



# Fact Sheet for Advisors: Signs of Diminished Capacity

*For use by financial advisors and financial services firms only.*

## WHAT IS DIMINISHED CAPACITY?

The capability to make decisions regarding one's financial assets is one of the first abilities to decline as cognitive impairment encroaches, according to a report by the AARP Public Policy Institute<sup>1</sup>. This decline of skills – often referred to as diminished capacity – can occur well before a diagnosis of a neurodegenerative disease such as Alzheimer's and/or dementia. Given that diminished capacity greatly impairs one's ability to make financial decisions, its detection is critical to protecting older clients from financial harm.

## HOW TO SPOT DIMINISHED CAPACITY?

A report by the Securities and Exchange Commission's Office of Compliance Inspections and Examinations, North American Securities Administrators Association, and Financial Industry Regulatory Authority<sup>2</sup> outlined practices used by financial service firms for interacting with older investors. The report lists "signs" or "red flags" identified by firms that may indicate that an investor could have diminished capacity or a reduced ability to make decisions regarding their finances.

### **These signs include, but are not limited, to:**

- The investor appears unable to process simple concepts.
- The investor appears to have memory loss.
- The investor appears unable to recognize or appreciate the consequence of decisions.
- The investor makes decisions that are inconsistent with her or her current long-term goals and/or commitments.
- The investor's behavior is erratic.
- The investor refuses to follow appropriate investment advice. This may be particularly concerning when the advice is consistent with previously stated investment objectives.
- The investor appears to be concerned or confused about missing funds in his/her account, where reviews indicate there were no unauthorized money movements or no money movements at all.
- The investor is not aware of, or does not understand, recently completed financial transactions.
- The investor appears to be disoriented with surroundings or social setting.
- The investor appears uncharacteristically unkempt or forgetful.

*To learn more, access the full report at:*  
<http://www.sec.gov/spotlight/seniors/seniorspracticesreport092208.pdf>

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<sup>1</sup> AARP Public Policy Institute. "Protecting Older Investors: The Challenge of Diminished Capacity."  
[http://www.aarp.org/content/dam/aarp/research/public\\_policy\\_institute/cons\\_prot/2011/rr2011-04.pdf](http://www.aarp.org/content/dam/aarp/research/public_policy_institute/cons_prot/2011/rr2011-04.pdf)

<sup>2</sup> Securities and Exchange Commission's Office of Compliance Inspections and Examinations, North American Securities Administrators Association, and Financial Industry Regulatory Authority. "Protecting Senior Investors: Compliance, Supervisory and Other Practices Used By Financial Services Firms in Serving Senior Investors."  
<http://www.sec.gov/spotlight/seniors/seniorspracticesreport092208.pdf>