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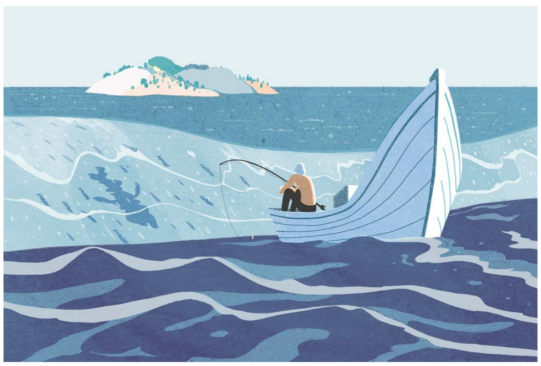
The Key to Financial Discipline? It May be as Simple as Taking a Class

Study suggests students who took a basic financial-education course exhibited lower levels of impulsive behavior



Researchers found that as study participants gained more self-control they also gained more risk tolerance.
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By Simon Constable
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It is well-known that successful investing requires patience and the ability to delay gratification. The question has long been: Can such discipline be taught?

A recent study suggests it can.

Researchers at Utah State University found that students who completed a basic financial-education course were more willing to wait for a bigger financial payout than those who didn't. Put another way, those who took the class exhibited lower levels of impulsive behavior.

"We see evidence that we can teach people self-control," says William DeHart, a graduate student at Utah State University and one of the authors of the study, which appeared in PLOS ONE, a scientific journal published by the Public Library of Science, in July 2016.

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The researchers studied the behavior of two separate groups of college students over the course of a semester. They tested what they call "delay discounting." In the simplest terms, it looks at whether people are willing to wait to receive a bigger payout, or alternatively get a smaller payoff now.

One group of 237 students took a semester of financial education, while another group of 80, the control group, took abnormal psychology. Both groups were tested at the beginning of the semester and near the end on their willingness to wait longer for bigger payouts, as well as their attitudes toward risk.

"We found an increase in self-control by the end of the semester for the financial-class takers but no change for the control group," says Mr. DeHart. That finding held true regardless of how much self-control a student started the financial-education class with, he says. "Everybody improved at about the same rate, regardless of where they started," says Mr. DeHart.

Financial professionals say patience is critical to successful investing, but it is a quality that is sorely lacking in many who seek out their advice.

"Especially when it comes to investing, we constantly have to remind people that it's a long-term time thing," says Jeff Carbone, co-founder and managing partner of Cornerstone Financial Partners in Huntersville N.C. "But everybody continues to look at the short term; long term is tomorrow."

One phenomenon that the researchers found was that as students gained more self-control they also gained more risk tolerance, or a willingness to see larger swings in value in the short term in exchange for more gains later.

Still to be discovered is how long the effects of the financial class last. Mr. DeHart says he and his colleagues are working on follow-up research to determine that.

The Utah researchers believe their work may have applications beyond finance, in areas where delayed gratification plays an important role. For example, Mr. DeHart says the team is developing a program for people undergoing substance-abuse treatment, both voluntary and court-ordered.

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'Especially when it comes to investing, we constantly have to remind people that it's a long-term time thing,' says Jeff Carbon of Cornerstone Financial Partners. PHOTO: ISTOCKPHOTO/GETTY IMAGES

"The results of the delayed-gratification study were promising enough for us to push forward on another type of intervention," he says.

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