FINANCIAL SERVICES REVIEW

Financial Services Review 25 (2016) v–vi

From the Editor

This issue contains **Issue 3 of Volume 25** of *Financial Services Review* (*FSR*). I would like to thank the board and members of the Academy of Financial Services for their continued support. I continue to work in broadening the scope of articles, while still focusing on individual financial management and personal financial planning. I encourage authors to reach out when discussing implications of their findings in a more comprehensive way. As such, all articles in the Journal more appropriately relate to financial planning issues.

The lead article Strategic complexity in investment management fee disclosures" is coauthored by Leslie A. Muller at Grand Valley State University and John Turner at Pension Policy Center. This paper develops a measure of complexity in fee disclosures. Their data validates the measure of complexity and indicates that people who are more financially literate are better able to understand complex fee disclosures, but that even people with the presumption of a relatively high degree of financial literacy are not all able to decipher complex fee disclosures.

The second article "The Evidence on Target-date Mutual Funds" is authored by Sandeep Singh at College at Brockport, SUNY. The author conducts a survey of the theory and recommendations on TDF glide paths which confirms a trend towards focusing on meeting retirement liabilities, rather than optimizing asset only portfolios. After a review of performance evaluation metrics for TDFs, he shows that none of the available indexes possess all seven characteristics of an ideal benchmark. He recommends that plan sponsors can provide better outcomes by offering multiple risk profile TDFs, while researchers can focus on improving glide path and benchmark design.

The third article, "Household Ratio Guidelines for the Amount of Investments" is coauthored by Sherman D. Hanna at Ohio State University and Kyoung Tae Kim at University of Alabama. The authors investigate three investment ratios typically utilized in textbooks: investments to net worth, investments to annual income, and investments to total assets. Using the 2013 Survey of Consumer Finances they estimate regressions on respondent evaluation of the adequacy of retirement income, among households with a non-retired head in the 2013 Survey of Consumer Finances. They find that the investments to total assets ratio has the strongest relationship to adequacy, controlling for selected household characteristics and the investments to net worth ratio (Capital Accumulation ratio) is inferior to the other two ratios.

The fourth article, The Behavior Heuristics Responsible for Formation and Liquidation of Tax Holding Accounts" is coauthored by Matt Hurst and Monica Mendoza both at Stetson

University. In this paper, the authors propose the tax liquidation hypothesis, a predictable pattern of behavior regarding individuals' decisions to create and subsequently to liquidate 'Cash Holding' accounts when facing tax liabilities. Previous research on tax related trading has focused on minimizing the individual tax burden by holding winners and selling losers. This behavior, described as "optimal tax trading" suggests that individuals should sell stocks that have lost value in the short-term while holding onto stocks that have gained value until the stocks can be sold at the preferential long-term capital gains rate. The authors propose and test the tax liquidation hypothesis based on investor behavioral biases and the current tax environment. They show that individual investors will hold "cash" accounts that are consistent with their preferences for risk and return. They propose that having cash on hand and liquidating for tax purposes are not mutually exclusive events and that these events can coexist harmoniously.

The final article, "CAT Bonds: Risk Offsets with Diversification and High Returns" is authored by Richard J. Kish at Lehigh University. The author investigates Catastrophe bonds, a relatively new entry into the bond market, which are a form of reinsurance in which insurance firms are able to offset the financial risks from both natural and man-made catastrophes. The author's analysis finds that CAT bonds have generated high returns, but with the advantage of diversification when compared with similarly rated corporate debt. Thus, he finds that CAT bonds are a viable investment option within a diversified portfolio.

I would like to send a special thank you to the many reviewers that have significantly contributed to the quality of our journal by providing timely and thorough reviews of the submissions to our journal. Thanks to those who make the journal possible, especially the referees and contributing authors.

Please consider submission to the Financial Services Review and rely on the style information provided to ease readability and streamline the review process. The Journal welcomes articles over the range of areas that comprise personal financial planning. While FSR articles are certainly diverse in terms of topic, data, and method, they are focused in terms of motivation. FSR exists to produce research that addresses issues that matter to individuals. I remain committed to the goal of making Financial Services Review the best academic journal in individual financial management and personal financial planning.

Best regards
Stuart Michelson
Editor *Financial Services Review*