

DISPATCHES

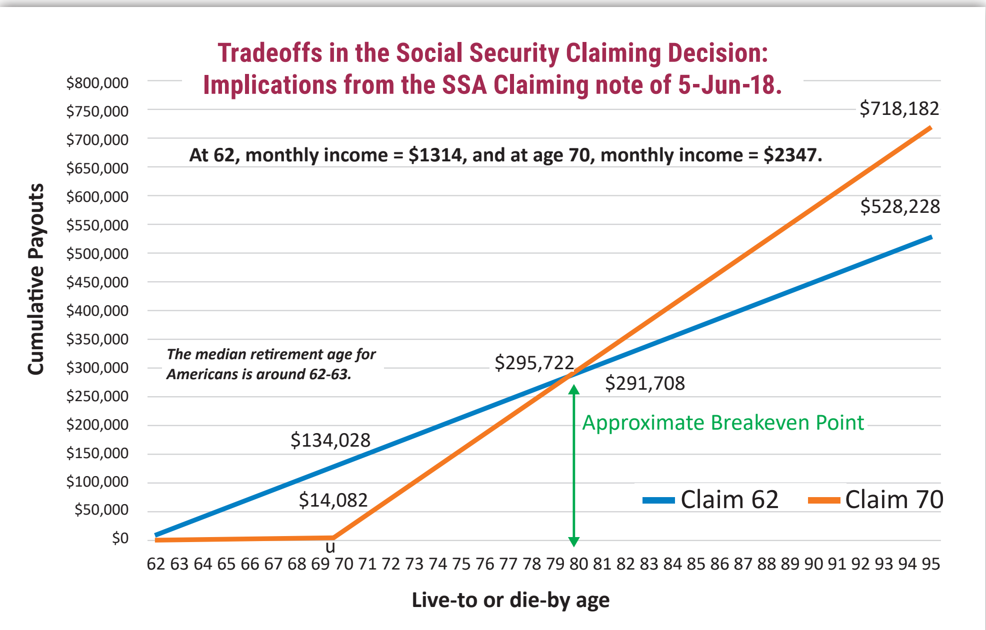
Psychological Factors Strongly Influence the Timing of Social Security Benefits

Feelings of ownership and loss aversion drive many to claim their Social Security benefits early, despite the economic benefits of delaying claims to maximize payouts.

Researchers utilized a combination of psychological assessment and experimental manipulation techniques to explore what affects Social Security claiming intentions. The study targeted those approaching retirement age or making decisions about retirement, using questionnaires to measure the respondents' feelings of loss aversion and entitlement to their Social Security benefits. Informational displays called "nudges" were presented illustrating the long-term benefits of delaying the start of benefits to test whether clearer information could lead individuals to make financially optimal claiming decisions.

The findings revealed a strong influence of psychological factors on claiming decisions. Individuals feeling a strong sense of ownership to their Social Security benefits tended to start claiming earlier, driven by a desire to quickly access what they perceived as their own assets. Those with high levels of loss aversion often claimed benefits at the earliest opportunity to ensure financial security.

The interaction between loss aversion and informational nudges was notable. The nudges—intended to emphasize the advantages of delaying Social Security claims—prompted earlier claiming, particularly among more loss-averse participants. This suggests that the displays might have emphasized immediate access to funds, triggering a protective response among loss-averse individuals.



This research underscores the significant influence of psychological factors and the occasionally counterproductive effects of well-intentioned informational framing. Tailoring communication strategies to individual psychological tendencies may guide more effective financial choices.

Source: "Social Security Claiming Intentions: Psychological Ownership, Loss Aversion, and Information Displays," by John W. Payne and Suzanne Shu; National Bureau of Economic Research, July 2023.

Eliminating Low-Quality and Poor Momentum Stocks Helps Sidestep Value Traps

Investors can potentially boost returns and reduce risk by steering clear of value traps, particularly by screening out low-quality stocks.

Research Affiliates conducted a study investigating the effects of value traps on investment returns and strategies for avoiding them. The study aimed to identify common traits of value traps, such as low quality and poor momentum, which can erode returns. By filtering out these value traps, investors may increase their potential gains while reducing risk. The study analyzed 32 years of U.S. equity performance covering multiple market cycles to understand how value traps affect investment portfolios over time.

The analysis revealed that by filtering out problematic stocks using momentum and quality criteria, returns improved across most companies, notably in the two cheapest valuation quintiles. This resulted in an estimated annual increase of 5.2% in the projected value premium.

Moreover, excluding low-quality stocks led to enhanced returns and lower volatility, particularly within the cheapest quintile. This strategy helped investors avoid stocks perceived as "cheap for a reason," contributing to a more successful investment portfolio.

The research highlights the importance of avoiding value traps by filtering out stocks with low quality and poor momentum. By implementing screening strategies that identify and exclude these potential pitfalls, investors can optimize their investment returns and reduce risk exposure.

Source: "Active Value Investing: Avoiding Value Traps," by Mario Albuquerque, CFA, Xi Liu, CFA, and Que Nguyen; Research Affiliates, February 2024.