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The Unsophisticated Sophisticated: Old Age and the Accredited Investors Definition

29 Pages

Posted: 25 Jul 2015

Last revised: 24 Sep 2019

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Date Written: September 22, 2019

Abstract

Accredited investors are able to participate in unregistered securities offerings such as private equity, venture capital and hedge funds if they meet income and wealth thresholds. This definition provides a simple screening mechanism intended to restrict the purchase of complex securities to investors who are sophisticated enough to “fend for themselves.” We investigate whether older households, who are vulnerable to age-related cognitive decline and are more likely to meet the accredited investor threshold, possess greater financial sophistication than younger nonaccredited investors. We find strong evidence that older households are at risk of meeting the accredited investor definition without having the sophistication needed to avoid high agency costs in a largely unregulated securities market. Accredited households age 80 and older are more than 80% less likely than unaccredited investors age 60-64 to have high financial literacy scores. This reduced financial capability in later life appears to mirror the rate of decline in measures of cognition.

Keywords: financial literacy, accredited investors, old age, private equity

JEL Classification: K22, D12, G18

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