difficult patterns.

Take the stock market, for example. An entire industry is dedicated to figuring it out. But is it really predictable?

Dr. Scott Huettel of Duke University said the brain has a predilection for prediction.

"What we're showing is that basically, your brain is set up to look for that sort of structure ... even if there were no structure there," Huettel said.

His research shows that an investor's brain looks for a pattern and becomes dependent on whatever patterns it can find.

"If a company has stable earnings quarter after quarter," Zweig explains, "and each quarter its earnings go up another penny, and then all of a sudden, they don't go up anymore, investors go nuts."

And a tremendous sell-off occurs. Not because of a dramatic market swing but because of a subtle change in an otherwise predictable pattern.
Seeking patterns

What else does a person's brain tell him or her about future riches in the market?

At the University of Iowa, researchers found that physical responses -- such as breathing, heart rate and even facial expressions -- change when a person even considers making a risky decision.

In an experiment for CNN, Drs. Read Montague of Baylor College of Medicine and Gregory Berns of Emory University took magnetic resonance imaging brain images while a volunteer played a patterns game. The game results and the changes of the brain revealed the brain of a bold investor behaves differently than a cautious one. Risk takers stayed with high-gain, high-risk patterns and therefore would be successful investors, according to the doctors.

But a willingness to take risks may have contributed to why so many investors took a bath in the market recently.

"Understanding those parts of the brain will help us understand not so much why the stock market crashed, but why didn't people sell two years ago," Berns said.

Berns and Montague said this type of knowledge can help people know how they'll handle their investments.

"Someone who makes a lot of money is not easily influenced by the bumps downward, not easily influenced by variability in it," Montague said. "They see the pattern that gives them the greatest long-term return."